POLYUS

DRIVING SUSTAINABLE GROWTH

ANNUAL REVIEW
2018

DRIVING SUSTAINABLE GROWTH

WE SUPPORT

Polyus is committed to the UN Global Compact corporate responsibility initiative and its principles in the areas of human rights, labour, the environment and anti-corruption.

ICMM
International Council on Mining & Metals

MINING WITH PRINCIPLES

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OUR KEY ADVANTAGES

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- Moving from ca. 2.44 million ounces produced in 2018 to 2.80 million ounces in 2019
- Production at Natalka fully ramped-up in 2018
- A suite of low-risk and cost-efficient brownfield projects

2 ABSOLUTE COST LEADERSHIP p. 20

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

3 INDUSTRY–LEADING DIVIDEND LEVEL p. 24

- Regular dividends of 30% of adjusted EBITDA
- Strong cash position and positive free cash flow support an industry-leading dividend level

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- Member of ICMM[1] since 2015. The first member from Eastern Europe, out of 27 mining and metals companies and 34 regional and commodities associations
- Sustainalytics overall ESG score of 71 ("Outperformer") as at 31 December 2018
- Constituent of FTSE4Good Index Series
- LTIFR[2] of 0.09, down 18.2% from 2017

5 LEADING RESERVES AND RESOURCES BASE p. 16

- One of the world's largest reserve bases. Proved and Probable (P&P) Ore Reserves: 64 million ounces (excluding Sukhoi Log)
- One of world's top three by resources. Measured, Indicated and Inferred (MI&I) Mineral Resources: 192 million ounces (including Sukhoi Log)
- Average life of mine: 26 years (excluding Sukhoi Log)
- 100% open pit operations

[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 Has Polyus delivered on its strategic objectives for 2018?

A In 2018 Polyus has outperformed its targets – total gold output grew to 2,440 thousand ounces, a 13% increase compared with 2017. At the same time, Polyus maintained its position as the lowest-cost producer among its peers. Our leading cost position is underpinned by the quality of our assets and scale of both mining and processing operations.

We operate in a volatile market and are exposed to a complex geopolitical environment. Nevertheless, we achieved our objectives and demonstrated our focus on being an efficient and responsible operator that delivers value for all stakeholders.

Q Are there improvements in the business that you are particularly focused on?

A We continue to introduce new innovative technologies in Polyus' operations. A culture of innovation is something we are encouraging throughout the business. In 2018 the Company spent $[1]736 million on capex, part of which was invested into more advanced systems allowing for analysis of drilling data analysis and optimisation of mine fleet schedules. In late 2018 we have launched the implementation of an MES, or Manufacturing Execution System, which will be a serious upgrade of data management across all Polyus operations with a serious improvement of control and accounting. Separately, I should mention that we will be further rolling out Mine-to-Mill and flash flotation technologies.

In our drive for operational excellence we never lose sight of the safety and well-being of every Polyus employee. That is why we were deeply saddened by the three fatalities that occurred at Polyus' production assets during 2018. Each of these has been fully investigated and we have made sure that every possible measure has been taken to prevent these kinds of occurrences from happening again. Health and safety is an area that the Board monitors very closely. We want Polyus to be a zero-fatality, zero-injury company, and so we aim to incentivise workers and managers at every level to do their bit to ensure we have the safest working environment possible. In December 2018, Polyus became the first Russian company to receive the ISO 45001 Occupational Health and Safety certification.

[1] Hereinafter $ represents US dollars.

Q What were the key breakthroughs for Polyus during the year?

A On the operational side, this was the completion of the Natalka Mill ramp-up, following which it will now process ten million tonnes of ore annually.

Polyus also made serious progress on the development of Sukhoi Log, a one-of-a kind deposit of outstanding quality and scale. With the scoping study and a vast part of the drilling campaign completed, Sukhoi Log has entered the pre-feasibility stage. This deposit will underpin the Company's next development stage as we execute our organic growth strategy.

Polyus' achievements during 2018 were recognised by the global professional community. We were pleased that S&P Global Ratings and Fitch both raised their credit ratings for Polyus during 2018 and that Polyus received the Platts 2018 "Precious Metals Industry Leadership" award.

As part of the management's commitment to improving the sustainability of the business, last year Polyus significantly enhanced its position in the Environmental, Social and Governance (ESG) ratings. Polyus was recognised as an "Outperformer" by Sustainalytics and was included into the FTSE4Good Emerging Markets Index. We will increase our efforts to improve the sustainability of Polyus' operations further, and we will be keeping the market updated.

Q What is your focus for 2019?

A Polyus plans to increase its gold production to approximately 2.8 million ounces and become one of the four largest producers globally while retaining one of the highest dividend levels in the industry. We will achieve this through the prudent allocation of capital. We continue to focus only on low-risk, high-return expansion projects with anticipated IRR of over 20% and conditioned on a gold price of $1,050 per ounce and exchange rate of 60 roubles per dollar.

Our main priorities for 2019 are the completion of the set of current brownfield development projects and advancement at Sukhoi Log. By the end of the year, Polyus plans to complete the third stage of the expansion of the mill at Kuranakh and make important progress in expanding the mills at Olimpiada and Blagodatnoye. At Sukhoi Log, our target is to complete the drilling works and to approach the completion of the pre-feasibility study.

Finally, sustainability objectives will be an increasing focus of the Company's strategic planning. Polyus plays a major role in the lives of thousands of people in several regions of Russia, and we want to ensure the Company has a positive impact for all of its stakeholders. We are implementing numerous social and environmental initiatives and consistently strive to maintain the highest global standards.

The Company is in a strong position and we remain optimistic for the future.

> **"We achieved our objectives and demonstrated our focus on being an efficient and responsible operator that delivers value for all stakeholders"**

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 **$348** per ounce	Lost time injury frequency rate **0.09**	Operating assets **6**
All-in sustaining cash cost **$607** per ounce	Ore processed **38** million tonnes	Proved and probable reserves **64** million ounces
Adjusted EBITDA **$1,865** million	Average recovery rate **80.8%**	Average reserve grade **1.7** grams per tonne
Adjusted EBITDA margin **64%**	Total gold produced **2,440** thousand ounces	Life of mine **26** years

KEY EVENTS OF 2018

January

Updated dividend policy: dividend floor of $550 million introduced for the full years 2017 and 2018.

March

Capital Markets Day at the London Stock Exchange: Polyus presents an updated strategy, as well as an overview of its current financial and operational performance.

March

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

June

Sukhoi Log scoping study results: the asset is expected to produce ca. 1.6 moz annually at a TCC of $420—470/oz. The investment decision and start of construction capex spending are planned for 2021, production is expected to start around 2026.

September

As part of its proactive debt management activities, Polyus buys back a total of $131.8 million in aggregate principal amount of bonds due 2020, 2022, 2023 and 2024.

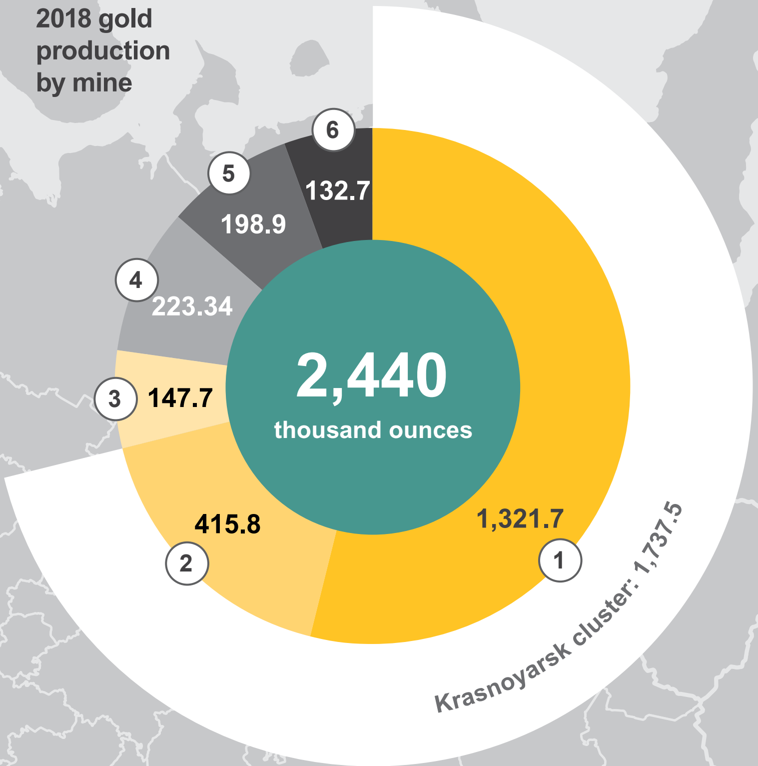
December

Natalka ramp-up: the asset achieved the annualised name-plate throughput capacity following the completion of repair works at the ball mill and scheduled maintenance works.

December

ESG performance reflected in ratings: as a result of the latest improvements in its ESG management and reporting systems, Polyus significantly improves its Sustainalytics score, is included in the FTSE4Good Index, and takes second place in WWF's Russian Metals and Mining Companies Environmental Transparency Rating

WHERE WE OPERATE



Key:

Production assets

Greenfield projects

OLIMPIADA

- Located in the Krasnoyarsk Territory
- 54% of the Company's output
- 61% of the Company's adjusted EBITDA
- TCC of $267/oz in 2018
- 3,321 employees
- Processing capacity: 13 million tonnes per annum

Read more on page 38

BLAGODATNOYE

- Located in the Krasnoyarsk Territory
- 17% of the Company's output
- 19% of the Company's adjusted EBITDA
- TCC of $360 per ounce in 2018
- 1,488 employees
- Processing capacity: 8 million tonnes per annum

Read more on page 40

ALLUVIALS

- Located in the Irkutsk Region
- 6% of the Company's output
- 3% of the Company's adjusted EBITDA
- TCC of $746 per ounce in 2018
- 2,925 employees

Read more on page 44

VERNINSKOYE

- Located in the Irkutsk Region
- 9% of the Company's output
- 10% of the Company's adjusted EBITDA
- TCC of $369 per ounce in 2018
- 1,289 employees
- Processing capacity: 2.9 million tonnes per annum

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KURANAKH

- Located in the Republic of Sakha (Yakutia)
- 8% of the Company's output
- 7% of the Company's adjusted EBITDA
- TCC of $511 per ounce in 2018
- 1,869 employees
- Processing capacity: above 5 million tonnes per annum (mill), 1.5 million tonnes per annum (heap-leach)

Read more on page 46

NATALKA

- Located in the Magadan Region
- 5% of the Company's output
- 1% of the Company's adjusted EBITDA
- TCC of $747 per ounce in 2018
- 1,590 employees
- Processing capacity: 10.1 million tonnes per annum

Read more on page 48

SUKHOI LOG

- Located in the Irkutsk Region
- Scoping Study completed
- Pre-Feasibility Study launched

Read more on page 17

BUSINESS MODEL

Polyus' business model includes the whole cycle of gold production, from exploring our resource base to processing ore and selling the final product. Our focus on open-pit production in Russia stands us apart from our peers. We strive for leading 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 the development of highly efficient greenfield operations.

Human
Our committed, talented and motivated workforce benefit from incentive schemes and ever-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.

30% of EBITDA

Total dividend pay-out for the respective reporting year, provided that the net debt/adjusted EBITDA ratio for the previous 12 months 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.

19,942

Average number of employees of the Company during 2018.

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

$33.6 mln

Investments in social projects in 2018.

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

30%

Share of procurement 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.

$375 mln

Taxes paid by Polyus in 2018.

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 Group'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 gold producers globally.

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 practice.

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.

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RISKS

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

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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.

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Q&A WITH PAVEL GRACHEV
CHIEF EXECUTIVE OFFICER

Q What were the performance highlights of 2018?

A 2018 was yet another strong year for Polyus. We delivered production growth of 13%, beating our guidance for the fifth consecutive year by achieving total gold output of above 2.4 million ounces – a 48% increase since full year 2013. Meanwhile, we maintained our industry-leading cost position, with total cash costs of $348 per ounce. Our EBITDA margin of 64% reflects both the quality of our assets and our ongoing programme of efficiency improvements throughout the business.

Q Can you update us on your key growth projects?

A We made steady progress at Sukhoi Log, the real cornerstone of the Company's long-term growth. During the year we completed the scoping study and verification drilling and the project has now entered the pre-feasibility stage. As announced post the year end, based on the results of the verification drilling we have upgraded our mineral resources estimates by nine per cent, to reach 962 million tonnes of mineral resources, with an average grade of 2.1 grams of gold per tonne and containing 63 million ounces of gold, including 28 million ounces of indicated resources.

Apart from that, we have ramped up the Natalka operations, the latest addition to our portfolio of operating assets, reaching the annualised throughput capacity of 10 million tonnes per annum. Natalka contributed 133 thousand ounces of refined gold output in the year. This is a testament to the skills and commitment of our team on the ground.

Q How are you ensuring you sustain this industry leadership?

A Polyus' strategy is to deliver leading returns to our shareholders through unlocking value from our world-class asset base via debottlenecking initiatives and ongoing efficiency improvements. To achieve operational excellence, we employ the latest technology and production methods whilst ensuring our assets remain at the bottom of the global cost curve.

Meanwhile, an essential part of our business philosophy is sustainability leadership. We are constantly enhancing our corporate governance practices, working hard to preserve the environment and to give back to the communities around our operations.

We increased production at almost all of our assets during the year, including Olimpiada, our largest producing mine, where total gold output rose 12% to above 1.3 million ounces. Olimpiada also remains firmly one of the lowest-cost gold mines globally.

As part of de-bottlenecking activity across our assets, at Blagodatnoye we have been introducing Mine-to-Mill technology and installing new flotation equipment. Our initiatives have delivered a notable increase in volumes of ore processed per year, and we expect to achieve a 9.0 million tonne per annum throughput capacity at the Mill in 2020. We are now working on expansion at Kuranakh, where we see potential to increase capacity to 5.8 million tonnes of ore per year in 2019.

Q How are you ensuring high standards of health and safety?

A As a management team, we must ensure the best processes and training are in place to monitor, anticipate and prevent every possible human risk. Very sadly, following a successful year in 2017 when we registered no fatalities across our operations, in 2018 we reported the deaths of three people on site. Whilst we have fully investigated these accidents and introduced heightened preventative measures, they are a stark reminder of the absolute necessity to maintain a constant focus on improving health and safety standards and developing a culture of safety throughout the business.

As part of our intensified improvements in health and safety, in 2018 we launched a pilot injury prevention project at Kuranakh, extended our LockOut-TagOut (LOTO) system aimed at preventing injuries from rotating machinery and electric shocks system to all business units and supporting services and intensified our campaign for the prevention of slipping, tripping, and falling from heights.

Our ongoing efforts have enabled us to increase our safety score on the Bradley scale from 2.0 points in 2017 to 2.3 in 2018. In December, Polyus' integrated Health, Safety and Environment management system was certified to ISO 14001 and ISO 45001 standards. Overall, we have managed to reduce Polyus' LTIFR for the year to 0.09.

Q How are you managing your impact on the environment and communities where you operate?

A Polyus operates in some of the most remote regions of Russia with unique ecosystems that have to be preserved and handled with special care. We evaluate the potential environmental impact of our operations at every stage of the cycle. We have a centralised system of planning and coordinating social and environmental campaigns across our regions, from bio-conservation projects such as monitoring and breeding endangered local species for release back into the wild, to sponsoring cultural programmes such as bringing theatre and art from the country's capital to residents of its very remotest towns.

Once again, Polyus' environmental and social impact is something we take very seriously. It is something all of our stakeholders care about, including our shareholders. We have therefore made a concerted effort in 2018 to improve the transparency of our ESG activities. It is important that people understand the considerable work we are doing in this area and I am pleased to note that our continued progress has been reflected in the ESG ratings and indexes.

Q How do you mitigate market risk?

A Every business faces risks and challenges beyond their immediate control. Polyus' cost profile and considerable growth prospects help to offset the impact of challenging external environments on the Company's performance. We must remain totally focused on mitigating risks that are within our control. This is best done by maintaining operational excellence, consistently meeting growth targets and delivering our improvement projects on schedule and within budget.

Q What should shareholders look forward to in the year ahead?

A In 2019, we anticipate another year of production growth, with total gold output of 2.8 million ounces. This will make Polyus the fastest-growing major gold producer globally and strengthen our position among the top global gold miners.

Polyus is delivering growth through prudent investment whilst paying out regular dividends. With significant progress continuing at Sukhoi Log and all of our brownfield projects, our stakeholders can remain confident that Polyus will maintain its sector leadership in the forthcoming years.

Industry-leading EBITDA margin

64%

Gold produced in 2018

2.440 thousand ounces

HARVESTING A WORLD-CLASS ASSET BASE

Leading reserves and resources base

Polyus is the largest gold producer in Russia, where it accounts for over 20% of gold output. Globally, Polyus is the world's second-largest gold company by reserves base and the fifth-largest gold producer.

The Company benefits from an average mine life of approximately 26 years, which is 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, our Krasnoyarsk Business Unit (comprising Olimpiada and Blagodatnoye) is the world's third-largest gold asset by output. Together these two operations account for 71% of the Company's output.

Polyus' priority in recent years has been organic growth through developing its main operations and ramping-up Natalka, our recently completed greenfield project.

Brownfield expansions contributed more than half of Polyus' total production growth in 2018. We expanded processing capacities at Olimpiada, Kuranakh and Verninskoye.

NATALKA

One of the largest gold deposits in Russia

In 2018, Polyus successfully ramped up operations at Natalka, making it the Company's most recently completed development project.

Natalka is located in the Magadan Region on the northern Pacific coast of Russia, in one of the most remote and cold parts of the country. It is a major open-pit gold deposit which was discovered in 1942.

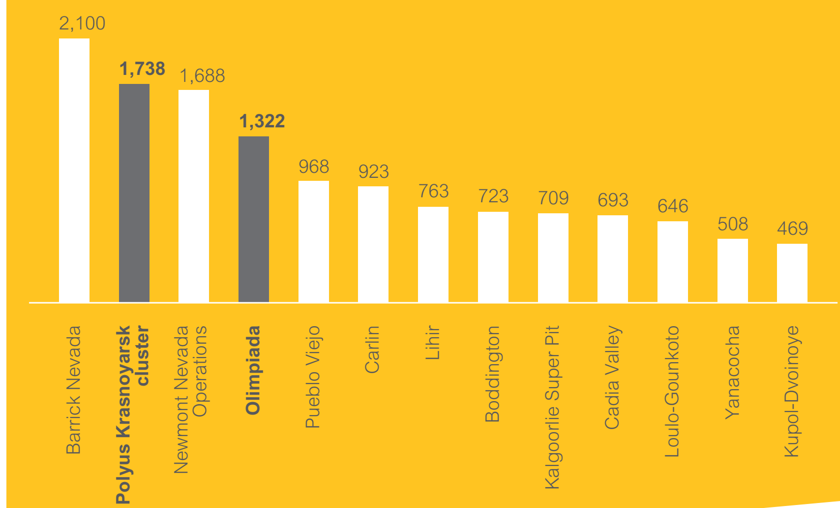
Polyus acquired Natalka in 2008. The construction of a mining complex began in 2012, and active full-scale mining was launched in early 2013. However, mining and construction works at the mill were soon halted. Revision of the resource block model and construction plans was required after errors were discovered in the decades-old historical research data.

Polyus then carried out a detailed operational review and prepared a new project plan for the development of Natalka. In addition to the development of a new block model and the execution of a verification drilling programme, Polyus also completed a critical flaws verification on the mill's design and an analysis of engineering solutions. The mill's technological scheme was revised: Polyus decided 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 hot commissioning was successfully completed at the mill. Polyus fully ramped up production at Natalka in the second half of 2018, and today the asset is operating at its full design capacity.

Polyus is the largest gold producer in Russia and the fifth-largest globally

Largest gold assets by output (last reported), thousand ounces



DEVELOPING A PLATFORM FOR FUTURE GROWTH

Value accretive production growth

SUKHOI LOG

Developing Russia's largest greenfield deposit

Sukhoi Log is a legendary gold deposit located 300 miles north east of Lake Baikal in an area known for gold mining since the 19th century. 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.

Polyus is the ideal gold miner to successfully develop Sukhoi Log. The deposit is located next to several other assets operated by Polyus, which makes it possible to utilise existing infrastructure, optimise processing facilities and benefit from economies of scale. Having worked in the region for many years, Polyus has the unique expertise, research capabilities and technical experience, to effective develop the deposit.

In November 2017, Polyus launched a drilling campaign at the site, which was expected to last approximately two years. Its primary aim is to reconfirm the results of historical drilling and to update the source block model with the new drilling results. By the end of 2018, most of the drilling work has been completed. A scoping study was completed in 2018 and a pre-feasibility study is now under way, expected to be completed in 2020.

Sukhoi Log is a unique project, and Polyus has the unique expertise to develop it successfully

Polyus has one of the world's largest reserves bases, which provides a solid platform for the Company's continued growth in the coming decades. From 2013 to 2018, the Group's total gold output grew by 48%.

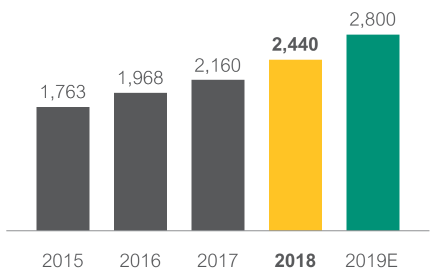
Polyus is actively investing in the exploration and development of its existing assets in order to guarantee continuing growth of production volumes. The Company is currently targeting a production of approximately 2.8 million ounces in 2019.

Currently, the Company's most significant exploration projects are concentrated in Siberia, in the Irkutsk Region and the Krasnoyarsk Territory. Polyus is committed to operating in Russia, where it has a strong foothold. This positions it advantageously to explore future opportunities in Russia and its neighbouring countries.

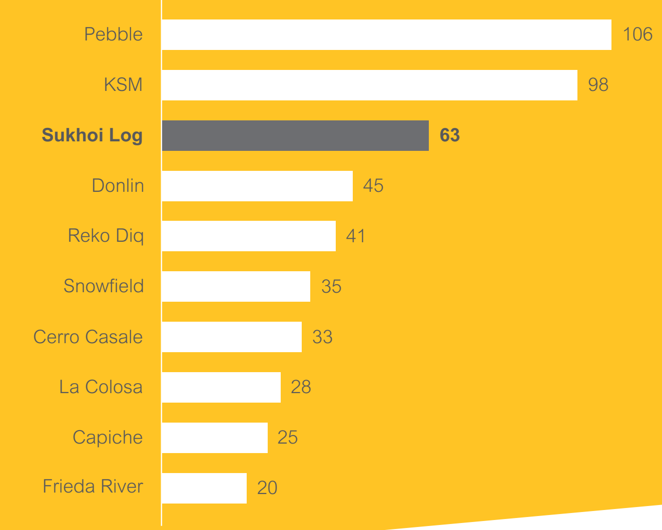
Since 2017, Polyus has been conducting engineering works and a drilling campaign at Sukhoi Log, Russia's largest gold deposit.

Polyus' commitment to operating in Russia is a strategic advantage

Polyus production growth, thousand ounces



World's largest greenfield assets, MI&I resources, million ounces[1]



[1] Companies' data; Metals Focus.

DRIVING COST EFFICIENCIES THROUGH INVESTING WELL

Absolute cost leadership

The Group's average total cash costs and average all-in sustaining costs of $348 per ounce and $605 per ounce are in the first decile of global cost curves. They are maintained at this level through effective cost management and a focus on debottlenecking at Polyus' existing operations.

During 2018, Polyus' TCC decreased by 4%, more than offsetting inflation and the appreciation of the Russian rouble. The inflation rate in Russia was 4.3% in 2018, and the average US dollar/rouble exchange rate in 2018 was 7.5% above 2017.

To maintain Polyus' global cost leadership, the Company traditionally focuses on developing large-scale Tier 1 assets where the size allows for economies of scale. The compact layout of the Company's assets also provides transportation cost savings and other synergies. Concentrating on open-pit mining with high grades also guarantees low production costs.

In addition, the Company continuously implements operational efficiency initiatives at its assets. Modern equipment improves utilisation rates and reduces maintenance costs. The construction of power grids facilitates access to reliable and low-cost sources of electricity.

VERNINSKOYE AND NATALKA AS A REGIONAL INVESTMENT PROJECTS

The Far Eastern part of Russia, located on the Pacific coast, is an area promoted by the Russian government for development and investment. Polyus is an important part of the local economy, a notable employer, investor and taxpayer. Polyus operates in three of the Russian Far Eastern regions: Irkutsk Region (Verninskoye, Alluvials and Sukhoi Log), Magadan Region (Natalka).

The Russian government has granted Verninskoye, which is one of the major investment projects in the Irkutsk Region, the status of a Regional Investment Project. Since 2017 this operating asset pays a lower MET and is partially exempt from Profit Tax.

In addition to Verninskoye, Natalka was also granted the status of a Regional Investment Project. This means that for ten years Natalka will enjoy a special tax regime. The tax regime provides for lower Mineral Extraction Tax and Profit Tax rates. The lower MET rate applies from May 2018 and the lower Profit Tax rate applies from 1 January of 2019.

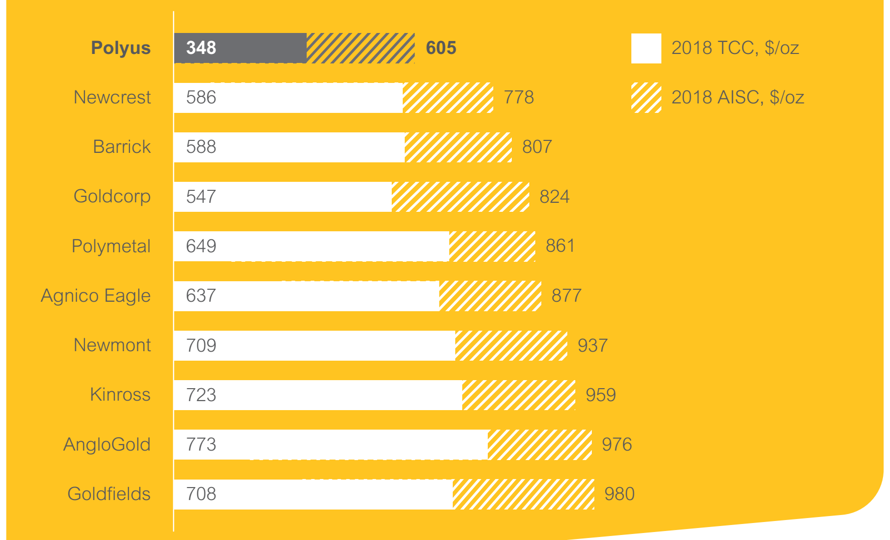
Receiving the status of Regional Investment Project is a recognition of Polyus' importance for the regional economies of Irkutsk and Magadan. Polyus employs more than four thousand people in the Irkutsk Region and more than 1.5 thousand people in the Magadan Region. Based on the strategic importance of the Company's activities, Polyus has developed strong and mutually beneficial partnerships with these regions.

As strategically important projects for the Russian Far East, Verninskoye and Natalka benefit from a favourable tax regime

TCC in 2018; down 4% from $364 in 2017

$348
per ounce

The lowest TCC and AISC among TOP-10 global majors



APPLYING THE HIGHEST STANDARDS OF SUSTAINABILITY

Commitment to Sustainable Development

Polyus is committed to the best ESG practices. The Company takes a serious approach to managing its environmental footprint, ensuring the health and safety of employees, and maintaining its positive impact on the society.

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.

In December 2018, Polyus' integrated Health, Safety and Environment management system received certification in accordance with ISO 45001 – Occupational Health and Safety. This standard provides a framework to improve employee safety, reduce workplace risks and create better, safer working conditions. Polyus is the first Russian company certified in accordance with this standard.

Already in 2019, Polyus has become a signatory of the UN Global Compact, thereby joining the world's largest corporate sustainability initiative, comprising more than 13,000 participants from over 160 countries, while becoming only the sixth Russian mining company to join this initiative.

ISO CERTIFICATION – OCCUPATIONAL HEALTH AND SAFETY AND ENVIRONMENTAL MANAGEMENT

In December 2018, Polyus was proud to become Russia's first mining company to certify its integrated HSE system for compliance with both ISO 14001 and 45001 standards. This marked the completion of the full integration of our management systems, a process that we had begun in 2016-17.

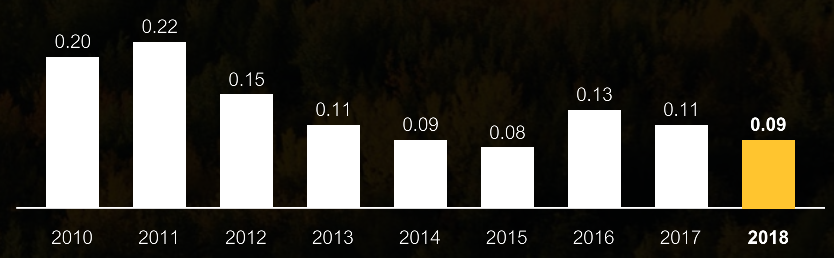
The ISO 45001 Health and Safety certification was developed by a committee of occupational health and safety experts to improve employee safety, minimize workplace risks and create safe working conditions in accordance with the best international standards. The ISO 14001 Environmental Management certification was introduced to help businesses improve the sustainability of their daily operations and improve their environmental performance.

Polyus has been issued with an umbrella certification under these qualifications, validating the Management Company's certification with Group subsidiaries, who will no longer need to certify under ISO 14001 and 45001 separately.

Our fully streamlined, integrated Company HSE system now ensures better audit quality and control over all of our HSE processes, which are now fully compliant with both Russian law and international HSE requirements.

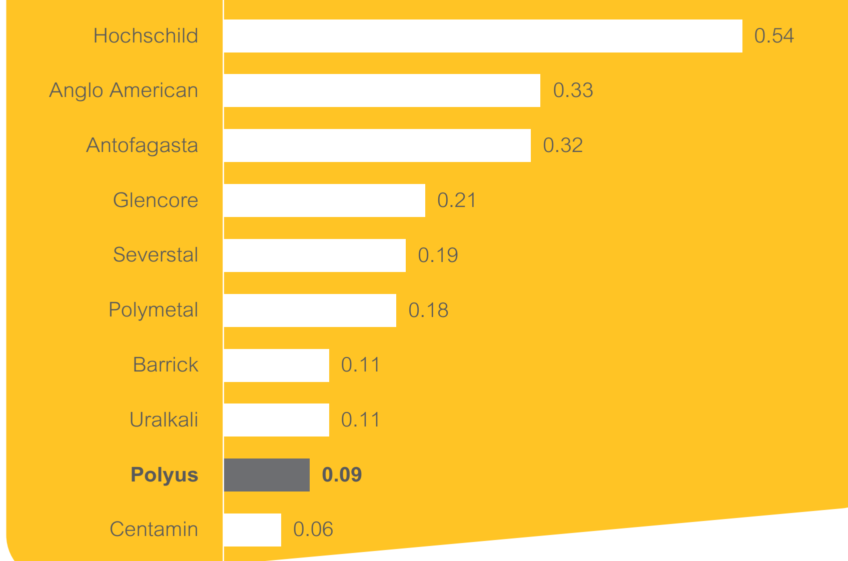
This certification recognises Polyus' continuous progress in the area of HSE, which is underpinned by a strong development of safety culture within the business.

Polyus' LTIFR dynamics



Polyus is the only ICMM member company from Eastern Europe

LTIFR at Polyus vs. LTIFR at other global mining companies[1]



[1] 2018 or latest reported.

MAXIMISING SHAREHOLDER VALUE

Industry-leading dividend level

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

Since 2016, Polyus has paid out 30% of its annual EBITDA as dividends on a semi-annual basis. According to amendments to the dividend policy, approved by the Board in January 2018, the Company was committed to paying its shareholders the higher of 30% of its annual EBITDA or $550 million in total annual dividends for the years 2017 and 2018. For 2018, the total dividend amounted to $559.5 million (subject to AGM approval). 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 Polyus to protect the interests of all its stakeholders. As at 31 December 2018, Polyus' net debt/adjusted EBITDA stood at 1.7x.

In this way Polyus strikes an appropriate balance between delivering shareholder returns and taking a prudent approach to managing its balance sheet.

[1] At the date of the publication of this Review, the shareholder structure is the following: Said Kerimov (78.6%), free float (20.54%), Company's management (0.59%), treasury shares (0.27%).

POLYUS CAPITAL MARKETS DAY IN 2018

In March 2018, Polyus hosted its Capital Markets Day at the London Stock Exchange

This was Polyus' first major international investor event following the Company's return to the public capital markets a year earlier. The event included presentations by Polyus' independent Chairman and Chairman of its Audit Committee, as well as by almost the entire top management team: CEO, CFO, COO; Vice Presidents for Production, Mineral Resources, Projects, and Engineering; Corporate Finance and Investor Relations Directors. The speakers gave a detailed overview of the Company's current performance and future strategy.

It is crucially important for Polyus to maintain active dialogue with its investors. Transparency and clarity of what the Company does and where it is headed is key to ensuring Polyus remains an attractive investment story.

Even more important for a public company is to deliver on its promises. Polyus regularly provides the market with guidance on its key metrics, and has a track record of meeting the set targets or even outperforming them:

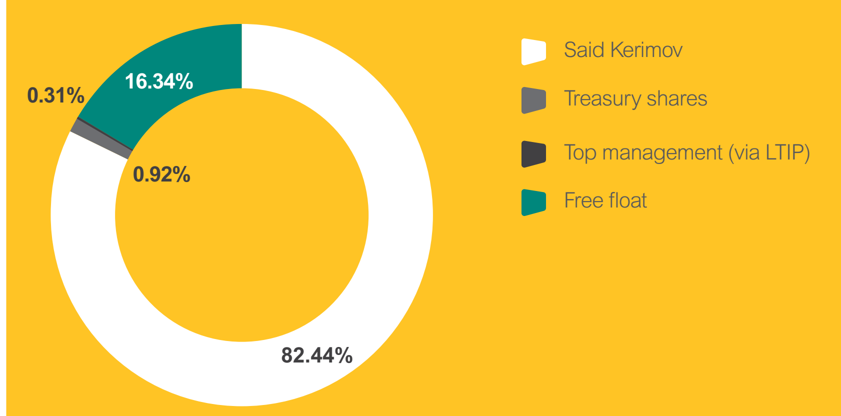
- For the full year 2018, Polyus delivered a production of 2,440 thousand ounces, exceeding guidance for the fifth consecutive year (2018 guidance stood between 2,375 and 2,425); at a TCC of $348 per ounce (guidance: below $400 per ounce) and a capex of $736 million (guidance: $850 million).
- For 2019, the Company's gold production guidance is 2,800 koz at a TCC below $425 per ounce and a capex of approximately $725 million.

Maintaining active dialogue with investors is a priority for Polyus

MOEX and LSE ticker

PLZL

Shareholder structure as at 31 December 2018[1]



Demand

According to the World Gold Council's Gold Demand Trends report published on 31 January 2019, total gold demand grew by 4% in 2018, to 4,345.1 tonnes, from 4,159 tonnes in 2017, which is in line with the five-year average of 4,347.5 tonnes. This was predominantly driven by the fact that in 2018 central banks bought up more gold than they had in any of the last 50 years.

Central banks added 651.5 tonnes to state gold reserves in 2018. Russia, Turkey and Kazakhstan significantly increased their gold reserves. Russia bought 274.3 tonnes in 2018, reflecting its shift away from US dollar reserves and the resulting disposal of its US Treasuries portfolio. Russia's annual net purchases exceeded 200 tonnes, the highest level on record. Russia's gold reserves have now increased for 13 consecutive years, growing by 1,726.2 tonnes over the period to a total of 2,113 tonnes as at the end of 2018.

Annual gold jewellery demand remained broadly unchanged year-on-year and stood at 2,200 tonnes in 2018. China remained the largest contributor, posting a three-year high in jewellery demand of 672.5 tonnes, despite a slowdown in the fourth quarter, resulting from the trade war with the US and a slowdown in economic growth. Annual gold jewellery demand in India saw a marginal decrease to 598 tonnes in 2018, down from 601.9 tonnes in 2017.

The inflow of funds into global gold-backed ETFs and similar products totalled 69 tonnes in 2018, which is equivalent to $3.4 billion of inflows. This figure represents a significant decrease of 67% from the year before, when total inflows reached 206.4 tonnes. European-listed funds experienced a sizeable increase in fund inflows (plus 96.8 tonnes), which drove the sector growth in 2018. Fund inflows of 57.1 tonnes recorded in North America during the fourth quarter partially offset the losses in the previous quarters. However, overall, gold-backed ETFs in that region experienced a decline of 13.4 tonnes in 2018.

Global bar and coin demand grew 4% year-on-year, reaching 1,090 tonnes, as investors took advantage of the lower gold price in the second half of 2018. Bar sales remained steady at 781.6 tonnes, while the coin market experienced an annual surge in demand of 26% to 236 tonnes, the second highest level on record.

Demand for gold in technological applications increased by 1%, to 334.6 tonnes, compared to the prior year. This growth was primarily driven by the use of gold in electronics such as smartphones, servers and automotive vehicles.

Global gold demand breakdown in 2017–2018

	2018	2017
Jewellery	**50%**	52%
Technology	**8%**	8%
Investment	**27%**	30%
Central banks	**15%**	9%

Supply

In 2018, total supply equalled 4,490 tonnes, an increase of 1% year-on-year. This reflects growth both in mine production and recycled gold volumes.

Gold mine production grew by 1% from the prior year to 3,347 tonnes. This represents the tenth consecutive year of annual growth in production and the highest level of annual mine output on record.

Recycled gold totalled 1,173 tonnes in 2018, up 1% compared to the prior year. Turkey and Iran remained the largest gold recycling markets.

The net de-hedging by gold producers amounted to 29.4 tonnes, following 27.9 tonnes of net de-hedging in 2017. At the end of 2018, the global hedge book stood at an estimated 195 tonnes, down 13% from 2017, continuing the general downward trend.

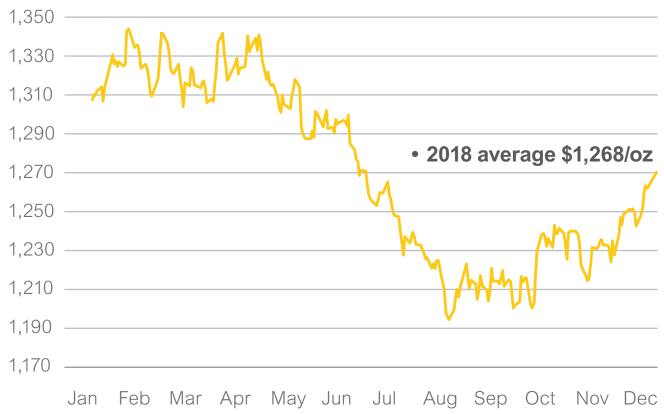
Global gold production, tonnes

	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**
2018	**3,347**	**1,143**	**4,490**

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.

Chart. LMBA gold price dynamics in FY 2018, $/oz



Source: London Bullion Market Association

Outlook

According to the World Gold Council's Outlook 2019 report, published on 10 January 2019, three key trends are expected to impact gold price performance in 2019:

- financial market instability
- monetary policy and the US dollar
- structural economic reforms.

In 2018, gold-backed ETFs experienced net positive flows, as gold demand has historically been highly responsive to periods of heightened risks. With gold being an effective diversifier and hedge, the trend is expected to continue into 2019 due to higher market volatility, instability in Europe and the increased likelihood of a global recession. In addition, governments around the world seem to be increasingly embracing protectionist policies, which could result in higher inflation due to either higher labour and manufacturing costs or higher tariffs imposed to promote local producers over foreign ones.

While market risk is expected to remain high, two factors might limit gold's upside: higher interest rates and the strength of the US dollar. Nonetheless, there are several factors that could potentially stall the upward trend of the US dollar. Firstly, the US dollar DXY Index has already appreciated by approximately 10% from its 2008 lows. A similar trend in 2016 was followed by a significant correction. Secondly, the positive effect of higher US interest rates on the dollar might diminish as the Fed policy stance becomes neutral, especially since the recent US dollar strength was fuelled in part by the more accommodative monetary policy maintained by other central banks. Finally, emerging market central banks continue to diversify their exposure to the US dollar.

Lastly, emerging markets are also relevant to the long-term performance of gold, accounting for 70% of global gold consumer demand. China and India, two of the world's largest gold markets, have started to implement government programmes aimed at promoting growth and modernising their economies. Given its link to wealth and economic expansion, gold is well positioned to benefit from these initiatives.

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, the three Russian deposits included in the world's 30 largest assets in terms of resources, according to the Metals Focus' Annual Gold Focus 2018 report.

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

Operational risks:
- mining risks

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 64 million ounces of Proved and Probable ore reserves. The development of Sukhoi Log, one of the world's largest undeveloped gold deposits, provides us with a platform for long-term growth.

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 five years, Polyus has constantly exceeded its annual production guidance. 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:
- ineffective allocation of investment budget funds

Operational risks:
- failure to meet the schedule and budget of capital construction investment projects
- failure to meet the delivery schedule, poor quality and quantity of materials and services
- selection of inefficient technology

Achieved to date
Operational optimisation initiatives have delivered a sustained recovery rate and production increases at all our key assets. Our large-scale greenfield project at Natalka began operations in 2017 and reached its annualized name-plate throughput capacity by the end of 2018.

Mid-term target
Polyus is carrying out initiatives to further increase throughput capacity at Olimpiada, Blagodatnoye and Kuranakh.

Maintaining Cost Leadership

Description
Polyus is one of the lowest-cost gold producers, positioned in the first decile of the global cost curve and demonstrating 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
Country and regional risks:
- tax burden increase
- increase of the international pressure on the Russian Federation

Operational risks:
- business interruption
- power balance shortage
- inefficiency of Company's operating model & lack of skilled human resources

Achieved to date
Our ongoing efficiency programmes across the Group continued to reduce costs. In 2018, total cash costs fell by 4% year-on-year to $348 per ounce. This was a result of production expansion and cost inflation containment initiatives as well as the local currency depreciation.

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.

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. Our leverage profile remains comfortable – with limited repayments due in the coming years. 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 provides 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.

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:
- inefficient interaction with government authorities

Operational risks:
- information security
- inconsistency of IT-architecture and business processes with the Company's goals

Achieved to date
Polyus' Strategy and Operations Committees both include at least two Independent Non-Executive Directors, and our Audit and Nomination & Remuneration Committees consist solely of Independent Non-Executive Directors. All Committees are chaired by Independent Non-Executive Directors. The Company's Board of Directors includes four Independent Non-Executive Directors, all of whom have extensive, complementary and relevant experience. The Chairman of the Board is an Independent Non-Executive Director.

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

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 in the workplace
- negative environmental impact

Achieved to date
Polyus has been a member of the ICMM since 2015 and is the first and only member company from Eastern Europe. Our LTIFR compares favourably against the majority of our peers.

Mid-term target
Our ultimate goal remains zero injuries.

KEY PERFORMANCE INDICATORS

To measure progress against the Company's strategy, we have benchmarked our performance in 2018 against a set of key financial, operational and sustainability KPIs.

KPI	Dynamics	Relevance to strategy	2018 performance	Looking ahead
Adjusted EBITDA ($ million) Adjusted EBITDA is defined by the Group as profit before finance costs, income tax, income/ (losses) from investments (including derivatives), depreciation, amortisation and interest paid, and adjusted for one-off items.	'16 1,536 '17 1,702 '18 1,865	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 Group's adjusted EBITDA rose 10% over the year, to $1,865 million. This reflects production growth, with higher gold output at Olimpiada, the ramp-up of operations at Natalka and a strong operational performance at Verninskoye and Kuranakh.	Polyus is focused on growing adjusted EBITDA through sustainable cost reduction and operating efficiency initiatives. For additional information, see the **'Management discussion and analysis'** section on page 59.
Total gold output (thousand ounces) Volume of gold produced from Polyus' hard-rock mines and alluvial operations in the reporting period. Gold production volumes are measured in thousands of troy ounces.	'16 1,968 '17 2,160 '18 2,440	Gold production is an indication of Polyus' operational performance and demonstrates the operational and management teams' progress against mining plan targets.	Polyus' gold output increased a further 13% year-on-year, exceeding both the previous year's performance and internal targets.	Polyus has a strong production growth profile, allowing the Company to maintain steady operational progress towards delivering its key brownfield and greenfield projects. For additional information, see the **'Operational review'** section on page 38.
Total cash cost ($/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.	'16 389 '17 364 '18 348	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.	The Group's TCC decreased primarily as a result of production expansion, multiple initiatives to contain cost inflation and local currency depreciation.	Polyus is introducing additional multi-faceted and intensive measures to contain cost inflation and improve productivity. For additional information, see the **'Management discussion and analysis'** section on page 59.
LTIFR The lost time injury frequency rate (LTIFR) measures delivery against Polyus' commitment to health and safety across the business.	'16 0.13 '17 0.11 '18 0.09	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.	Polyus' integrated Health, Safety and Environment management system received certification in accordance with ISO 14001 and ISO 45001 standards.	Polyus targets zero fatalities through continuously focusing on improving its Health and Safety management system. For additional information, see the **'Ensuring the Safety of Employees'** section on page 60 of the Sustainability Report.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Risk management forms an integral part of Enterprise risk management and internal control (hereinafter – ERM&IC) system and is regulated by Polyus' 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 throughout all levels of the Company
- **Integration** – the ERM&IC system covers all of the Company's activities and business processes
- **Risk-orientedness** – the ERM&IC system is integrated into the Company's business processes in order to prioritize risk mitigation actions
- **Reasonableness** – the quantity and complexity of control procedures and risk mitigation actions enable Polyus to achieve the ERM&IC system's objectives
- **Separation of duties** – Company employees' rights and obligations depend on their specific role in the ERM&IC system
- **Responsibility** – within the scope of their duties, all Company employees are responsible for the 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 evaluation are reported to the appropriate level of management in a timely fashion
- **Adaptability** – the ERM&IC system constantly evolves and improves, adapting to changes in the environment.

Risk management includes the identification and evaluation of risks and the development and implementation of actions to mitigate risks.

The key corporate risks of PJSC Polyus and corresponding mitigation actions are presented below.

Description & Impact	Mitigation
Industry risks	
1. Quantity and quality of mineral resources and reserves	
By its nature, the evaluation of the mineral resources of any mining company may be inaccurate. It depends to a certain extent on subjective statistical conclusions, which may be based on limited volumes of drilling and other analyses. Inaccurate assessment of the quantity and quality of mineral resources may lead to a decrease in production efficiency due to increased mining works and labour requirements, changes to ore processing technology requirements or a 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).
2. Gold price decrease	
To a significant extent, the Company's financial results depend on the gold price. The gold market is 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.
Strategic risks	
1. Ineffective allocation of investment budget funds	
The Company faces the following challenges: • poor quality of information used for project planning • untimely submission by customers of information on projects intended to be included in the investment programme • difficulties in prioritising investments in basic projects that do not present a clear economic impact.	To minimise this risk, the Company: • regularly updates valuation models in the course of monitoring its investment projects • carries out evaluations of capital expenditure resources, including contingency reserve • prioritises and stages its investments.

Description & Impact	Mitigation
Financial risks	
1. Capital access	
Sanctions imposed by the United States, EU and other countries may lead to difficulties in borrowing on foreign markets, as well as to 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 is diversifying its credit portfolio by raising funds from both Russian and international banks.
2. Appreciation of the rouble	
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. Therefore the exchange rate of the Russian rouble to the US dollar may affect the Company's revenue.	The Company performs constant monitoring of this risk. To reduce currency exchange rate risk and secure loans nominated in foreign currency, the Company manages its loan portfolio, operating and investment expenditures. The Company also forecasts and maintains sufficient levels of liquidity.
Legal risks	
1. Non-compliance with legal requirements and internal regulations	
Constant changes in regulations and standards that have a direct impact on the Company's operations may lead to a risk of non-fulfilment of certain provisions of applicable legislation and/ or industry regulations, including licence requirements. Moreover, there is a risk of breach/default of internal regulations by the Company's employees.	To mitigate these risks, the Company maintains a compliance system that responds to the changes in legislation, industry standards and licence agreements, as well as the requirements of Russian standards. The Company takes proactive measures in order to prevent breach of law and internal regulations. 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 adversely affected by: • changes in tax legislation and statutory practice • different interpretations of law by the taxpayer and tax authority.	In order to mitigate this risk, the Company continuously monitors changes in legislation and engages external advisors. The scope of work includes working on possible complex scenarios where changes in legislation might impact the Company's business, proactive information gathering and the development of possible reactive measures.
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.
3. 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 and state subsidies.	The Company communicates with state authorities on a regular basis, monitors changes in applicable laws and law-making initiatives.

PRINCIPAL RISKS AND UNCERTAINTIES continued

Description & Impact	Mitigation
Operational risks	
1. Mining risks	
Risk may occur due to insufficient knowledge of rock and hydrogeological conditions, as well as due to disruption of mining technologies.	The Company regularly: • conducts complex monitoring of pit walls to identify rock deformations • develops programmes for the study of rock conditions using innovative technologies and international expertise • implements risk mitigation actions for rock blasting.
2. Failure to comply with schedule and budget of capital construction investment projects	
Risk may occur due to: • poor quality of working documentation • inaccurate assessment of the project schedule and budget • breach of contract terms regarding services and materials • revision of project terms during construction.	Risk mitigation actions include: • increase of control over the quality of project schedule development • evaluation of budget's resource estimate • determination of critical technological equipment and delivery schedule, with the involvement of the supply services at the earliest stages of the project.
3. Failure to comply with delivery schedule, poor quality and quantity of materials and services	
Risk may occur due to: • logistics bottlenecks • late delivery of materials and equipment due to late provision of supply requirements by the customer • lengthy procurement processes • poor quality materials provision 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 initial acceptance points for all materials • implementation of measures to eliminate logistical bottlenecks.
4. Selection of inefficient technologies	
Risk may occur due to: • incorrect programme testing • use of outdated standards for inclusion of sampling results into design.	To mitigate this risk, the Company: • engages highly qualified specialists, including international engineering companies, to study strategic projects • continuously improves the method of sampling • updates standards of sampling involvement in to design.
5. Business Interruption	
Risk may occur due to: • non-compliance with production equipment operation procedures • untimely repair and maintenance programme execution • accidents in the electricity supply network • insufficient throughput capacity of internal electrical grid infrastructure.	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.
6. Power balance shortage	
Risk may occur due to limited capacity of external energy grids and possible electrical power shortage at the market.	To increase the reliability of power supplies, the Company builds high-voltage power transmission lines to connect with the federal grids of Siberia and the Far East. The Company develops a strategy for energy capacity expansion including new production development projects.

Description & Impact	Mitigation
7. Accidents at worksite	
Risk may occur due to an employee breach of their duties related to health and safety.	Risk mitigation actions include: • safety training for employees on a regular basis • quality control and timely provision of safety facilities • purchase and installation of equipment necessary for safe working • performing preventive measures aimed at increasing control over compliance with internal regulations.
8. Negative environmental impact	
The Company's operations are subject to environmental control and regulations where they relate to possible environmental damage, potential harm to flora and fauna.	The Company fulfils all requirements of Russian legislation and applicable international environmental protection laws. The Company evaluates the impact of its business on the environment and society by identifying possible ecological risks at all stages of its projects – from design to land recultivation.
9. Imperfection of the Company's operating model & lack of skilled human resources	
Difficulties in hiring a sufficient number of qualified personnel arise for the following reasons: • increase of competitive environment on the Russian labour market • low level of qualification provided by educational institutions, especially for technical profiles • lack of adequate social conditions for employees which can affect the image of the Company as a responsible employer • non-compliance of the current organization design (operating model and organizational chart) with the Company's development goals.	The Company's key risk mitigation actions: • development of special programmes for high-potential employees • development of a corporate culture and improvement of employee loyalty to the Company • improvement of social conditions for employees • improvement and development of the recruitment process • implementation of measures to optimize organizational design.
10. Information Security	
Risk may occur due to: • cyberattacks against the Company • breach of information security rules by the Company's employees and contractors.	Risk mitigation actions include: • implementation of a reaction system against targeted attacks • improvement of antivirus protection • implementation of specialized software for identification and monitoring of information security events (DLP) • identification and monitoring of information security events.
11. Inconsistency of IT-architecture and business processes with the Company's goals	
The Company faces the following challenges: • non-compliance of the Company's processes and IT systems with the scope and complicity of the Company's ongoing projects • complexity of the programmes and management of the projects' portfolio due to great number of initiatives being implemented, bound up with time and scope.	Minimisation of this risk is achieved through: • prioritisation of projects in order to to achieve optimal resources allocation • harmonisation of the Company's business processes and information systems.

OPERATIONAL REVIEW

Q&A WITH VLADIMIR POLIN SENIOR VICE PRESIDENT, OPERATIONS

Q You have once again exceeded your production guidance. What contributed to your continued operational excellence?

A In 2018, we once again delivered strong operational results. Polyus achieved solid growth in gold production, exceeding our guidance, producing a total of 2,440 thousand ounces – up 13% compared to 2017 – and becoming the fifth-largest gold producer globally.

Natalka has reached its annualized name-plate throughput capacity, and already made a sizeable contribution to the Group's performance. Production for the year was also supported by a 12% increase in gold output at Olimpiada, which produced 1.3 million ounces. Alongside this, we further advanced our brownfield development programme, with progress in a number of debottlenecking projects and the ongoing capacity expansions at Olimpiada, Blagodatnoye, Verninskoye, and Kuranakh. Already in 2018, total volumes of ore processed increased by 33% to 38 million ounces.

For us at Polyus, commitment to operational excellence means constantly improving our processes with the help of new technologies. At Verninskoye we have introduced a Wenco system allowing for optimisation of mine fleet schedules and tie-down times, as well as Wenco Drilling Navigation system enabling high-precision drill rig guidance. Moreover, Polyus continues to roll out the installation of ore processing automation technologies, including an Outotec flotation circuit complex at the Krasnoyarsk Business Unit.

Q Operationally, what has been the most significant achievement of the year?

A An important milestone for us this year has been the full ramp-up of Natalka, our key development project, to its design throughput capacity of 10 million tonnes on an annualized basis. With 16 million ounces of Proved and Probable Reserves, Natalka will be a significant contributor to our production target of 2.8 million ounces in 2019.

There are always challenges with bringing into production major projects such as this, and Natalka was no exception. Having engineers and technicians on site with the right experience and expertise is crucial to ensuring that projects of this scale are delivered on time and to the required parameters. At Natalka, we successfully overcame every obstacle during the year and completed the ramp-up on schedule.

Q Can you provide an update on the progress you've made at Sukhoi Log?

A We have completed the scoping study and verification drilling programme and now entered the pre-feasibility phase. We expect the results of the pre-feasibility study in 2020. By the end of 2018 we completed almost 70% of our total drilling programme at Sukhoi Log. It was encouraging to observe a strong correlation of the results of the recent verification drilling with the historical exploration data. According to the latest estimates, the Mineral Resources of Sukhoi Log stand at 63 million ounces, with average contained gold grade of 2.1 grams per tonne of ore. It's a truly unique asset due to its combination of long life of mine, high grade and potential annual production of around 1.6 million ounces.

We are very optimistic about Sukhoi Log's long-term value creation potential and are committed to developing it in the most disciplined and efficient manner.

Production at the deposit is expected to start around 2026, assuming a positive investment decision is made. We expect that the processing facility at Sukhoi Log will use a conventional gravity-flotation scheme with mill throughput capacity of 30 million tonnes per year and a target recovery rate of 88—90%. The deposit's close proximity to Polyus' other assets will enable us to optimise the use of processing facilities and exploit economies of scale, as well as utilise existing infrastructure.

Q What are your plans for 2019?

A We anticipate another year of production growth, particularly with the Natalka operations being ramped up. We plan to increase the recovery rates at Olimpiada to over 80% in 2019 by rolling out several efficiency improvement initiatives. That said, in the first half of the year we plan to launch an alkaline leaching circuit as well as commission flash flotation units at Mills 1, 2 and 3 at Olimpiada. Additionally, we will continue with the third stage of the Kuranakh Mill expansion project. At Blagodatnoye, we will continue implementing another one of our priority mill expansion projects: the expansion of Blagodatnoye mill to 9 million tonnes of ore per annum. We will also continue our exploration works at Sukhoi Log throughout 2019 and look forward to converting part of its Mineral Resources to Reserves in 2020.

> **"For us at Polyus, commitment to operational excellence means constantly improving our processes with the help of new technologies"**

OPERATIONAL REVIEW continued

Consolidated operating results

	2018	2017	Y-O-Y
Olimpiada	**1,065.4**	1,007.3	6%
Blagodatnoye	**415.8**	456.7	-9%
Verninskoye	**223.3**	205.7	9%
Alluvials	**147.7**	145.7	1%
Kuranakh	**198.9**	171.5	16%
Natalka	**132.7**	3.3	n.m.
Refined gold, koz	**2,183.8**	**1,990.2**	**10%**
Flotation concentrate production, t	**116,466**	84,962	37%
Antimony in flotation concentrate, t	**23,602**	–	n.a.
Gold in flotation concentrate, koz	**256.3**	**170.0**	**51%**
Gold payable in concentrate, koz	**189.7**	119.0	59%
Total gold output, koz	**2,440.1**	**2,160.2**	**13%**
Rock moved, kt	**300,648**	224,423	34%
Stripping ratio, t/t	**6.0**	4.9	22%
Ore mined, kt	**42,841**	37,810	13%
Ore processed, kt	**38,025**	28,663	33%
Recovery rate, %	**80.8%**	83.4%	-2.6 ppts
Total doré & slime gold output, koz	**2,450.0**	2,161.9	13%

Total gold output for 2018 stood at 2,440 thousand ounces (including 256 thousand ounces of gold contained in concentrate from Olimpiada), compared to 2,160 thousand ounces in 2017. This growth was driven by higher gold output at Olimpiada, the ramp-up of operations at Natalka and a strong performance at Verninskoye and Kuranakh. Doré volumes totalled 2,450 thousand ounces, up 13% on a year-on-year basis.

Ore processed volumes increased to 38,025 thousand tonnes, compared to 28,663 thousand tonnes in 2017, reflecting the launch of the Natalka Mill, the implementation of expansion projects and the start of heap leaching at Kuranakh.

Our recovery rate stood at 80.8%, down 2.6 ppts from the prior-year period, reflecting the ramp-up at Natalka and a decrease in recoveries at Olimpiada and Blagodatnoye. The recoveries at group level, adjusted for the Natalka operations, amounted to 82.3%.

Flotation concentrate volumes increased 37% compared to 2017 and reached 116.5 thousand tonnes. Volumes of antimony contained in flotation concentrate totalled 23.6 thousand tonnes.

OLIMPIADA

Overview	
Location	Krasnoyarsk Territory
Commissioned	1996
Mining/processing type	Open-pit, flotation-bioleach
Processing capacity	3 plants with a total capacity of about 13 million tonnes per annum

	2018	2017	Y-O-Y
Rock moved, kt	126,608	76,067	66%
incl. stripping, kt	108,449	63,883	70%
Stripping ratio, t/t	6.0	5.2	15%
Ore mined, kt	**18,160**	**12,184**	**49%**
Average grade in ore mined, g/t	3.71	4.08	-9%
Ore processed, kt	**13,267**	**12,442**	**7%**
Average grade in ore processed, g/t	4.10	3.80	8%
Recovery, %	79.3%	80.7%	-1.4 ppts
Doré gold (incl. gold in concentrate), koz	**1,325.3**	**1,176.6**	**13%**
Refined gold output, koz	**1,065.4**	**1,007.3**	**6%**
Flotation concentrate production, t	116,466	84,962	37%
Antimony in flotation concentrate, t	23,602	–	n.a.
Gold contained in concentrate, koz	**256.3**	**170.0**	**51%**
Total gold output, koz	**1,321.7**	**1,177.3**	**12%**

Olimpiada 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 Yeruda in the Severo-Yeniseysky administrative district. The town of Severo-Yeniseysky, the local administrative centre, is located 60 kilometres by road north of Yeruda. 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 above 13 million tonnes per annum versus 12 million tonnes per annum in 2017.

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 2018, refined gold output increased 12% year-on-year to 1,322 thousand ounces. Ore processing volumes at Olimpiada's existing facilities grew by 7% year-on-year to exceed 13 million tonnes.

Further targeted improvements at several circuits planned for the nearest future will translate into further expansion of the mills and recovery improvement. The latter includes the launch of an alkaline leaching circuit, commissioning of flash flotation units at Olimpiada Mills 1, 2 and 3.

Ore mined in 2018

+49%

Doré gold output in 2018

+13%

The production of antimony concentrate at Olimpiada's Mill 1 enables the Company to separately process ore with high and low antimony content. This boosts the efficiency of bio-oxidation of low-content antimony ores at Mill 2 and Mill 3 and is expected to have a positive effect on recoveries

BLAGODATNOYE

Overview	
Location	Krasnoyarsk Territory
Commissioned	2010
Mining/processing type	Open-pit, flotation-bioleach
Processing capacity	1 mill with a capacity of above 8 million tonnes per annum

	2018	2017	Y-O-Y
Total rock moved, kt	77,407	75,859	2%
incl. stripping, kt	70,236	63,026	11%
Stripping ratio, t/t	9.8	4.9	100%
Ore mined, kt	**7,170**	**12,833**	**-44%**
Average grade in ore mined, g/t	1.60	1.94	-18%
Ore processed, kt	**8,719**	**8,161**	**7%**
Average grade in ore processed, g/t	1.70	1.99	-15%
Recovery, %	87.5%	87.8%	-0.3 ppts
Doré gold (incl. gold in concentrate), koz	**417.3**	**457.6**	**-9%**
Refined gold output, koz	**415.8**	**456.7**	**-9%**

The Blagodatnoye deposit is located 25 km north of Olimpiada. 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.

During 2018 a pit cutback was in carried out at Blagodatnoye, therefore the mining activities were concentrated on the deposit's low-grade flank upgraded. Installation of turbo-elevators at SAG mills positively impacted the hourly throughput of Mill-4. An additional flash flotation unit at Mill-4 was added to improve recovery.

Doré gold output in 2018

417.3
thousand ounces

Ore processed in 2018

8,719
thousand tonnes

At Blagodatnoye, Polyus is implementing one of its priority mill expansion projects. Improvements to crushing, grinding and flotation processes are expected to translate into a substantial increase in throughput capacity in the coming few years

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 above 2.9 million tonnes per annum

	2018	2017	Y-O-Y
Total rock moved, kt	19,341	18,378	5%
incl. stripping, kt	16,352	14,631	12%
Stripping ratio, t/t	5.5	3.9	41%
Ore mined, kt	**2,990**	**3,747**	**-20%**
Average grade in ore mined, g/t	2.63	2.18	21%
Ore processed, kt	**2,979**	**2,789**	**7%**
Average grade in ore processed, g/t	2.63	2.60	1%
Recovery, %	89.5%	88.5%	1.0 ppts
Doré gold (incl. gold in concentrate), koz	**225.8**	**206.6**	**9%**
Refined gold output, koz	**223.3**	**205.7**	**9%**

The Verninskoye gold deposit is located in the northern part of the Bodaibo Administrative District of 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 2018, refined gold output rose 9% year-on-year, to above 223.3 thousand ounces.

Doré gold output in 2018

225.8
thousand ounces

Ore mined in 2018

2,990
thousand tonnes

Several important development projects at Verninskoye have resulted in record-high recovery rates. Recent improvements have included the launch of additional sorption capacities, expansion of the desorption circuit and the introduction of an automated mining fleet management system in 2018

ALLUVIALS

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

	2018	2017	Y-O-Y
Sands washed, 000 m³	7,689	8,342	-8%
Average grade, g/m³	0.60	0.54	11%
Gold in slime, koz	**147.7**	**145.5**	**2%**
Refined gold output, koz	**147.7**	**145.7**	**1%**

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

In 2018 refined gold output amounted to 148 thousand ounces, up 1% from the prior year.

Refined gold output in 2018

147.7

thousand ounces

Alluvial deposits in the basin of the river Lena 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 above 5 million tonnes per annum and a heap leaching facility with a capacity of 1.5 million tonnes per annum

	2018	2017	Y-O-Y
Total rock moved, kt	31,948	31,951	0%
incl. stripping, kt	24,116	25,974	-7%
Stripping ratio, t/t	3.1	4.3	-28%
Ore mined, kt	**7,833**	**5,977**	**31%**
Average grade in ore mined, g/t	1.07	1.18	-9%
Total ore processed, kt	**6,709**	**4,701**	**43%**
Mill			
Ore processed, kt	5,195	4,647	12%
Average grade in ore processed, g/t	1.23	1.30	-5%
Recovery, %	88.7%	88.5%	0.2 ppts
Doré gold, koz	181.5	171.8	6%
Heap leach			
Ore processed, kt	1,514	54	n.m.
Average grade in ore processed, g/t	0.75	0.75	0%
Recovery, %	72.3%	–	n.a.
Doré gold, koz	18.2	0.6	n.m.
Total doré gold, koz	**199.6**	**172.4**	**16%**
Refined gold output, koz	**198.9**	**171.5**	**16%**

The Kuranakh mine is located in the Aldansky District of the Republic of Sakha in Far Eastern Russia, approximately 400 kilometres southwest of the regional 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 Kuranakh is based on open-cut, drilling, and blasting operations. The processing mill uses resin-in-pulp (RIP) sorption technology, with subsequent electrolysis and smelting.

During much of 2018 mining activities at Kuranakh were concentrated in areas with lower stripping ratio. The share of lower-grade material in ore mined was increased in order to provide the leaching facilities with a continuous feed of material.

In July 2018 the heap leaching facility launched at Kuranakh in late 2017 has reached its design capacity. As expected, it processed over 1.5 million tonnes of ore and produced 18.2 thousand ounces of doré gold with a recovery ratio of 72.27 %.

During the year, Polyus advanced with the Kuranakh Mill throughput capacity expansion project. We completed the installation of an additional cyclone cluster with an automated pump control system at the second and third stages of the grinding circuit and introduced an automated control system at CIL.

In addition, Kuranakh is now at the third stage of its mill expansion project which will further increase the amount of ore it handles at the existing facilities.

In July 2018 the leaching activities at Kuranakh reached the design parameters

Ore mined in 2018

+31%

Ore processed in 2018

+43%

NATALKA

Overview	
Location	Magadan Region
Commissioned	2018
Mining/processing type	Open-pit, gravity, cyanide leaching
Processing capacity	1 mill with a capacity of 10 million tonnes per annum

	2018	2017	Y-O-Y
Total rock moved, kt	45,297	21,766	108%
incl. stripping, kt	38,637	18,828	105%
Stripping ratio, t/t	5.8	6.4	-9%
Ore mined, kt	**6,661**	**2,938**	**127%**
Average grade in ore mined, g/t	1.03	0.96	7%
Ore processed, kt	**6,352**	**570**	**n.m.**
Average grade in ore processed, g/t	1.10	0.61	80%
Recovery, %	62.9%	42.7%	20.2 ppts
Doré gold, koz	**134.3**	**3.2**	**n.m.**
Refined gold output, koz	**132.7**	**3.3**	**n.m.**

The Natalka deposit 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.

Production at Natalka ramped up gradually over 2018. By the end of the year, the mill was running at its name-plate capacity of 10 million tonnes of ore per year.

Doré gold output in 2018

134.3
thousand ounces

Ore mined in 2018

6,661
thousand tonnes

By the end of 2018 Natalka had reached an annualised throughput capacity of 10 million tonnes per annum

MINERAL RESOURCES AND ORE RESERVES

Polyus' Proved and Probable (P&P) Ore Reserves are estimated at 64 million ounces of gold.

The Measured, Indicated and Inferred (MI&I) Mineral Resources stand at 192 million ounces of gold, including 63 million ounces of Indicated and Inferred Mineral Resources for Sukhoi Log.

Ore reserves

Polyus' Ore Reserves are estimated at 64 million ounces of gold, down from 68 million ounces as at 31 December 2017, reflecting mining depletion during 2018.

Over 95% of the Company's estimated Ore Reserves of gold are located within the operating assets:

- Polyus Krasnoyarsk has the largest share of the Company's Ore Reserves, with 26 million ounces at Olimpiada and 9.1 million ounces at Blagodatnoye
- Natalka has estimated Ore Reserves of 15 million ounces
- ore Reserves at Verninskoye and Kuranakh were recorded at 4.8 million ounces and 4.3 million ounces, respectively.

Average grade of Polyus' Ore Reserves stands at 1.7 grams per tonne. This estimate is inclusive of 5.1 million ounces of gold in low-grade stockpiles at an average grade of 1.0 grams per tonne and 0.8 million ounces of gold at Alluvials at an average grade of 0.4 grams per tonne.

Approximately 912 million tonnes of ore, containing 58 million ounces of gold out of 64 million ounces of total Ore Reserves, are expected to be mined by conventional open pit truck-and-shovel or underground mining methods at a grade of 2.0 grams per tonne (adjusted for low-grade stockpiles and the Alluvial operations).

Mineral resources

The Company's Mineral Resources are estimated at 192 million ounces of gold, compared to 190 million ounces as at 31 December 2017, which reflects depletion at all operating mines and update of the Mineral Resources estimate for Sukhoi Log.

Approximately 60% of the Company's Mineral Resources are attributable to operational mines:

- Olimpiada's Mineral Resources are estimated at 41 million ounces
- Natalka Mineral Resources amount to 33 million ounces
- Blagodatnoye's Mineral Resources stand at 18 million ounces
- Verninskoye and Kuranakh's Mineral Resources include estimates of 12 million ounces and 8.7 million ounces, respectively.

AMC updated the Sukhoi Log Mineral Resources estimate during 2018 in accordance with JORC Code 2012. According to AMC, Mineral Resources at Sukhoi Log are estimated at 962 million tonnes, with an average grade of 2.1 grams per tonne gold and containing 63 million ounces of gold as at 30 October 2018. The estimate is a nine per cent increase compared to the previous estimate of 58 million ounces of gold as at 31 January 2017. AMC also upgraded 28 million ounces of Inferred Mineral Resources to Indicated Mineral Resource.

Exploration Highlights

Polyus has initiated a comprehensive drilling programme across the asset portfolio.

The Company expects this programme to last until the end of 2019 and result in additions to Ore Reserve estimates, which will most importantly include a Maiden estimate of P&P Ore Reserves for Sukhoi Log.

At Sukhoi Log, the Company continues in-fill, deep levels, flanks and other drilling. Polyus plans to drill a total of 197,000 meters, including the approximately 155,000 meters drilled since October 2017 to date.

The Company anticipates to provide the next annual update on Ore Reserves and Mineral Resources in the first half of 2020.

Mineral Resource and Ore Reserve estimates

The Mineral Resource and Ore Reserve estimates are summarized in the Tables below. The effective date for the estimates is 31 December 2018. There is no material change to the estimates since the original statement on 5 June 2017, apart from mining depletion and update to Sukhoi Log Mineral Resource estimate. As a result, there is no requirement to update the JORC Code Checklist of Assessment Criteria (Table 1) summaries[1].

Polyus Ore Reserve estimates as at 31 December 2018[2]

Deposit[3]	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	11.4	2.82	1.0	269	2.88	24.9	281	2.88	26.0
Blagodatnoye	56	0.87	1.6	152	1.55	7.5	208	1.36	9.1
Titimukhta	5.3	1.57	0.3	6.3	3.13	0.6	12	2.42	0.9
Verninskoye	12	1.30	0.5	79	1.70	4.3	91	1.65	4.8
Alluvials[4]	0	0.00	0.0	71	0.35	0.8	71	0.35	0.8
Kuranakh	0	0.00	0.0	136	0.97	4.3	136	0.97	4.3
Natalka	140	1.55	7.0	146	1.80	8.4	287	1.67	15.4
Development and Exploration Projects									
Chertovo Koryto	0	0.00	0.0	62	1.53	3.1	62	1.53	3.1
Total[5]	**225**	**1.43**	**10.3**	**922**	**1.82**	**54.0**	**1,147**	**1.75**	**64.4**

[1] Summaries reported on 24 January 2019 for Sukhoi Log and 5 June 2017 for all other deposits can be viewed at:
http://www.polyus.com/en/media/press-releases/sukhoi-log-mineral-resources-update/
http://www.polyus.com/en/media/press-releases/ore-reserves-and-mineral-resources-update/

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

Comparison of Polyus Ore Reserve estimates as at 31 December 2018 and as at 31 December 2017

Deposit[3]	2017 Proved & Probable Ore Reserves			2018 Proved & Probable Ore Reserves		
	Tonnes (Mt)	Gold (g/t)	Gold (Moz)	Tonnes (Mt)	Gold (g/t)	Gold (Moz)
Mines in Operation						
Olimpiada	295	2.94	27.8	281	2.88	26.0
Blagodatnoye	216	1.38	9.6	208	1.36	9.1
Titimukhta	12	2.43	0.9	12	2.42	0.9
Verninskoye	94	1.68	5.1	91	1.65	4.8
Alluvials[4]	87	0.35	1.0	71	0.35	0.8
Kuranakh	141	0.98	4.4	136	0.97	4.3
Natalka	293	1.67	15.7	287	1.67	15.4
Development and Exploration Projects						
Chertovo Koryto	62	1.53	3.1	62	1.53	3.1
Total[5]	**1,199**	**1.75**	**67.6**	**1,147**	**1.75**	**64.4**

The Ore Reserve and Mineral Resource estimates are classified and reported according to the JORC Code reporting requirements. All material assumptions and technical parameters underpinning the estimates in the announcement have been reported previously, have not materially changed, and continue to apply.

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 proved 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 **proved 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.

[3] The estimates for all deposits are presented on a 100% Polyus ownership basis.

[4] 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.

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

Polyus Mineral Resource estimates as at 31 December 2018

Deposit[1]	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	11.4	2.82	1.0	302	2.97	28.8	126	2.87	11.6	440	2.93	41.5
Blagodatnoye	56	0.87	1.6	280	1.49	13.4	69	1.32	2.9	405	1.38	17.9
Titimukhta	5.3	1.56	0.3	6.1	3.31	0.6	0.3	1.36	0.0	12	2.46	0.9
Verninskoye	12	1.30	0.5	206	1.57	10.3	14	1.99	0.9	231	1.58	11.7
Alluvial	0	0.00	0.0	208	0.19	1.3	34	0.40	0.4	242	0.22	1.7
Kuranakh	0.0	0.00	0.0	149	1.08	5.2	94	1.19	3.6	242	1.12	8.7
Natalka	144	1.70	7.9	260	1.85	15.5	148	2.09	9.9	552	1.87	33.2
Development and Exploration Projects												
Sukhoi Log[2]	0	0.00	0.0	374	2.35	28.3	588	1.85	35.0	962	2.10	63.3
Panimba	5.0	2.30	0.4	11	2.32	0.8	24	1.80	1.4	40	2.01	2.6
Poputninskoye	0	0.00	0.0	37	3.23	3.9	4.4	2.90	0.4	42	3.20	4.3
Zmeinoye	0	0.00	0.0	0.9	4.98	0.1	2.0	4.48	0.3	2.9	4.64	0.4
Chertovo Koryto (ChK)	0	0.00	0.0	67	1.52	3.3	7.8	1.31	0.3	75	1.50	3.6
Bamskoye	0	0.00	0.0	15	1.83	0.9	5.1	1.58	0.3	20	1.77	1.1
Medvezhy	0	0.00	0.0	0	0.00	0.0	6.5	1.85	0.4	6.5	1.85	0.4
Total[3]	**234**	**1.54**	**11.6**	**1,916**	**1.83**	**112.5**	**1,122**	**1.87**	**67.5**	**3,272**	**1.82**	**191.5**

Comparison of Polyus Mineral Resources estimates as at 31 December 2018 and as at 31 December 2017

Deposit[3]	2017 MI&I Mineral Resources			2018 MI&I Mineral Resources		
	Tonnes (Mt)	Gold (g/t)	Gold (Moz)	Tonnes (Mt)	Gold (g/t)	Gold (Moz)
Mines in Operation						
Olimpiada	454	2.97	43.5	440	2.93	41.5
Blagodatnoye	413	1.43	18.6	405	1.38	17.9
Titimukhta	12	2.40	0.9	12	2.46	0.9
Verninskoye	234	1.56	12.0	231	1.58	11.7
Alluvials	258	0.23	1.9	242	0.22	1.7
Kuranakh	250	1.12	9.0	242	1.12	8.7
Natalka	558	1.87	33.6	552	1.87	33.2
Development and Exploration Projects						
Sukhoi Log	887	2.03	58.0	962	2.10	63.3
Panimba	40	2.00	2.6	40	2.01	2.6
Poputninskoye	42	3.20	4.3	42	3.20	4.3
Zmeinoye	2.9	4.64	0.4	2.9	4.64	0.4
Chertovo Koryto (ChK)	75	1.50	3.6	75	1.50	3.6
Bamskoye	20	1.77	1.1	20	1.77	1.1
Medvezhy	6	1.85	0.4	6.5	1.85	0.4
Total[3]	**3,252**	**1.82**	**189.9**	**3,272**	**1.82**	**191.5**

1 The estimates for all deposits are presented on a 100% Polyus ownership basis.

2 Source: Sukhoi Log Mineral Resources Update, PJSC Polyus, 24 January 2019.

3 Any minor discrepancies for sums in the table are related to rounding.

FINANCIAL REVIEW

Q&A WITH MIKHAIL STISKIN

SENIOR VICE PRESIDENT, FINANCE AND STRATEGY

Q Can you give us an overview of Polyus' financial performance in 2018?

A We maintained global cost leadership and delivered very strong results for the year. Once again we achieved record gold sales, at 2.33 million ounces, representing an 8% increase year-on-year, driving a 7% increase in revenue, which amounted to above $2.9 billion. Our adjusted EBITDA grew 10% from last year, to almost $1.9 billion, and our adjusted EBITDA margin reached 64%.

Q How do you manage to keep costs low?

A We are constantly implementing cost containment initiatives across our operating assets, which helped the Company to successfully offset the rising costs of key consumables during the year. Based on the Group's strong performance in the first nine months of 2018 we were able to revise our cost guidance down from below $425 per ounce to below $400 per ounce for the full year, and comfortably met this new target, with TCC at $348 per ounce in 2018.

In 2019, we expect total cash costs to remain below $425 per ounce.

Q You achieved some important milestones at your major development projects, Natalka and Sukhoi Log this year. How was that reflected in your capital allocation?

A We made significant progress at both of these important assets during the year. As a result, Natalka contributed 133 thousand ounces of refined gold output to full-year Group production and now operates at name-plate capacity. With the construction works completed, in 2018 we concentrated on ramping up production at this asset. Therefore, capex spending at Natalka gradually decreased to $169 million, or 25% lower than in the previous year.

At Sukhoi Log, we are carrying on with engineering studies and drilling works; capital expenditures for the year stood at $23 million. According to our plan, construction on the site may start in 2021, once the final investment decision is made.

In 2019, we expect the total capex across the business to be around $725 million. Our ongoing spending will be primarily focused on efficiency improvements and debottlenecking activities. We will also invest in additional exploration, in the development of IT infrastructure and in ERP transformation.

Q How has the company's debt profile evolved during the year?

A At the end of the year, the Company's gross debt stood below $4 billion compared to approximately $4.3 billion in the previous year. The debt portfolio remains predominantly dollar-denominated, with limited amounts due in 2019. The Company's estimated cash position at the end of the year amounted to $0.9 billion, compared with approximately $1.2 billion in the previous year. Among other factors, the change in cash position is a result of two dividend pay-outs during the year.

Our net debt position as at the end of 2018 was just above $3 billion, almost at the same level as at the end of 2017. Consequently, our net debt to adjusted EBITDA ratio decreased from 1.8 to 1.7.

We remained focused on maintaining the share of public debt instruments at above 50% and began the year with the issues of a $250 million convertible bond and a $500 million Eurobond, both in January. Despite volatile market conditions, strong demand during the Eurobond bookbuilding process allowed us to price the issuance within the interpolated curve, at the tightest spread level to UST ever achieved by the Company.

Polyus takes an opportunistic approach to its debt management. Throughout the year we continued to proactively optimise Polyus' debt portfolio to improve cost, structure and repayment terms. In April we repurchased 20% of Polyus' convertible bonds due 2021 in the nominal amount of $50 million at 86.7%, for a total consideration of $43.4 million. In September we once again took advantage of heightened market volatility, when Polyus repurchased its 2020, 2022, 2023 and 2024 notes in an amount of $132 million. This enabled Polyus to lower its cost of financing while improving its maturity profile. Public debt instruments remain core to our financing strategy.

In 2018 Polyus' credit rating was upgraded by both Fitch and S&P, in recognition of its impressive growth trajectory, strong liquidity position, positive free operating cash flow generation and the successful execution of its development projects.

Q You have committed both to delivering operational growth and rewarding shareholders with dividends. Will you be maintaining the terms of 2017-18 dividend policy into the next year?

A Polyus is highly cash-generative and focused on low-cost organic growth opportunities to ensure that the Company consistently delivers value to shareholders. In 2018, our consistently strong performance has enabled us to pay total dividends of almost $560 million for the year, subject to AGM approval. This was in line with our dividend policy, which commits us to paying out the higher of 30% of the Company's EBITDA for the year or $550 million in dividends for the full-year 2018.

Starting 2019, we will return to paying our shareholders a dividend of 30% of EBITDA for the respective reporting period, provided that the net debt/adjusted EBITDA ratio for the previous 12 months is below 2.5x. The payments will be made on a semi-annual basis, in accordance with our current dividend policy.

We operate in a cyclical industry. For both full-year 2017 and 2018 our free cash flow did not cover the dividend payout sum we were committed to. In 2019, we expect our levered free cash flow to cover our dividend amounts in full, and guarantee an industry-leading dividend level to our shareholders.

“Throughout the year we continued to proactively optimise Polyus' debt portfolio to improve cost, structure and repayment terms”

Responsibility statement

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

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

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

Directors are also responsible for:

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

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

By order of the Board of Directors.

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

Pavel Grachev

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

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

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

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

Management discussion and analysis

2018 key metrics overview

$ million (if not mentioned otherwise)	2018	2017	Y-O-Y
Operating highlights			
Gold production (koz)[1]	**2,440**	2,160	13%
Gold sold (koz)	**2,333**	2,158	8%
Realised prices			
Average realised refined gold price (excluding effect of SPPP) ($/oz)[2]	**1,263**	1,260	0%
Average realised refined gold price (including effect of SPPP) ($/oz)	**1,265**	1,271	0%
Financial performance			
Total revenue	**2,915**	2,721	7%
Operating profit	**1,524**	1,455	5%
Operating profit margin	**52%**	53%	(1) ppts
Profit for the period	**474**	1,241	(62%)
Earnings per share – basic (US dollar)	**3.45**	9.64	(64%)
Earnings per share – diluted (US dollar)	**3.30**	9.61	(66%)
Adjusted net profit[3]	**1,326**	1,015	31%
Adjusted net profit margin	**45%**	37%	8 ppts
Adjusted EBITDA[4]	**1,865**	1,702	10%
Adjusted EBITDA margin	**64%**	63%	1 ppts
Net cash inflow from operations	**1,464**	1,292	13%
Capital expenditure[5]	**736**	804	(8%)
Cash costs			
Total cash cost (TCC) per ounce sold ($/oz)[6]	**348**	364	(4%)
All-in sustaining cash cost (AISC) per ounce sold ($/oz)[7]	**605**	614	(1%)
Financial position			
Cash and cash equivalents	**896**	1,204	(26%)
Net debt[8]	**3,086**	3,077	0%
Net debt/adjusted EBITDA (x)[9]	**1.7**	1.8	(6%)

[5] Capital expenditure figures are presented on an accrual basis (here presented net of the Sukhoi Log deposit license acquisition cost and net of Omchak power grid construction cost). For details see reconciliation on page 72.

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

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

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

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

Key highlights

1

Total gold sales volumes amounted to 2,333 thousand ounces of gold, up 8% compared to the prior-year reflecting higher gold production. Total gold sales include 211 thousand ounces of gold contained in concentrate from Olimpiada.

2

Revenue totalled $2,915 million, compared to $2,721 million in 2017, driven by increased sales volumes (including flotation concentrate). The Group's revenue includes sales from Natalka, following the cessation of its capitalisation from 1 August 2018.

3

The Group's TCC decreased to $348 per ounce, primarily as a result of production expansion and cost inflation containment initiatives as well as local currency depreciation. Relatively high costs at Natalka, included from 1 August had a negative impact on TCC in 2018.

4

Adjusted EBITDA increased 10% compared to the prior-year, to $1,865 million. The improved adjusted EBITDA performance in 2018 was primarily attributable to Group production growth, with higher gold output at Olimpiada, the ramp-up of operations at Natalka and a strong operational performance at Verninskoye and Kuranakh. The Group's TCC decreased on a per ounce basis as highlighted above.

5

Profit for the year decreased to $474 million primarily due to non-cash items, such as the higher foreign exchange loss and the loss on revaluation of derivative financial instruments.

6

Adjusted net profit increased to $1,326 million, which mainly reflects the growth in operating profit in 2018.

7

Net cash generated from operations increased to $1,464 million, compared to $1,292 million in 2017.

8

Capex decreased to $736 million from $804 million in the previous year.

9

Cash and cash equivalents as at 31 December 2018 were $896 million, compared to $1,204 million as at 31 December 2017. Factors driving the change in cash position include dividend payouts for the second half of 2017 and the first half of 2018, totalling $569 million. In addition, the Company repaid several credit facilities in amount of $1,249 million, utilising both proceeds from borrowings and cash on balance.

10

Net debt increased to $3,086 million, compared to $3,077 million as at the end of 2017.

11

The net debt/adjusted EBITDA ratio decreased to 1.7x compared to 1.8x as at the end of 2017, reflecting growth in adjusted EBITDA in 2018.

Statement of profit or loss review

Revenue analysis

$ million (unless indicated otherwise)	2018	2017	Y-O-Y
Gold sales (koz)	**2,333**	2,158	8%
Average realised refined gold price (excluding effect of SPPP) ($/oz)	**1,263**	1,260	0%
Average realised refined gold price (including effect of SPPP) ($/oz)	**1,265**	1,271	0%
Average afternoon gold LBMA price fixing ($/oz)	**1,268**	1,257	1%
Premium of average selling price (including effect of SPPP) over average LBMA price fixing ($/oz)	**(3)**	14	N.A.
Gold sales ($ million)	**2,876**	2,684	7%
Other sales ($ million)	**39**	37	5%
Total revenue ($ million)	**2,915**	**2,721**	**7%**

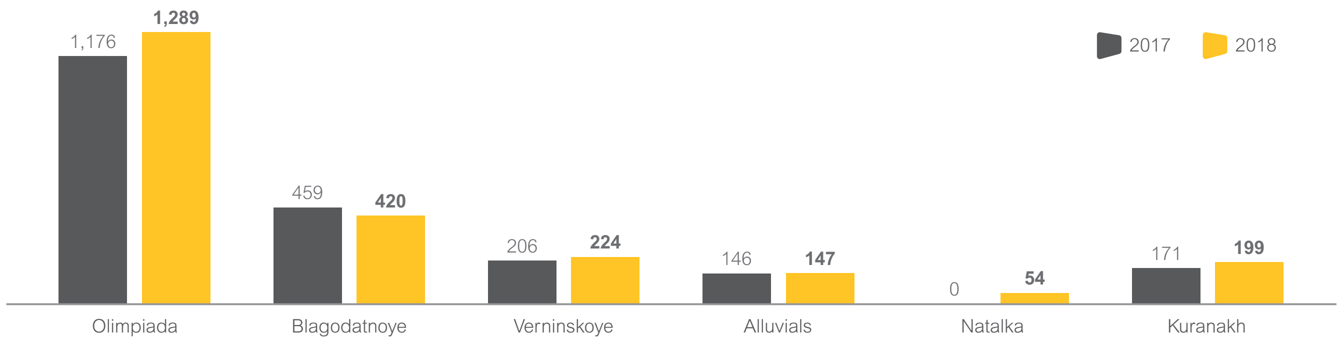
In the fourth quarter, the Group's revenue from gold sales was $764 million, a 7% decrease compared to the previous quarter. Gold sales totalled 644 thousand ounce, an 8% decrease compared to the previous quarter, mainly driven by a seasonal stoppage of the alluvial operations. The average realised refined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

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

Revenue breakdown by business unit

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

Gold sold by mine, koz[1]



Cash costs analysis

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

Cost of sales breakdown

$ million	2018	2017	Y-O-Y
Cash operating costs[1]	**879**	**811**	**8%**
Depreciation and amortisation (D&A) of operating assets	**295**	181	63%
Total cost of production	**1,174**	**992**	**18%**
Increase in stockpiles, gold-in-process and refined gold inventories	**(139)**	(23)	N.A.
Cost of gold sales	**1,035**	**969**	**7%**

Cash operating costs – breakdown by item

$ million	2018	2017	Y-O-Y
Consumables and spares	**254**	223	14%
Labour	**285**	264	8%
Mineral Extraction Tax ("MET")	**161**	148	9%
Fuel	**98**	74	32%
Power	**42**	31	35%
Outsourced mining services	**4**	6	(33%)
Other	**35**	65	(46%)
Total	**879**	**811**	**8%**

In 2018, consumables and spares expenses increased 14% compared to the previous year. This primarily reflects inflation in consumables prices, including reagents, acids, grinding balls and tyres across all business units. The inclusion of costs related to the Natalka operations into the cost of gold sales, starting from 1 August, as well as the start of heap leaching operations at Kuranakh exerted additional pressure.

Labour expenses increased 8% compared to the prior-year, due to annual salary indexation and production expansion across most business units leading to additional headcount. These factors were partially offset by the local currency depreciation in the period.

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

MET expenses increased 9% following the growth in sales volumes of flotation concentrate and production volumes at Olimpiada and Kuranakh.

Fuel costs increased 32%, due to double-digit inflation in diesel prices, which coincided with growing mining activity and haulage volumes at Olimpiada and Kuranakh. Costs were also impacted by the addition of the Natalka operations.

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

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

$ million	Olimpiada		Blagodatnoye		Verninskoye		Alluvials		Kuranakh		Natalka	
	2018	2017	2018	2017	2017	2016	2018	2016	2018	2016	2018	2016
Consumables and spares	**120**	115	**43**	36	**26**	29	**16**	16	**24**	23	**17**	–
Labour	**77**	80	**36**	32	**30**	36	**46**	46	**38**	36	**16**	–
MET	**99**	87	**36**	38	**–**	–	**11**	11	**15**	13	**–**	–
Fuel	**25**	18	**16**	14	**5**	6	**16**	15	**16**	13	**11**	–
Power	**21**	19	**7**	6	**5**	4	**6**	6	**8**	5	**4**	–
Outsourced mining services	**–**	–	**–**	–	**–**	–	**5**	5	**–**	–	**–**	–
Other	**18**	65	**28**	26	**14**	14	**12**	13	**10**	11	**17**	–
Total	**360**	**384**	**166**	**152**	**80**	**89**	**112**	**112**	**111**	**101**	**65**	**–**

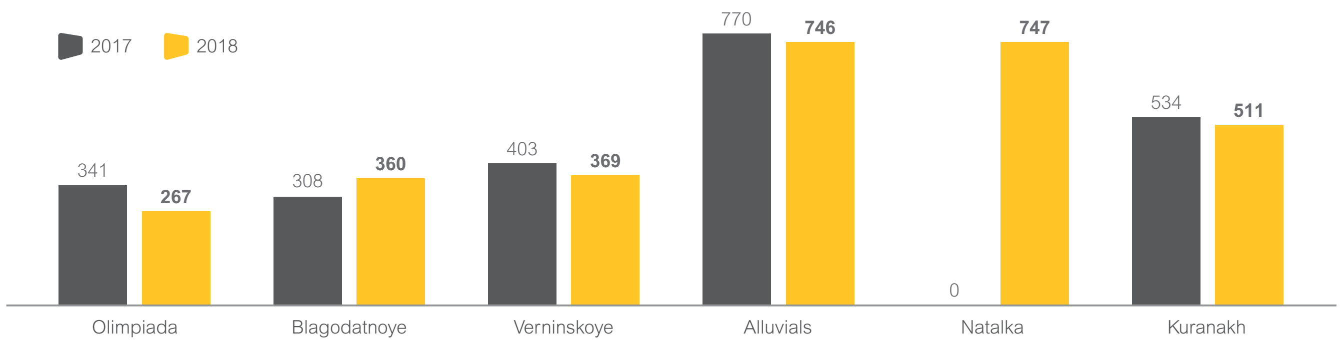
Total cash costs

TCC calculation

$ million	2018	2017	Y-O-Y
Cost of gold sales before by-product	**1,083**	969	12%
Antimony by-product credit	**(48)**	–	N.A.
Cost of gold sales	**1,035**	969	7%
Property, plant and equipment depreciation	**(295)**	(181)	63%
Provision for annual vacation payment	**–**	(5)	(100%)
Employee benefit obligations cost	**1**	(5)	N.A.
Change in allowance for obsolescence of inventory	**(2)**	(4)	(50%)
Non-monetary changes in inventories	**74**	12	N.A.
TCC	**813**	**786**	**3%**
Gold sold (koz)	**2,333**	2,158	8%
TCC per ounce sold ($/oz)	**348**	**364**	**(4%)**

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

TCC performance by mine, $/oz



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

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

At Blagodatnoye, TCC amounted $360 per ounce, up 17% compared to the previous year mainly due to a decline in the average grade in ore processed (1.70 grams per tonne in the 2018 compared to 1.99 grams per tonne in 2017). Polyus conducted mining activities at low-grade flank areas of the Blagodatnoye deposit during a pit cutback. Inflation in consumables and diesel prices put further pressure on costs. These factors were partially mitigated due to a set of operational initiatives introduced by the Company, including the installation of new turbo-elevators at SAG mills and a full roll-out of the Mine-to-Mill programme at Blagodatnoye in 2018. As a result, the mill's hourly throughput increased 6% in 2018. Rouble depreciation also had a positive impact on costs in the reporting period.

TCC at Verninskoye decreased 8% compared to the previous year, to $369 per ounce, primarily due to an improved hourly throughput at the mill and higher recovery rates. This resulted from the completion of the third Stage of the Verninskoye Mill expansion programme in 2018. Inflation in consumables and diesel prices, and the increase in power tariff were offset by rouble depreciation during the year.

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

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

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

Selling, general, and administrative expenses
In 2018, the Group's SG&A expenses amounted to $236 million, a 12% increase from the prior year due to annual salary indexation and a planned increase in headcount as well as an increase in distribution expenses in line with the rise in flotation concentrate sales volumes to foreign offtakers in the period. Additional impact came on the back of increase in tax on property, following the introduction of amendments to Russian Tax Code at the beginning of 2018.

SG&A breakdown by item

$ million	2018	2017	Y-O-Y
Salaries	**148**	143	3%
Distribution expenses related to gold-bearing products	**20**	12	67%
Taxes other than mining and income taxes	**18**	11	64%
Professional services	**10**	14	(29%)
Amortisation and depreciation	**11**	7	57%
Other	**29**	24	21%
Total	**236**	**211**	**12%**

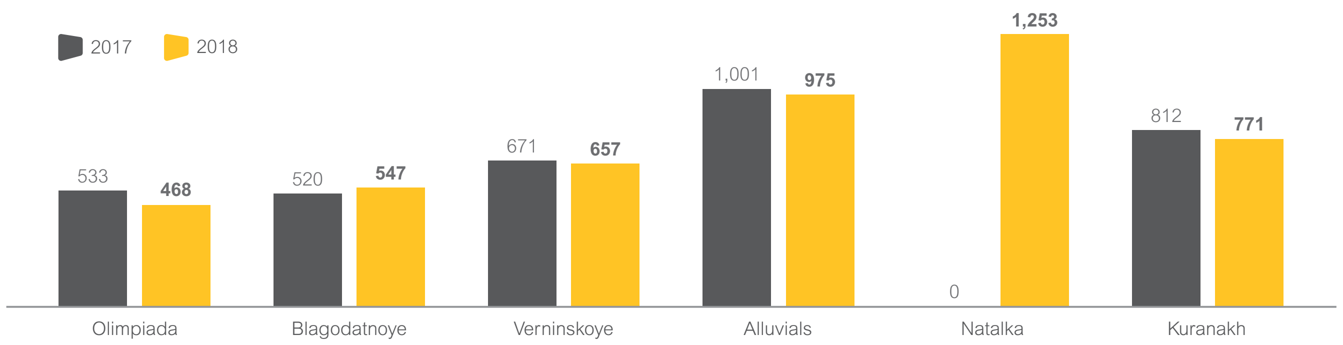
All-in sustaining costs (AISC)
In 2018, the Group's AISC per ounce decreased 1% compared to the previous year, to $605 per ounce. The improvement reflects the lower TCC per ounce for the period, which fully offset the respective increase in SG&A, stripping activity and sustaining capital expenditures in 2018.

All-in sustaining costs calculation

$ million	2018	2017	Y-O-Y
Total TCC	**813**	**786**	**3%**
Selling, general and administrative expenses	**236**	211	12%
Amortisation and depreciation related to SG&A	**(11)**	(7)	57%
Stripping activity asset additions[1]	**174**	132	32%
Sustaining capital expenditures[2]	**196**	186	5%
Unwinding of discounts on decommissioning liabilities	**3**	3	–
Adding-back expenses excluded from cost of gold sales			
Provision for annual vacation payment	**–**	5	(100%)
Employee benefit obligations cost	**(1)**	5	N.A.
Change in allowance for obsolescence of inventory	**2**	4	(50%)
Total all-in sustaining costs	**1,412**	**1,325**	**7%**
Gold sold (koz)	**2,333**	2,158	8%
All-in sustaining cost ($/oz)	**605**	**614**	**(1%)**

In 2018, AISC at Olimpiada decreased to $468 per ounce as a decline in TCC was partially offset by the increase in stripping expenses and sustaining capital expenditures. AISC at Blagodatnoye increased to $547 per ounce, in line with TCC performance and due to the rise in stripping expenses and sustaineding capital expenditures. Verninskoye posted a 2% decrease in AISC from the previous year due to its TCC performance. At Kuranakh, AISC decreased to $771 per ounce, driven by a decline in TCC and lower stripping expenses. AISC at Natalka were $1,253 per ounce, driven by SG&A and stripping expenses during the period. The Company anticipates AISC at Natalka to normalize on a per ounce basis, as the Mill is currently running at annualised name-plate throughput capacity.

All-in sustaining costs by mine, $/oz



[2] Following an update of the methodology and extraction of the depreciation included in the additions to the stripping activity asset. The amount of non-cash depreciation was $15 million in the fourth quarter of 2018, $12 million in the third quarter of 2018, $48 million in 2018 and $17 million in 2017.

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

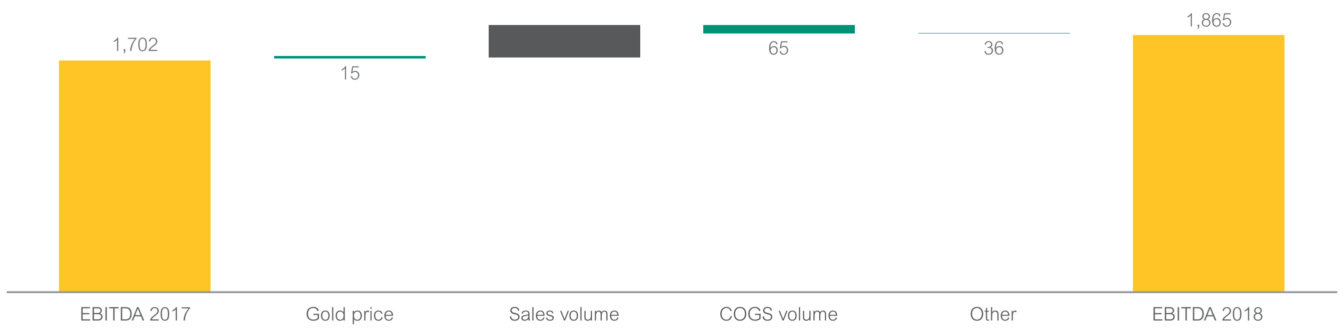
Adjusted EBITDA

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

Adjusted EBITDA calculation

$ million	2017	2016	Y-O-Y
Profit for the period	**474**	1,241	(62%)
Income tax expense	**77**	290	(73%)
Depreciation and amortisation	**236**	178	33%
Loss / (gain) on derivative financial instruments and investments, net	**281**	(118)	N.A.
Finance costs, net	**201**	200	1%
Equity-settled share-based payment plans	**24**	25	(4%)
Foreign exchange loss / (gain), net	**517**	(130)	N.A.
Interest income	**(26)**	(28)	(7%)
Impairment	**54**	19	N.A.
Special charitable contributions	**27**	39	(31%)
Gain on property, plant and equipment disposal	**–**	(14)	(100%)
Adjusted EBITDA	**1,865**	**1,702**	**10%**
Total revenue	**2,915**	2,721	7%
Adjusted EBITDA margin (%)	**64%**	**63%**	**1 ppts**

Adjusted EBITDA bridge, $ million[1]



Adjusted EBITDA breakdown by business unit

$ million	2018	2017	Y-O-Y
Olimpiada	**1,135**	953	19%
Blagodatnoye	**356**	414	(14%)
Titimukhta	**180**	149	21%
Verninskoye	**52**	54	(4%)
Alluvials	**133**	109	22%
Kuranakh	**11**	–	N.A.
Other[2]	**(2)**	23	N.A.
Total	**1,865**	**1,702**	**10%**

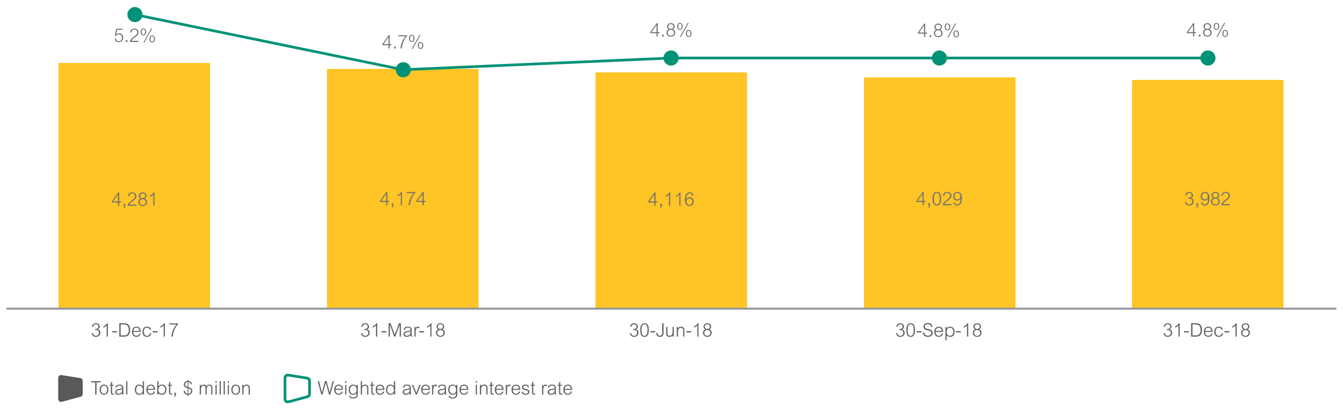
Finance cost analysis

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

The Group's total finance costs amounted to $201 million, remaining almost flat compared to 2017.

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

Weighted average interest rate dynamics[3]



[1] "Other" includes operating efficiency and FX effects.

[2] Reflects consolidation adjustments and financial results of Magadan business unit in 2017, Sukhoi Log and non-producing business units, including exploration business unit, capital construction business unit and unallocated segments.

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

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

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

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

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

Cross-currency and interest rate swaps[2]
In the fourth quarter of 2018 the overall positive effect from cross-currency and interest rate swaps on finance cost amounted to $8 million. In 2018 the overall positive effect from cross-currency and interest rate swaps on finance cost amounted to $36 million. This was recorded within note 8 of the consolidated financial statement as a realised gain on the exchange of interest payments under interest rate and cross currency swaps.

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

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

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

Adjusted net profit calculation

$ million	2018	2017	Y-O-Y
Net profit for the period	**474**	1,241	(62%)
Impairment/(reversal of impairment)	**54**	19	N.A.
Gain on derivative financial instruments and investments, net	**281**	(118)	N.A.
Foreign exchange gain, net	**517**	(130)	N.A.
Deferred income tax related to derivatives	**–**	3	(100%)
Adjusted net profit	**1,326**	**1,015**	**31%**
Total revenue	**2,915**	2,721	7%
Adjusted net profit margin	**45%**	**37%**	**8ppts**

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

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

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

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

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

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

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

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

Debt breakdown by type[3]

$ million	31 December 2018	31 December 2017
Eurobonds	**2,404**	2,033
Convertible bonds	**186**	–
Rouble bonds	**218**	265
Finance lease	**10**	13
Bank loans	**1,164**	1,970
Total	**3,982**	**4,281**

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

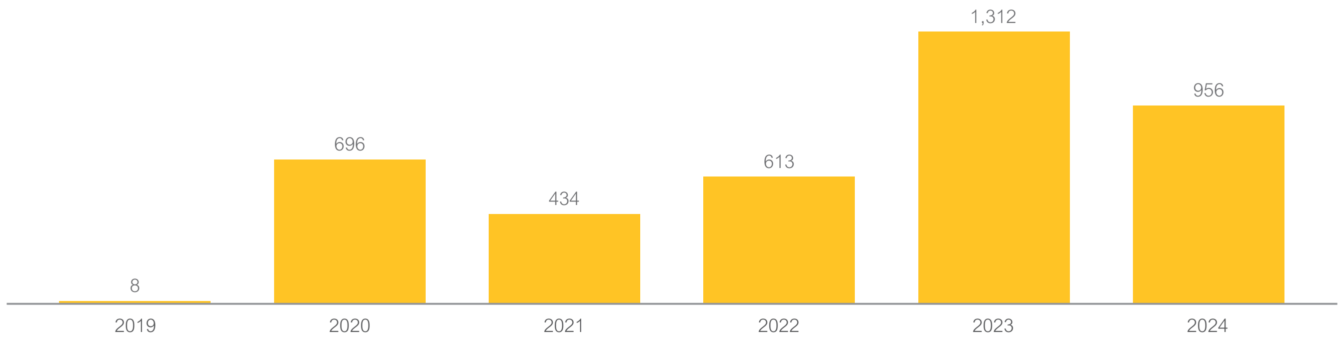
Debt breakdown by currency

	31 December 2018		31 December 2017	
	$ million	% of total	$ million	% of total
Russian rouble	**762**	**19%**	928	22%
US dollar	**3,220**	**81%**	3,353	78%
Total	**3,982**	**100%**	**4,281**	**100%**

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

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

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



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

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

Cash, cash equivalents, and bank deposits breakdown by currency

$ million	31 December 2018	31 December 2017
Russian rouble	**132**	154
US dollar	**764**	1,050
Total	**1,204**	**1,740**

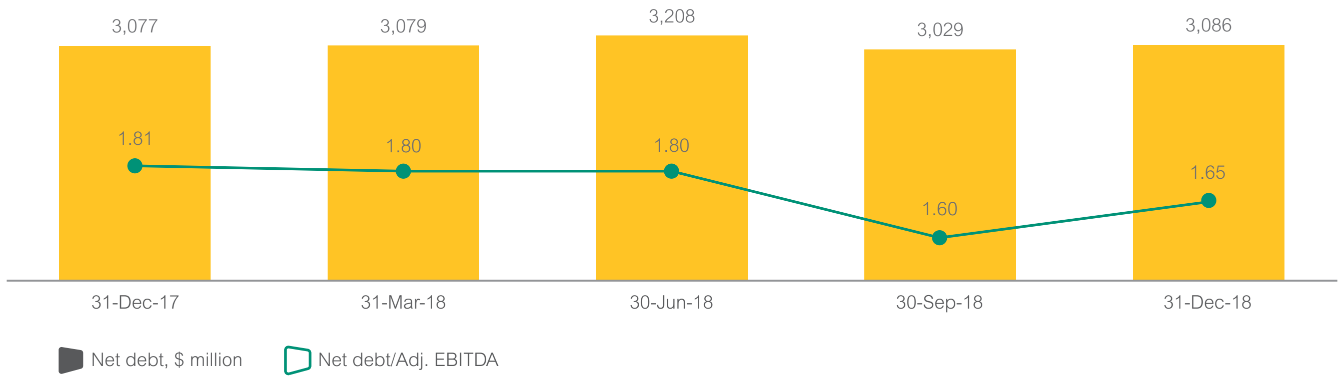
Net debt
At the end of the fourth quarter of 2018 the Group's net debt amounted to $3,086 million, up 2% compared to the end of the third quarter and remained flat compared to the end of 2017.

Net debt calculation

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

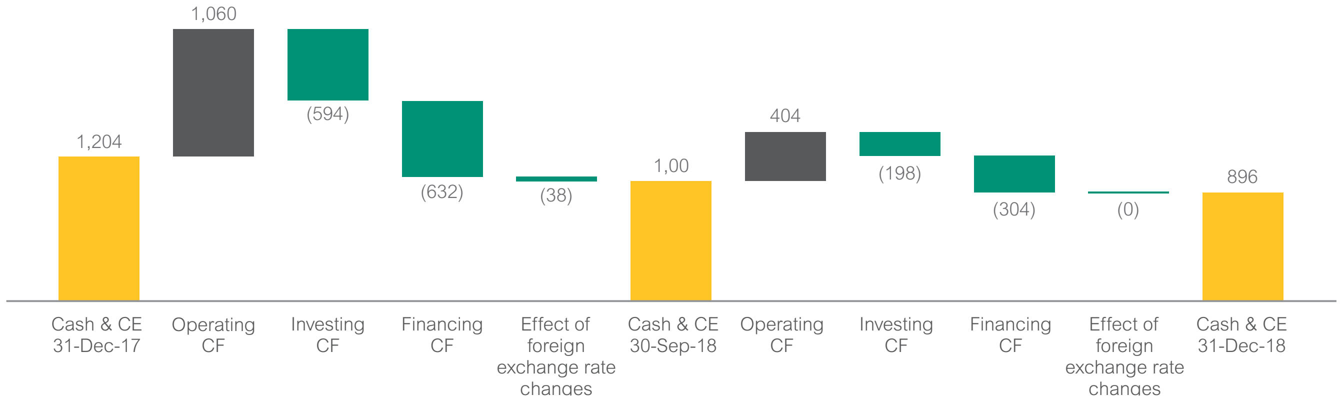
The net debt/adjusted EBITDA ratio decreased to 1.7x compared to the end of 2017, reflecting a growth in adjusted EBITDA for the last 12 months.

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



Statement of cash flows review

Cash flow bridge, $ million



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

Operating cash flow
For the full year of 2018 Polyus generated operational cash flow of $1,464 million, which was negatively impacted by a working capital outflow of $151 million. The latter was mainly driven by an inventory accumulation of ore stockpiles across hard rock deposits, growth of antimony-rich flotation concentrate inventories and receivables and also an increase in consumables and spares stocks at Olimpiada, Blagodatnoye and Natalka.

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

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

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

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

At Verninskoye, capital expenditures increased by 15% to $45 million due to the replacement of equipment and higher maintenance costs.

At Kuranakh, capital expenditures decreased 12%, to $57 million, as the main activities for the launch of heap leaching operations had been completed in the previous year. By the end of the year, the Kuranakh Mill throughput capacity stabilised at 5.0 million tonnes per annum, while Stage 3 of the capacity expansion project to reach 5.8 million tonnes per annum is expected to be completed in 2019.

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

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

FINANCIAL REVIEW

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

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

CAPEX breakdown[1]

$ million	2018	2017	Y-O-Y
Natalka, including			
Purchase of equipment	**169**	226	(25%)
Capitalisation of borrowing costs	**54**	93	(42%)
Operating costs	**25**	59	(58%)
Net proceeds from selling gold produced during the ramp-up period	**(20)**	–	N.A.
Natalka, total	**228**	378	(40%)
Olimpiada	**182**	177	3%
Blagodatnoye	**71**	49	45%
Verninskoye	**45**	39	15%
Alluvials	**24**	26	(8%)
Kuranakh	**57**	65	(12%)
Sukhoi Log	**23**	6	N.A.
Other[2]	**106**	64	66%
CAPEX	**736**	**804**	**(8%)**
Omchak electricity transmitting line	**36**	69	(48%)
Items capitalised[3], net	**95**	25	N.A.
Change in working capital for purchase property, plant and equipment	**(17)**	(67)	(75%)
Purchase of PP&E[4]	**850**	**831**	**2%**

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

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

Financing cash flow

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

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, IT projects and construction of Razdolinskaya-Taiga, Peleduy-Mamakan grid lines.

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 statements.

4 Presented net of the Sukhoi Log deposit license acquisition cost and payments to Rostec.

SUSTAINABILITY SNAPSHOT

"Delivering sustainable value is about achieving organic growth and sound economic position whilst ensuring the highest levels of occupational health and safety, taking care of the environment, engaging and empowering our employees and local communities as well as maintaining mutually beneficial relations with all of our stakeholders.

Our approach to driving continuous improvement in sustainability performance is based on implementing best available practices and making a meaningful contribution to reaching UN Sustainability development goals. Moreover, as an ICMM member, we pledge to implement the ICMM sustainable development framework and to comply with ICMM sustainability principles and position statements."

Pavel Grachev,
CEO of PJSC Polyus

Polyus in major ESG ratings

Sustainalytics

71

"Outperformer" – November 2018 up from 62 ("Average performer") at the previous assessment

MSCI ESG Rating

BBB

Top 48% – February 2019

RobecoSAM Corporate Sustainability Assessment

27

22nd percentile – April 2018

WWF and UN. Russian Metals and Mining Companies Environmental Transparency Rating

2nd place

2018 up from 12th place in 2017

You can find more information on Polyus sustainability performance in 2018 in our separate Sustainability Report, which has been prepared in line with GRI Reporting Standards and the ICMM SD Framework, and has been confirmed by an independent auditor.

HEALTH AND SAFETY

Occupational health and safety (H&S) is an essential element of Polyus' Sustainability strategy and we are constantly taking steps to improve our approach to and performance in this area. Our Health, Safety and Environment policy is binding for both contractors and Company staff. A high standard of health, safety and environment (HSE) is one of Polyus' basic selection criteria for contractors.

We regularly reevaluate and update the safety levels at our facilities. All of our mining assets are certified in accordance with OHSAS18001 and are regularly audited to validate their certification.

In 2018 Polyus became the first Russian company to receive certification in accordance with ISO 45001 for its automated H&S management system.

Key initiatives for 2018 included:

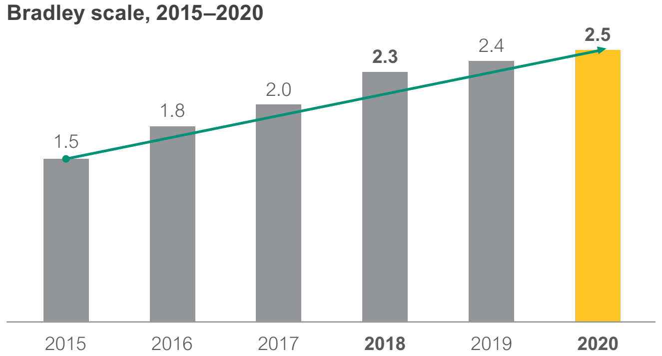
- introducing a risk-based approach to ensuring production safety and implementating the Standard on identifying hazardous situations and HSE risk-management
- enlarging actions and instruments on the Company's management H&S leadership demonstration under the HSE Leadership standard implementation
- implementing the LOTO System and falls prevention campaign across all business units and service organizations
- ongoing implementation of the Traffic Safety Management Standard
- purchasing 40 MedCheck automated medical systems
- launching campaigns aimed at reducing the number of fatalities caused by non-occupational diseases, including the Healthy Heart campaign
- corporate training: over 90% of employees have completed minimum H&S training
- implementing the Contractor Safety strategy.

For more details, please see our 2018 Sustainability Report, page 50

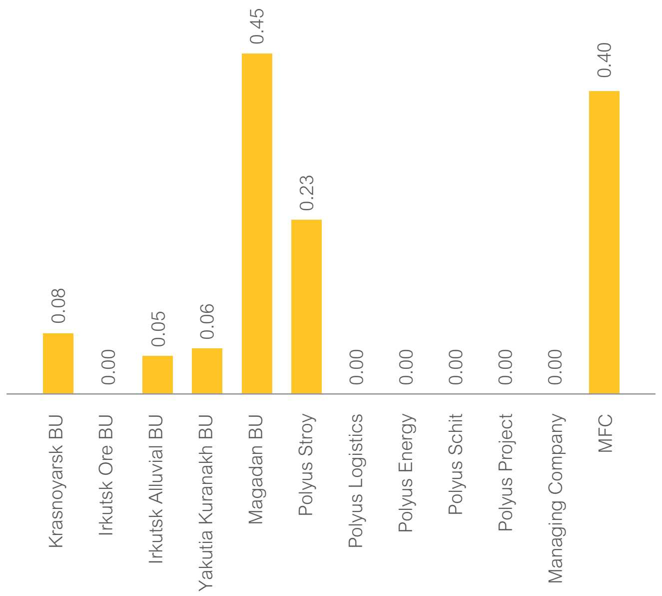
Polyus LTIFR in 2018

0.09

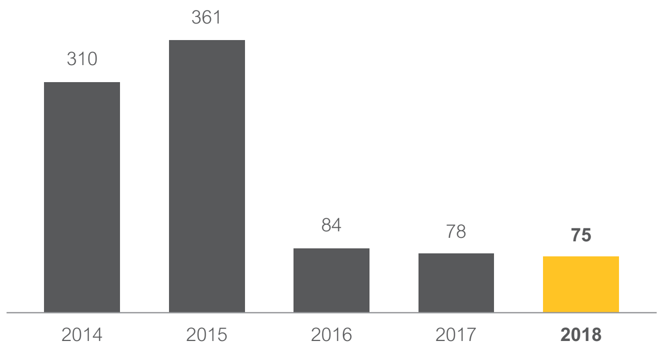
Average level of safety culture development according to the Bradley scale, 2015–2020



Lost time injury frequency rate (LTIFR) by business unit, per 200,000 hours worked, 2018



Total registered injuries (TRI), 2015–2018



ENGAGING OUR EMPLOYEES

Polyus' employees are its greatest asset. The Company takes full responsibility for ensuring that its employees work in a safe and comfortable environment. We are focused on constantly improving living and working conditions for our staff, enhancing our remuneration system and creating opportunities for professional development and career growth.

This work is regulated by the corporate HR Policy and Human Rights Policy, developed in accordance with the United Nations Guiding Principles on Business and Human Rights and ICMM Principles, which are also incorporated in the Polyus Code of Corporate Conduct.

Key initiatives for 2018 included:

- identifying KPI metrics for workers and continuing to improve the compensation and benefits system
- completing a system design project based on SAP SuccessFactors for automating the recruitment and training processes
- strengthening the level of social support available to employees by developing the Regulation on guarantees, compensation, and benefits provided to employees of the Managing Company
- launching the corporate volunteer programme
- promoting the Corporate ethics code internally
- developing a remote human rights training course.

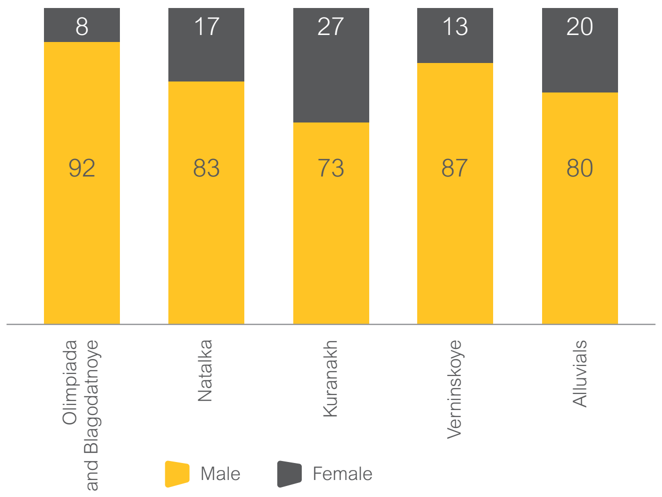
For more details, please see our 2018 Sustainability Report, page 36

[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 Security Services.

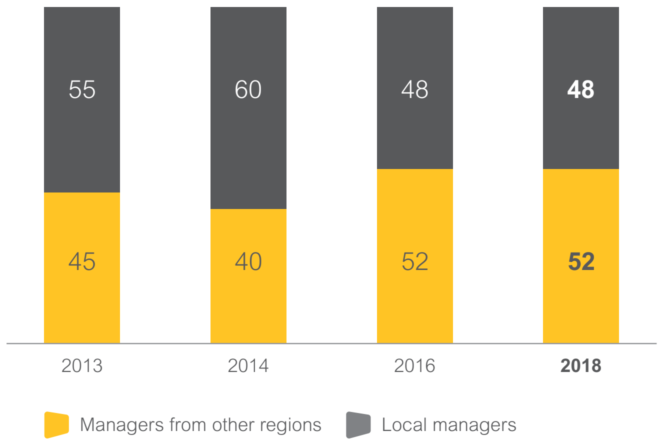
average headcount for 2018

19,942

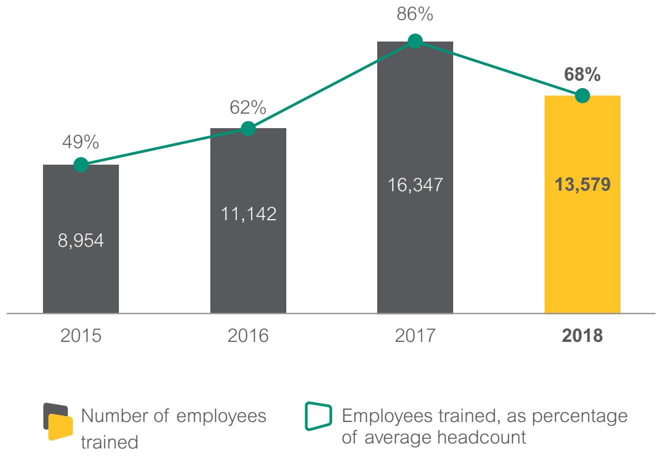
Employees by gender by Business Units, 2018, %



Percentage of management recruited locally, 2015–2018, %



Number of employees trained[1], 2015–2018



PROTECTING THE ENVIRONMENT

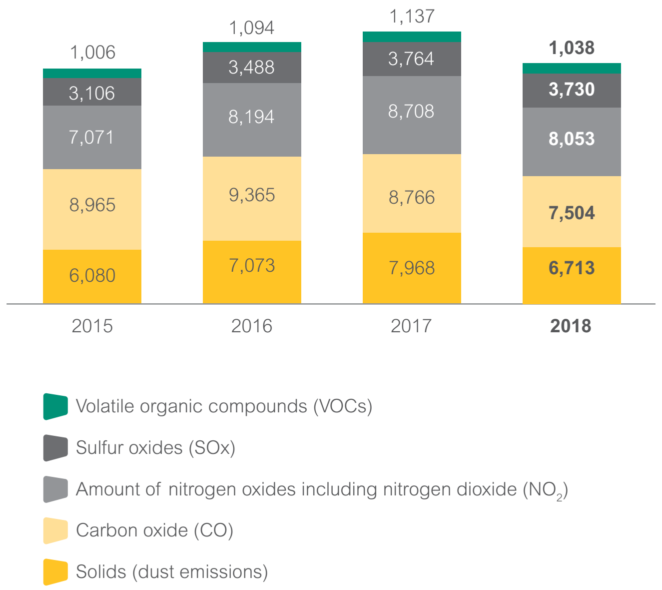
Polyus is committed to minimizing its environmental impact and working to preserve the natural areas surrounding our operations. Critical to this is the sustainable use of natural resources, as well as ensuring safe working and living conditions for employees and local communities. With an average life of mine of roughly 26 years, we take a long-term approach to environmental management across our assets. By continuously working to improve our environmental performance at every stage of the production cycle, we strive to consistently minimize our environmental impact.

Key initiatives for 2018 included:

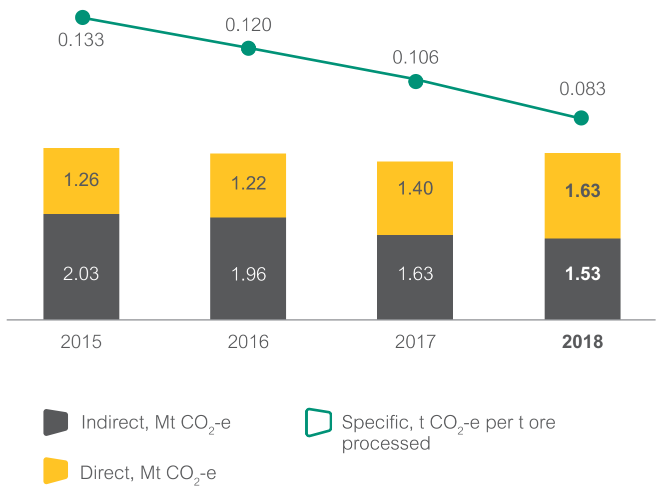
- launching the Separate&Recycle campaign
- study and assessment of the state of biodiversity in Irkutsk and Krasnoyarsk regions
- implementing the Standard on Reclamation and Mine Closure and the Standard on Cyanide Management
- introducing environmental protection training courses for employees
- developing and implementing Safety guidelines for upstream tailings storage facilities of gold process plants.

For more details, please see our 2018 Sustainability Report, page 68

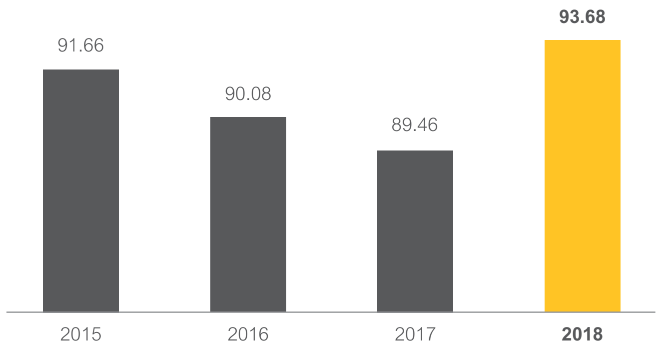
Significant air emissions, 2015–2018, tonnes[1]



Total and specific GHG emissions, 2015-2018

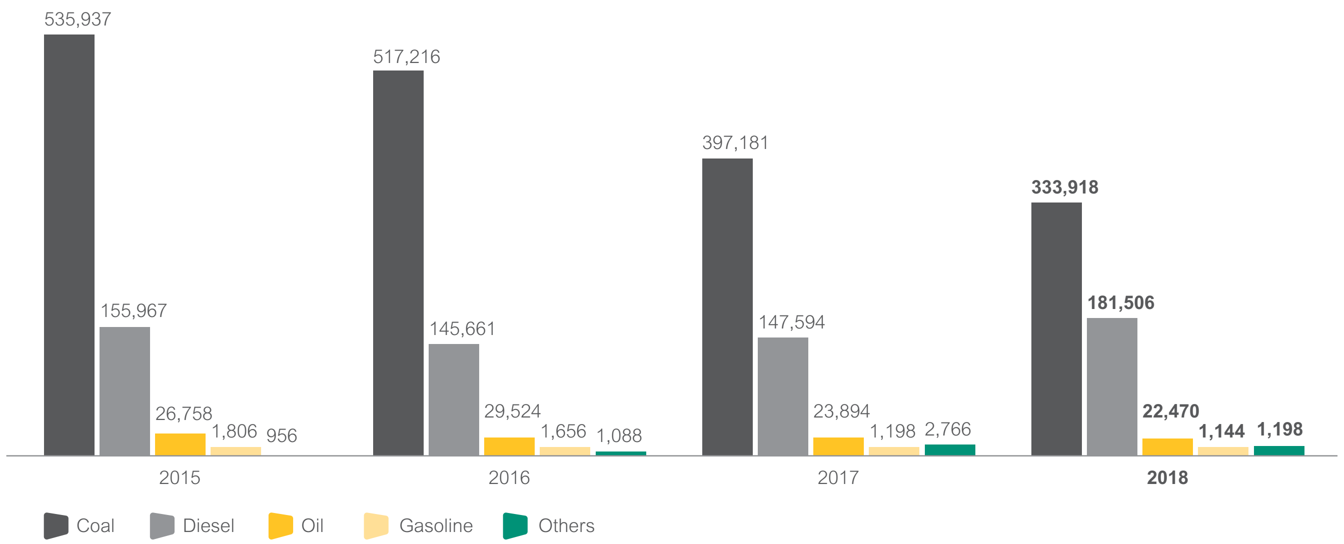


Percentage of water recycled and reused, 2015–2018, %



[1] The quantitative data on Polyus air emissions in figures differ from the data presented in state statistical reporting forms (SSRF), due to the specific accounting of emissions in Sakha Republic (Yakutia) for Polyus Aldan. In accordance with Rosstat Order No 661 of 8 November 2018, "On Confirming the Statistical Tool for the Rosprirodnadzor Organisation of the Federal Statistical Supervision of Air Protection", technological transport moving in line with established routes within an organisation is considered a stationary emitter and their emissions are to be included in 2-TP (air) SSRF. Nevertheless, the territorial body of Rosprirodnadzor in the Sakha Republic (Yakutia) requested that all automobile transport emissions, including from technological transport, be excluded from the reporting form. Therefore, in the interests of full disclosure, the data presented in the Sustainability Report consist of data from SSRF and additional calculations of air emissions from technological transport at Polyus Aldan.

Consumption of primary energy sources, 2015–2018, t



EMPOWERING LOCAL COMMUNITIES

Gold mining companies invariably have an impact on the regions where they operate, due to the very nature of their operations. Polyus works hard to ensure that its business improves people's lives and contributes towards the development of local communities. Our company is one of the largest taxpayers and employers in the areas in which it operates, and we also work proactively to have a positive impact on local communities, including running various social and charity programmes and infrastructure projects. Our corporate Policy on Charity, Sponsorship and Donations acts as a guideline for these activities, ensuring we have a unified approach in of all the regions where Polyus mines gold.

expenditure on social projects in 2018

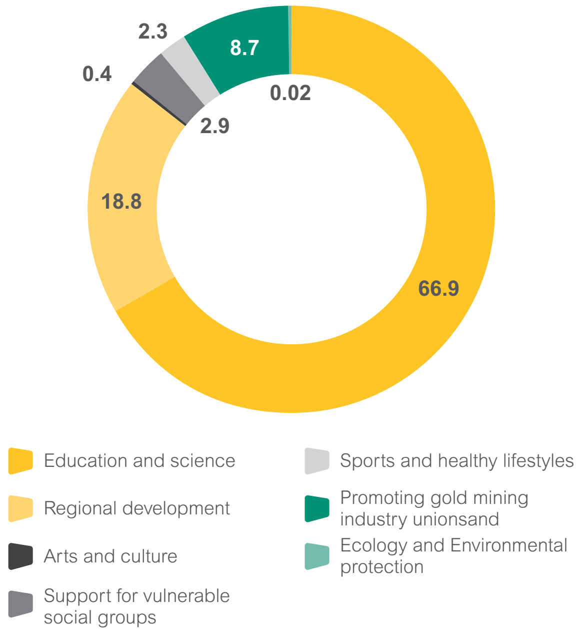
$33.6 million

Key initiatives for 2018 included:

- adopting the Regulation on charity and sponsorship project management
- signing a five-year cooperation agreement on socio-economic development with the Government of Magadan region
- signing a cooperation document between Polyus, the Government of Magadan region and RusHydro concerning the construction of the Ust-Omchug – Omchak Novaya high-voltage transmission line
- success of the third "Polyus: Golden Season" festival in Krasnoyarsk.

For more details, please see our 2018 Sustainability Report, page 78

Expenditure on social support by category, 2018, %

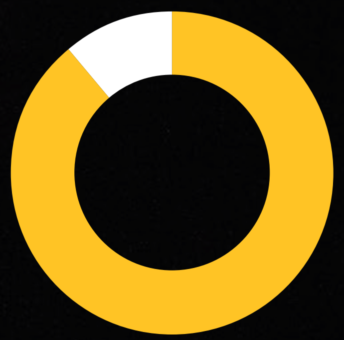


CORPORATE GOVERNANCE

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

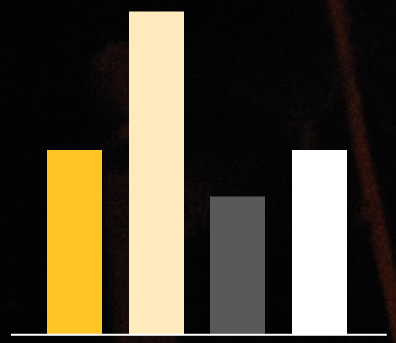


Male	8
Female	1

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 PJSC Polyus, 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 re-elected at the Annual General Shareholders' Meeting on 31 May 2018. The current term of appointment for the members of the Board of Directors expires on the date of the next Annual General Meeting of PJSC Polyus, which is required to be held by 30 June 2019.

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 annually reviews the independence of all Independent Non-Executive Directors, and has determined that all such directors are independent, in line with the Listing Rules of the Moscow Exchange and the UK Corporate Governance Code, and have no cross-directorships or significant links that could materially interfere with them exercising their independent judgment.

The Independent Directors are fully involved in the Board's committees to ensure corporate accountability and good governance.

The Board's role and responsibilities

The Board's role is to create and deliver long-term value for shareholders and wider society 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: developing the strategy, determining risk appetite (including establishing a framework of controls, which enable risk to be assessed and managed), establishing the Company's values and standards, ensuring good governance and promoting good behaviour.

The Board is responsible for:

- developing the Company's strategy and the management's strategy; 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
- compliance with the Health and Safety Policy, Environmental Policy, Stakeholder Engagement Policy, Charity, Donations and Sponsorship Policy, Corporate Ethics Code as well as other relevant documents.

This requires a highly skilled and experienced Board, with all Directors contributing to its collective decision-making processes.

An effective Board should comprise a diversity of backgrounds, skills, knowledge, experience, geographic locations, nationalities, and gender. Details of our Directors can be found in their biographies.

The Russian Corporate Governance Code recommends that PJSC Polyus undertakes an externally facilitated Board evaluation every three years.

Additionally, as part of the Company's programme to maintain highly competitive operations and a strong production record from existing operations, a decision has been taken to review the composition, structure and performance of the Board so that the contribution of the Board may continue to add value and ensure the Company's future success.

In late 2018 and early 2019, a Board Effectiveness Review for PJSC Polyus has been performed by Independent Directors' Association, an independent advisor with no connection with the Company. The focus of the Board Review Programme was to assist the Company in the evolution of the Board – moving beyond compliance to being a world-class Board.

The evaluation process involved in-depth interviews with the Chairman, each Board member and the Chief Executive Officer, policy reviews and a Board and Committees' effectiveness questionnaire.

The effectiveness review showed the Company's Board of Directors to be strong and functional, and made up of a good blend of individuals with complimentary executive and functional backgrounds. Strong progress has been made in terms of overall leadership and governance of the company. The adviser identified some specific areas for consideration and improvement to ensure the Board becomes more effective.

Chairman of the Board

Edward Dowling has been Chairman of the Board since 31 May 2018. 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 keeping 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, thereby 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 the executive management
- ensuring that the performance of both the Board and individual Directors is formally evaluated on an annual basis
- ensuring effective communication with shareholders
- 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 operational, financial, and legal requirements. The CEO makes recommendations 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.

Independent Non-Executive Directors

Independent 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 have an in-depth understanding of the Company's overall strategy and priorities, combined with their knowledge about the Company and its industry. This allows Polyus to be effectively governed.

Non-Executive Directors are very knowledgeable about the Company's core business, which enables them to contribute effectively to the development of strategy and monitoring the business' performance. They are also aware of the risks faced by Polyus– and of the processes that exist to mitigate and manage such risks.

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.

THE BOARD

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 96-105.

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 32-35.

Board members met frequently in 2018 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, regulate the preparation and conduct of Board meetings. This includes 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 telephone, 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 eighteen meetings were held during the year. Of these, eight were conducted in person and ten 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 2018 by the Company's Directors is shown below:

Name	Number of in-person Board meetings attended (out of 8)	Number of in-person meetings of the Audit Committee attended (out of 9)	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	8	9	4	4	4
Kent Potter	8	9	4	4	–
William Champion	8	9	4	–	4
Maria Gordon	8	9	4	4	–
Said Kerimov[1]	7	–	–	1	–
Sergei Nossoff	8	–	–	–	–
Pavel Grachev	8	–	–	4	4
Vladimir Polin	7	–	–	–	4
Mikhail Stiskin	8	–	–	4	–

The key matters reviewed by the Board in 2018 included:

- health, safety and environmental issues
- polyus' financial plan, financial performance and reporting
- recommendations on distribution of profit of PJSC Polyus, including dividends
- issues related to Polyus' strategic direction
- risk and risk mitigation matters
- composition of the Board and its Committees
- conduction of annual and extraordinary General Meetings of Shareholders of PJSC Polyus
- transactions with related parties.

[1] Member of the Strategy Committee since 4 September 2018, participated in the only Strategy Committee meeting that took place after that date (3 December 2018).

COMPOSITION OF THE BOARD

At the Annual General Meeting held on 31 May 2018, the Board of Directors was re-elected. The composition of the Board of Directors is presented below:

EDWARD DOWLING
Independent Director

D.O.B:	10 May 1955

Role
Chairman of the Board of Directors,
Chairman of the Nomination and Remuneration Committee (until election of a new Committee chairman on 6 March 2018, subsequently a member),
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, Detour Gold Corporation 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.

Education
Pennsylvania State University, BSc. in Mining Engineering (1982), MSc. and PhD in Mineral Processing (1987 and 1998, respectively); Harvard Business School, AMP (2006).

Note
Edward Dowling does not own any shares in PJSC Polyus.

KENT POTTER
Independent Director

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. 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.

External appointments
Member of the Board and Chairman of the Audit Committee at Berry Petroleum, LLC, an independent publicly traded energy 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
Independent Director

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 30 years of experience in the mining industry. From 2002 to 2014, he worked 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 Compañia de Minas Buenaventura S.A.A., the largest publicly traded precious metals company in Peru, and of Gladiator Mining Group LLC.

Education
BSc in Chemical Engineering from the University of Arizona.

Note
William Champion does not own any shares in PJSC Polyus.

MARIA GORDON
Independent Director

D.O.B:	13 February 1974

Role
Chairperson of the Nomination and Remuneration Committee (from 6 March 2018),
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, Maria Gordon spent twelve 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 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 PJSC Polyus, and several other of its subsidiaries. Member of the Boards of Directors of Federal Grid Company and RusHydro – two major Russian energy companies.

Education
St. Petersburg State University, University of Trieste (Italy), degrees in law.

Note
As at 31 December 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
Board of Directors membership at PJSC Polyus subsidiaries.

Education
Chelyabinsk Polytechnic Institute, degree in metallurgy.

Note
As at 31 December 2018, Vladimir Polin owns 114,135 ordinary shares in PJSC Polyus which represents 0.0855% of the share capital.

COMPOSITION OF THE BOARD continue

At the Annual General Meeting held on 31 May 2018, the Board of Directors was re-elected. The composition of the Board of Directors is presented below:

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 led 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
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 at 31 December 2018, Mikhail Stiskin owns 82,897 ordinary shares in PJSC Polyus which represents 0.0621% of the share capital.

SERGEI NOSSOFF

D.O.B:	5 November 1977

Experience
Sergei Nossoff has over 20 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.

External appointments
Executive Director of Polyus Gold International Limited and Polyus Finance plc.

Education
European Business School, INSEAD (Executive MBA).

Note
Mr Nossoff does not own any shares in PJSC Polyus.

SAID KERIMOV

D.O.B:	6 July 1995

Role
Member of the Strategy Committee.

External appointments
Said Kerimov is currently a 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 approximately 82.44%[1] in the company's share capital.

Changes to the Board in 2018

There were no changes to the Board's composition in 2018.

[1] As at 31 December 2018.

SENIOR MANAGEMENT

(as at 31 December 2018)

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
Nikolai Bukharov	Vice President, Project Management & Capital Construction	01 November 2018
Felix Itskov	Vice President, Commercial & Logistics	20 July 2015
Oleg Solin	Vice President, Security & Assets Protection	02 December 2013
Lev Bondarenko	Vice President, Business Transformation	07 November 2016
Anatoly Barilyuk	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
Pavel Vorsin	Managing Director, JSC Polyus Magadan	23 January 2018
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.

Polyus aims to ensure that the Company meets all anti-corruption law requirements. The Company has always placed a focus on high ethical standards and best business practice in anti-corruption compliance.

Anti-corruption policies and associated directly applicable internal documents are fully embedded within Polyus, its business units, and support 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.

Company's personnel must therefore 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 2018, 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 Strategy Committee's report for 2018.

The Committee's principal objective is to assist the Board in developing and implementing Polyus' long-term strategy. The Committee meets regularly to discuss and evaluate various Company issues related to its strategy, finances, risks and corporate governance. 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 our website at http://www.polyus.com/upload/iblock/ec4/regulation-on-the-strategy-committee.pdf

In 2018 we considered a range of strategy-related matters, including risks related to the present geopolitical situation. We also assessed the progress and results of the Company's debt management strategy for the year, including the Eurobond and Convertible bond issuances and the bond buyback.

Edward Dowling
Chairman of the Strategy Committee.

Membership

- Edward Dowling (Chairman)
- Kent Potter
- Pavel Grachev
- Mikhail Stiskin
- Maria Gordon
- Said Kerimov (member since 4 September 2018).

Responsibilities

The main tasks 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

The Strategy Committee met four times in 2018. All Committee members participated in every meeting.

Main activities

The key matters reviewed by the Committee in 2018 included:

- assessment of the 2024 Eurobond and 2021 Convertible bond placement results and debt portfolio management
- assessment of gold and currency markets situation
- ongoing assessment of the sanctions environment and potential risks
- review of the bond buyback results
- review of the Investor Relations strategy.

REPORT OF THE OPERATIONS COMMITTEE

Dear Shareholders,

On behalf of my fellow Committee members, I am pleased to present Polyus' Operations Committee's report for 2018.

During the year we were updated on progress in the ramping up of Natalka, and the projects to increase throughput at Blagodatnoye and Verninskoye mills. We also reviewed a number of matters including progress on key health, safety and environmental issues.

The Committee is responsible both for ensuring that the Company is implementing its strategies to enhance health & safety and environmental performance, social responsibility, and operational effectiveness, and that it is meeting its stated objectives in these areas. We are focused on ensuring that Polyus operates as a sustainable and socially responsible business. We oversee the management of environmental risks, including climate change risks.

Full details of the Committee's responsibilities are set out in the Regulation on the Operations Committee, which is available in the Corporate Governance section of our website at http://www.polyus.com/upload/iblock/4b7/regulation-on-the-operations-committee. pdf.

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 the areas of 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 operations to ensure reliability of business processes.

Meetings

The Operations Committee met four times in 2018. All members of the Committee participated in every meeting.

Main activities

The key matters reviewed by the Committee in 2018 included:

- review of health, safety and environmental issues and discussion of the key performance indicators
- feedback on Independent Directors' visit to the Natalka operating site
- construction and commissioning progress at Natalka
- implementation of the Mine-to-Mill programme
- BIO-4 project and implementation of the heap leaching project.

BOARD COMMITTEES

REPORT OF THE AUDIT COMMITTEE

As Chairman of the Audit Committee, I am pleased to present our report for 2018.

The Audit Committee works closely with the Board to monitor Polyus' risk management and control processes, ensuring that they are reliable, efficient and fit for purpose. We also review the Company's financial statements to ensure they are accurate and complete – and oversee the internal and external audit functions. Full details of the Committee's responsibilities can be found in Regulation on the Audit Committee, which is available in the Corporate Governance section of the Polyus website: http://polyus.com/upload/iblock/0be/regulation-on-the-audit-committee.pdf.

In 2018 our discussions included a 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 performance of the external auditor.

Kent Potter
Chairman of the Audit Committee.

Membership

- Kent Potter (Chairman)
- Edward Dowling
- William Champion
- Maria Gordon.

The Audit Committee consists solely of Independent Non-Executive Directors.

Responsibilities

The Committee's roles and responsibilities are established based on in the UK Corporate Governance Code and set out in accordance with the Guidance on Audit Committees issued by the Financial Reporting Council (UK) in April 2016. As a Committee, it is responsible for:

- monitoring the integrity of the Company's financial statements and any formal announcements relating to the Company's financial performance, including Interim Reports and Annual Reports, through the review of significant financial reporting judgements contained in them 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
- providing advice (where requested by the Board) on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy
- conducting the tender process for the external auditor, making recommendations to the Board regarding the appointment, reappointment and removal of the external auditor
- approving the remuneration and terms of engagement of the external auditor, overseeing the relationship with the external auditor and 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
- ensuring 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; ensuring that the practices adopted by the Company within the framework of such a system are duly implemented.

Committee evaluation

The Audit Committee was subject to an internal self-evaluation as part of the Board's self-evaluation process. This evaluation focused on the performance of the Board and each Committee, conducted via the completion of a detailed survey by each Board and Audit Committee member. The Audit Committee members were in agreement that the Committee was effective in carrying out its mandate, having obtained robust and well-grounded reports from management in the process. In 2018, 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 the work of Internal Audit in 2019.

Meetings

The Committee met nine times during the year. AO Deloitte & Touche CIS ('Deloitte') attended the meetings as auditors of the Company by invitation.

Main activities

Over the course of the period since the last Annual Report, our 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 2018 Annual Report, the interim consolidated financial statements for the first three, six and nine months of 2018, and the Interim Management Reports for the first, second and third quarters of 2018
- approving the expected auditor's fees for 2018, and monitoring the proposed audit timetable for 2018, as well as the proposed overall timeline for the preparation of the 2018 Annual Report
- assessing and approving both the external and internal audit plans for 2018, and ensuring that all significant audit risks are properly covered
- assessing and analysing the external auditor's non-audit services provided in 2018
- 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.

BOARD COMMITTEES

REPORT OF THE AUDIT COMMITTEE continued

(ii) Internal control and risk management
The Board has established a continuous process for identifying, evaluating, and mitigating the significant risks – including principal and emerging risks – the Company faces and for determining the nature and extent of any significant risks the Board is willing to take to achieve its strategic objectives. In addition, the Board regularly reviews the risk mitigation process. The Board is also responsible for implementing the Company's system of internal controls.

The main functions of the Audit Committee related to internal controls and risk management include:

- controlling the reliability and effectiveness of the risk management and internal controls system
- controlling the procedures that ensure the Company's compliance with the legislation and with requirements of stock exchanges as well as the fulfilment of the Company's ethical norms, rules and procedures
- analysis and evaluation of the implementation of the Company's risk management and internal controls policies, including controlling informational security and the effectiveness of the information technologies used by the Company
- controlling the timeliness of the assessment by the Company's governing bodies of internal and external auditor recommendations regarding improvement of the internal controls system.

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 cross-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 2018, the Board performed a specific risk assessment for preparing the Annual Report. This assessment considered all significant aspects of risk management and internal controls arising during the period covered by the Report, including the work of internal audit.

During the course of its reviews of the risk management and internal control systems during the period, the Audit Committee did not identity and was not 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 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 myself are held during the year and at least once a year with the full Committee. I, along with other Audit Committee members, review all key audit findings and issues identified by Internal Audit during the course of its audits and reviews.

Internal Auditor effectiveness
An annual assessment of the effectiveness, independence and quality of the Internal Audit function was undertaken with questions addressed to Committee members, management and external auditors. This assessment found the effectiveness of the Internal Audit function to be satisfactory.

(iv) External audit
Deloitte is 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 2018, key focus areas were the impairment and commissioning of the Natalka mine, valuation of financial instruments and the impairment of exploration and evaluation assets. 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 auditor, which confirmed that there were no matters to bring to our attention. In addition, the Committee derived assurance from the work of the 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 evaluation included a review of the effectiveness and quality of the audit management as well as the planning of the audit and post-audit evaluation.

Our 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 auditor 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 the auditor by management, and how they have exercised professional scepticism. I also meet or communicate with the lead audit partner outside the formal Committee process throughout the year as necessary.

Every year the Audit Committee carefully assesses the proposal from the auditors, including the audit fee for the forthcoming year, and formally reappoints the auditor. During the assessment, in addition to the aforementioned evaluation measures implemented and the consideration of management's recommendation, the Committee conducts a benchmarking analysis of audit fees against peers in mining and related industries, both for Russian and internationally based companies.

Based on input from management and discussions we have held with Deloitte, we are of the view that the audit process is of a 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 Board. The auditor's objectivity is maintained, amongst other things, through a required lead audit partner rotation at least every seven years.

The Company's CFO and Audit Committee set out the categories of 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 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		**694**
Total other assurance fees		**824**
Audit-related assurance services	685	
Sustainability assurance services	139	
Total audit and other assurance fees		**1,518**
Total other advisory services		**439**

BOARD COMMITTEES

REPORT OF THE AUDIT COMMITTEE continued

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 2018 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 various derivative contracts to hedge or reduce its exposure to 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 2018 are outlined in the table on pages 145 to 146.	The Audit Committee reviewed detailed reports provided by external auditors, reviewed the methodology for assessment of major inputs in the valuation models, including credit risk adjustment against the requirements set out in IFRS 9 and the valuation and disclosures in the consolidated financial statements, and considered them appropriate.
Impairment 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.	Management's judgement is required to determine whether expenditure that has been capitalised as exploration and evaluation assets is appropriately classified and valued.
Commissioning and impairment of the Natalka mine Management's judgement is required to determine the commissioning date of the Natalka mine considering the significant effect of this event on the consolidated financial statements of the Company, including impairment issues related to the Construction in progress balance as at commissioning and reporting dates due to reassessed plans for future usage of a range of facilities at the Natalka mine.	The Audit Committee received a detailed analysis of the key parameters defined as critical for putting the Natalka mine into commercial operation. This analysis was also challenged by the external auditors to ensure that the key assumptions were in line with IFRS requirements and industry practice. In addition, the external auditors reviewed in detail and inspected on a sample basis the list of items included in Natalka's CIP balances and challenged the appropriateness of the classification and impairment assessment as at commissioning and reporting dates.
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 analysis of the going concern prepared by management, challenging the assumptions used in outlining their rationale for adopting the going concern. The Company has no issues with covenant compliance in all scenarios, as the model is not highly 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.

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 2018.

The Committee works to ensure the Board has an appropriate balance of knowledge, capabilities, skills, experience, independence, and diversity to enable it to effectively discharge its responsibilities and duties.

In addition, our role is to 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 also 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 long-term incentive plan, and self-assessment of the Board's performance.

Maria Gordon
Chair of the Nomination and Remuneration Committee.

Membership

- Maria Gordon (Chair), Independent Non-Executive Director
- Edward Dowling, Independent Non-Executive Director
- Kent Potter, Independent Non-Executive Director
- William Champion, Independent Non-Executive Director.

The Nomination and Remuneration Committee consists solely of Independent Non-Executive Directors

Meetings

The Committee met four times in 2018. There were no absentees at any of the meetings.

Main activities

Among the key matters reviewed by the Committee in 2018 were the following:

- chairmanship of the Committee
- KPIs for senior management following the results of 2018 and for 2019
- amendments to the long-term incentive plan ('LTIP')
- self-assessment of the Board's performance.

BOARD COMMITTEES

REPORT OF THE NOMINATION AND REMUNERATION COMMITTEE continued

Remuneration of the Board of Directors

In 2018, 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 services.

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.

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 incurred in the performance of their Board duties.

The remuneration of Independent Non-Executive Directors in 2018 amounted to $1,025,000.

The reimbursement of expenses for Independent Non-Executive Directors amounted to $10,134.

The Company's expenses for servicing of the Board of Directors amounted to $143,942.

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 LTIP, which was adopted by the Board of Directors in December 2016.

Basic salaries are 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 option agreements executed pursuant to the existing LTIP, eligible members of the senior management of Managing Company Polyus received 415,224 ordinary shares of PJSC Polyus, constituting approximately 0.31% of the entire issued share capital of PJSC Polyus.

The remuneration of the CEO and other top managers for the services rendered in 2018 totalled $54,415,590, including variable incentives amounted to $44,647,335[1].

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.

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.

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 2018, women made up 15% of the Company's total workforce, and there were two women among the Company's 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:

1. All employees will uphold and respect the human rights set forth in the Universal Declaration of Human Rights and international humanitarian law.
2. 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.
3. 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 Organisation conventions on organising and collective bargaining.
4. The Company respects the rights and traditions of indigenous people and seeks to protect cultural and spiritual heritages as well as the environment.
5. The Company supports the elimination of all forms of forced, compulsory, and child labour.
6. The Company seeks opportunities to provide training and capacity building in accordance with the voluntary principles to public security forces.
7. 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 is committed 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.

[1] Converted from roubles at the average annual exchange rate of 62.69 roubles per $1.

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.

According to the dividend policy of Polyus approved on 7 October 2016 and amended on 17 January 2018, Company, subject to applicable requirements of the applicable legislation, pays dividends on a semi-annual basis in an amount of 30% of the Company's EBITDA for the respective reporting period. The payment is calculated on the basis of the consolidated financial statements of the Company 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.

An amendment to the dividend policy passed on 17 January 2018 introduced a minimum total dividend pay-out of $550 million for the full years 2017 and 2018.

For the full year 2017, Polyus paid its shareholders a total dividend of $550 million. The dividends for the full year 2018 will be close to $560 million, subject to approval by the Annual Shareholders Meeting.

The provision on the minimum dividends applies 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.

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.

The dividend policy can be found on the official website of Polyus, at http://polyus.com/en/company/corporate_governance/company-documents/.

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 out 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 private placement, or
- issuance by public offering 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.

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 a form of joint attendance or absentee voting, 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 Review 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 review 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 4 to 73 provides a comprehensive review of Polyus operations, its financial position, its business strategies and outlook, and is incorporated by reference to, and forms part of this Directors' report.

The Company's principal activities during 2018 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 4 to 73 of the Strategic Report provide a full consideration of the performance and key milestones of Polyus operations for the year ended 31 December 2018, 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 on pages 32 to 35 of the Strategic report.

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.

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 preferred 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 preferred shares may only be issued if the scope of the relevant authorisations in PJSC Polyus Charter is amended by a shareholders' resolution.

Substantial shareholdings

The shareholder structure as at 31 December 2018 was as follows:

- 82.44%[1] – Polyus Gold International Limited
- 0.92% – treasury shares
- 16.34% – free float
- 0.31% – top management (via LTIP).

Dividends

Information about the dividend policy is outlined in the 'Dividend policy' section in the Corporate Governance Report on page 106.

Registration and domicile

The Company was incorporated in the Russian Federation on 17 March 2006. State registration number is 1068400002990

The Company's main administrative office and its registered office are located at Krasina St. 3 bldg. 1, cab. 801, Moscow, 123056, Russia. Its telephone number is +7 (495) 641-3377.

[1] As at 31 December 2018, 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.

Corporate governance statement

As the Company's shares are included in the Quotation list of the level I of the Moscow Stock Exchange, the Company complies with a number of corporate governance requirements, deriving from Russian law and regulations:

- 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:
  - an Audit Committee, to be chaired by an Independent Director and made up of Independent Directors
  - a Nominations Committee, made up of Independent Directors
  - a Remuneration Committee, comprising Independent Directors
- 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 36.

Political contributions

No donations to political parties were made and no political expenditure was incurred during the year 2018, as was the case in 2017.

Charitable donations

During the year, the Company made charitable donations of $33.6 million (2017: $42.6 million), principally to local charities serving the communities in which the Company operates. Key related messages are set out in the Sustainability Report on pages 78-86.

Government regulations

The mining and processing facilities of Polyus are located in Krasnoyarsk Territory, the Irkutsk Region, the Magadan Region and the Republic of Sakha. 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 Code of Ethics, 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 Group 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 of our business units and support services are ISO 14001 certified and regularly update their certificates.

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 68 to 77.

Greenhouse gas emissions

In 2018, the Company's specific greenhouse gas (GHG) emissions stood at 0.08 tonnes of CO2e per tonne of ore processed, 20.8% below the level of 2017. 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 page 71.

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.

Edward Dowling
Chairman of the Board of Directors
15 April 2019

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(in millions of US dollars, except for earnings per share data)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions of US dollars)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

(in millions of US dollars)

	Notes	2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	11	**3,720**	4,005
Derivative financial instruments and investments	12	**6**	38
Inventories	13	**277**	300
Deferred tax assets	21	**120**	60
Other receivables	11	**60**	97
Other non-current assets		**82**	58
		4,265	**4,558**
Current assets			
Derivative financial instruments and investments	12	**1**	–
Inventories	13	**557**	435
Deferred expenditure		**14**	14
Trade and other receivables	14	**94**	101
Advances paid to suppliers and prepaid expenses		**30**	21
Taxes receivable	15	**166**	114
Cash and cash equivalents	16	**896**	1,204
		1,758	**1,889**
Total assets		**6,023**	**6,447**

	Notes	2018	2017
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		**5**	5
Additional paid-in capital		**1,949**	1,948
Treasury shares		**(67)**	(89)
Other reserves		**–**	(2)
Translation reserve		**(2,824)**	(2,723)
Retained earnings		**1,300**	1,425
Equity attributable to shareholders of the Company		**363**	**564**
Non-controlling interests		**87**	92
		450	**656**
Non-current liabilities			
Borrowings	18	**3,975**	4,269
Derivative financial instruments	12	**118**	448
Deferred revenue	19	**117**	132
Deferred consideration	20	**168**	216
Deferred tax liabilities	21	**207**	**217**
Site restoration, decommissioning and environmental obligations		**40**	47
Other non-current liabilities		**29**	45
		4,654	**5,374**
Current liabilities			
Borrowings	18	**7**	12
Derivative financial instruments	12	**510**	–
Deferred consideration	20	**57**	–
Trade and other payables	22	**289**	318
Taxes payable	23	**56**	87
		919	**417**
Total liabilities		**5,573**	**5,791**
Total equity and liabilities		**6,023**	**6,447**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in millions of US dollars)

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

(in millions of US dollars)

	Notes	2018	2017
Operating activities			
Profit before income tax		**551**	**1,531**
Adjustments for:			
Finance costs, net	8	**201**	200
Interest income		**(26)**	(28)
Impairment loss		**54**	19
Loss / (gain) on investments and revaluation of derivative financial instruments, net	9	**281**	(118)
Depreciation and amortisation		**236**	178
Foreign exchange loss/ (gain), net		**517**	(130)
Other		**10**	4
		1,824	**1,656**
Movements in working capital			
Inventories		**(114)**	(64)
Deferred expenditure		**(5)**	(4)
Trade and other receivables		**4**	(28)
Advances paid to suppliers and prepaid expenses		**(12)**	(7)
Taxes receivable		**(1)**	(18)
Trade and other payables and accrued expenses		**4**	6
Taxes payable		**(27)**	17
Other		**–**	(2)
Cash flows from operations		**1,673**	**1,556**
Income tax paid		**(209)**	(264)
Net cash generated from operating activities		**1,464**	**1,292**
Investing activities			
Purchase of property, plant and equipment (excluding payments for the Sukhoi Log deposit and construction of the Omchak high-voltage power grid)		**(814)**	(762)
Payments for the Sukhoi Log deposit		**–**	(36)
Payments for the Omchak high voltage power grid		**(36)**	(69)
Proceeds from government grants[2]		**13**	53
Interest received		**26**	33
Proceeds from disposal of electricity transmission grids		**15**	63
Proceeds from disposal of joint venture		**–**	100
Other		**4**	–

	Notes	2018	2017
Net cash utilised in investing activities		**(792)**	**(618)**
Financing activities[1]			
Proceeds from borrowings		**1,125**	800
Repayment of borrowings		**(1,249)**	(1,577)
Interest paid		**(253)**	(291)
Commissions on borrowings paid		**(17)**	(11)
Net proceeds on exchange of interest payments under interest rate swaps	8	**2**	2
Net proceeds on exchange of interest payments under cross currency rate swaps	8	**34**	40
Dividends paid to shareholders of the Company		**(569)**	(574)
Dividends paid to non-controlling interests		**(4)**	(7)
Repayments of principal under finance lease		**(4)**	(5)
Proceeds from sales and leaseback transactions		**–**	11
Payment for buy-back of shares		**–**	(1)
Proceeds from issuance of shares		**–**	400
Direct expenses associated with issuance of the Company's shares		**–**	(11)
Other		**(1)**	–
Net cash utilised in financing activities		**(936)**	**(1,224)**
Net decrease in cash and cash equivalents		**(264)**	**(550)**
Cash and cash equivalents at beginning of the year	**16**	**1,204**	**1,740**
Effect of foreign exchange rate changes on cash and cash equivalents		**(44)**	14
Cash and cash equivalents at end of the year	**16**	**896**	**1,204**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of US dollars)

1. GENERAL

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

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

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

2. BASIS OF PREPARATION AND PRESENTATION

2.1. Going concern

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

2.2. Compliance with the International Financial Reporting Standards

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

2.3. Basis of presentation

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

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

2.4. IFRS standards first time applied in 2018

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

Title	Subject	Effective for annual periods beginning on or after	Expected effect on the consolidated financial statements
Amendments to IFRS 2	Investment Property	1 January 2018	Not applicable
Share-based payment	1 January 2018	No effect	Not applicable
IFRS 9	Financial instruments	1 January 2018	No significant changes, see below for further discussion
IFRS 15	Revenue from contracts with customers	1 January 2018	No significant changes, see below for further discussion.
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	No effect
Amendments to IFRS 4	Insurance contracts	1 January 2018	No effect

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

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

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

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

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

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

Effect on the consolidated financial statements

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of US dollars)

2. BASIS OF PREPARATION AND PRESENTATION continued

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

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

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

Effect on the consolidated financial statements

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

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

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

2.5. IFRS standards to be applied after 2018

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

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

IFRS 16 Leases

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of consolidation

Subsidiaries

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

3.2. Presentation currency
The Group presents its consolidated financial statements in the US Dollar, as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Group as it is a common presentation currency in the mining industry. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is performed as follows:

- all assets, liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting date
- all income and expenses are translated at the monthly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions
- resulting exchange differences are included in equity and presented as Effect of translation to presentation currency within the Translation reserve (on disposal of such entities this Translation reserve is reclassified into the consolidated statement of profit or loss) and
- in the statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the monthly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions.

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

	31 December	
Russian rouble/US dollar	**2018**	**2017**
Year-end rate	**69.47**	57.60

3.3. Foreign currencies
Transactions in currencies other than the relevant entity's functional currencies (foreign currencies) are recorded at the exchange rate prevailing on the date of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non monetary items carried at historical cost are translated at the exchange rate prevailing on the date of the transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined.

Exchange differences arising from changes in exchange rates are recognised in the consolidated statement of profit or loss, except for those exchange difference on foreign currency borrowings relating to qualifying assets under construction, which are capitalised in the cost of those assets when they are regarded as an adjustment to finance costs on those foreign currency borrowings.

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

- identify the contract with the customer
- identify the performance obligations in the contract
- determine the transaction price
- allocate the transaction price to the performance obligations in the contracts and
- recognise revenue when (or as) the entity satisfies a performance obligation.

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

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

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

Deferred tax
Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements of the separate legal entities and the corresponding tax bases used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries and associates are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.7. Property, plant and equipment

Mineral rights

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

Fixed assets

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

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

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

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

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

Stripping activity asset

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

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

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

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

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

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

Capital construction in progress

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

Capital construction in progress is not depreciated.

Mine under development

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

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

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

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

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

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

3.9. Impairment of long-lived tangible assets

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

An impairment review of long-lived tangible assets is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell or value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the consolidated statement of profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the consolidated statement of profit or loss immediately.

Impairment of exploration and evaluation assets

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

- acquisition of rights to explore potentially mineralised areas
- topographical, geological, geochemical and geophysical studies
- exploratory drilling
- trenching
- sampling and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting gold resource.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

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

3.10. Financial instruments

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

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

Financial assets

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

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

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

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

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

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

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

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

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

Impairment of financial assets

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

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

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

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

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

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations
- an actual or expected significant deterioration in the operating results of the debtor
- significant increases in credit risk on other financial instruments of the same debtor
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.
- irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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(in millions of US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.11. Inventories
Refined gold, ore stockpiles and gold-in-process

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

By-product

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

Stores and materials

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.14. Provisions

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

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

3.15. Site restoration, decommissioning and environmental obligations

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

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

On-going restoration costs are expensed when incurred.

3.16. Government grants

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

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

3.17. Share-based payment transactions of the Company

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

4.1. Critical judgements in applying accounting policies

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

- mine commissioning period and
- determination of functional currency.

4.1.1. Mine commissioning period

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

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

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

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

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

4.1.2. Determination of functional currency

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

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

4.2. Key sources of estimation uncertainty

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

- justification of the economic useful lives of property, plant and equipment
- recoverability of the exploration and evaluation assets
- impairment of long-lived assets
- determination and valuation of the stripping activity asset
- derivative financial instruments valuation and
- interpretation of the tax legislation in accounting for income taxes.

4.2.1. Economic useful lives of property, plant and equipment

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

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

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

Any of these changes could affect prospective amortisation of fixed assets and their carrying value.

Management periodically reviews the appropriateness of the assets' economic useful lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of US dollars)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY continued

4.2.2. Recoverability of exploration and evaluation assets

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

4.2.3. Impairment of long-lived assets

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

Factors which could impact the underlying cash flows include:

- commodity prices and exchange rates
- timelines of granting of licences and permits
- capital and operating expenditure and
- available reserves and resources and future production profile.

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

4.2.4. Determination and valuation of the stripping activity asset

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

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

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

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

4.2.5. Derivative financial instruments valuation

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

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

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

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the Group's provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences may impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgements based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward and tax planning strategies. If actual results differ from the estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

See note 10 for further details.

5. SEGMENT INFORMATION

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of US dollars)

5. SEGMENT INFORMATION continued

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

- gold sales
- ounces of gold sold, in thousands
- adjusted earnings before interest, tax, depreciation and amortisation and other items (Adjusted EBITDA)
- total cash cost (TCC) per ounce of gold sold and
- capital expenditure.

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

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

[1] Unaudited.

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

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

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

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

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

[2] Unaudited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of US dollars)

5. SEGMENT INFORMATION continued

Gold sales

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

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

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

Natalka capital expenditure

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

Capital expenditure are primarily related to the following projects:

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

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

6. COST OF GOLD SALES

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

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

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of US dollars)

8. FINANCE COSTS, NET

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

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

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

10. INCOME TAX EXPENSE

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of US dollars)

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

Commissioning of the Natalka mine

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

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

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

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

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

Mineral rights

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

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

Exploration and evaluation assets

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

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

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(in millions of US dollars)

11. PROPERTY, PLANT AND EQUIPMENT continued

Amounts related to Sukhoi Log license were capitalised as follows:

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

Depreciation and amortisation

Depreciation and amortisation charges are allocated as follows:

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

Capitalised borrowing costs

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

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

12. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS

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

Revenue stabiliser

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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12. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS continued

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

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

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

Cross currency swaps

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

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

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

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

Interest rate swaps

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

- the Group pays semi-annually until 29 April 2020 LIBOR + 3.55% in US dollars and receives 5.625% in US dollars in respect of a $750 million nominal amount
- the Group pays semi-annually 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.

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

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

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

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

13. INVENTORIES

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

14. TRADE AND OTHER RECEIVABLES

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

15. TAXES RECEIVABLE

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

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16. CASH AND CASH EQUIVALENTS

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

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

Interest rates on bank deposits denominated in:

- US dollars	**0.6–4.4%**	1.2–2.6%
- Russian roubles	**5.5–7.5%**	4.0–7.8%

17. SHARE CAPITAL

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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18. BORROWINGS

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

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

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

Credit facilities with financial institutions nominated in US dollars with fixed interest rates
In January 2018, in accordance with the original terms of the credit agreements, the interest rate was changed from variable to fixed for the $1,240 million credit facility of which $1 billion was subsequently repaid, see below.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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18. BORROWINGS continued

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

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

Reconciliation of liabilities arising from financing activities

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

19. DEFERRED REVENUE

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

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

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

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

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

20. DEFERRED CONSIDERATION

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

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

- approximately $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 and
- approximately $34 million for 5.9% of participation interest at the beginning of 2022.

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

- approximately $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 and
- approximately $37 million for 6.3% of participation interest at the beginning of 2022.

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

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

21. DEFERRED TAX ASSETS AND LIABILITIES

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

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

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21. DEFERRED TAX ASSETS AND LIABILITIES continued

Deferred taxation is attributable to tax losses carried-forward and the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The balances of recognised deferred tax assets and liabilities were as follows:

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

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

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

Unrecognised deferred tax asset

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

Unrecognised deferred tax liability

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

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

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

22. TRADE AND OTHER PAYABLES

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

The average credit period for trade payables at 31 December 2018 was 44 days (31 December 2017: 32 days). No interest was charged on the outstanding payables balance during the credit period.

The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

23. TAXES PAYABLE

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of US dollars)

24. RELATED PARTIES

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

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

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

Key management personnel

	Year ended 31 December	
	2017	**2016**
Short-term compensation paid to key management personnel accrued	**25**	22
Equity-settled share-based payments plans (LTIP)	**25**	31
Total	**50**	**53**

25. COMMITMENTS AND CONTINGENCIES

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

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

Operating lease commitments: Group as a lessee
The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2065. In addition, companies of the Group rent real estate premises (offices mainly) vehicles and equipment necessary for operational activities. Future minimum lease payments due under non-cancellable operating lease agreements at the end of the year were as follows:

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

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

Taxation contingencies in the Russian Federation
Laws and regulation affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit

by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant. With regards to matters where practice concerning payment of taxes is unclear, management estimates that there were no significant tax exposures as of 31 December 2018 for which no liability is recognised.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of US dollars)

26. FINANCIAL INSTRUMENTS RISK MANAGEMENT ACTIVITIES

Capital risk management

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

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

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

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

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

Major categories of financial instruments

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

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

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

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

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

Gold price risk

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

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

Interest rate risk

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

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

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

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

Foreign currency exchange rate risk

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

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

	31 December	
	2017	**2016**
Assets		
US dollars	**823**	1,131
EURO (presented in US dollars at closing exchange rate)	**3**	–
Total	**826**	**1,131**
Liabilities		
US dollars	**4,098**	4,096
EURO (presented in US dollars at closing exchange rate)	**7**	4
Total	**4,105**	**4,100**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of US dollars)

26. FINANCIAL INSTRUMENTS RISK MANAGEMENT ACTIVITIES continued

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

If the US dollars or Euro exchange rate had increased by 25% for the year ended 31 December 2018 and year ended 31 December 2017 compared to the Russian roubles as at the end of respective year, the Group would have incurred the following losses:

	Year ended 31 December	
	2018	2017
Loss (US dollars exchange rate increased compared to the Russian rouble)	1,131	741
Loss (Euro exchange rate increased compared to the Russian rouble)	1	1

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. Credit risk arises from cash, cash equivalents and deposits kept with banks, derivative agreements, loans issued, advances paid and other receivables.

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

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

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

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

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

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting and cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of US dollars)

27. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

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

Information about significant subsidiaries of the Group

		Effective % held[1] at	
Subsidiaries	**Nature of business**	**30 Dec. 2018**	**31 Dec. 2017**
Incorporated in Russian Federation			
JSC Polyus Krasnoyarsk (renamed, previously JSC Gold Mining Company Polyus)	Mining (open pit)	**100**	100
JSC Polyus Aldan (renamed, previously JSC Aldanzoloto GRK)	Mining (open pit)	**100**	100
JSC Polyus Verninskoye (renamed, previously JSC Pervenets)	Mining (open pit)	**100**	100
PJSC Lenzoloto	Holding company	**64**	64
JSC ZDK Lenzoloto	Mining (alluvial)	**66**	66
JSC Svetliy	Mining (alluvial)	**56**	56
JSC Polyus Magadan (renamed, previously JSC Matrosova Mine)	Mining (open pit from 1 August 2018, before – development stage)	**100**	100
LLC Polyus Stroy	Construction	**100**	100
LLC SL Gold	Exploration and evaluation of the Sukhoi Log deposit	**58**	58

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

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

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

28. EVENTS AFTER THE REPORTING DATE

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

ADDITIONAL INFORMATION

SCHEDULE OF MEETINGS OF THE BOARD OF DIRECTORS IN 2018

No	Date	Form	Attendance	Agenda
1	17 January	Joint attendance (call)	Dowling, Nossoff, Grachev, Potter, Gordon, Stiskin, Champion	• Approval of the internal regulations of PJSC Polyus
2	18 January	Absentee voting	All Directors	• Determining the price of the property that is the subject of a related party transaction (several related transactions). • Approving the related party transaction (several related transactions).
3	08 February	Absentee voting	All Directors	• Determining the price of the property that is the subject of an interested party transaction. • Approving an interested party transaction.
4	14 February	Absentee voting	All Directors	• Approval of PJSC Polyus' consolidated financial statements for the year ended 31 December 2017.
5	06 March	Joint attendance (Moscow)	All Directors	• Reports of the Board Committees upon completion of the meetings of 5 March 2018. • Current financial and administrative issues of PJSC Polyus.
6	19 March	Joint attendance (call)	All Directors	• Assessment of fulfilment of key performance indicators related to the LTIP for the top-management. • Annual bonus of the CEO of PJSC Polyus for 2017. • KPIs of PJSC Polyus' CEO for 2019.
7	27 April	Joint attendance (call)	All Directors	• Convening the AGM of PJSC Polyus upon the 2017 results. • Candidates to the Board of Directors and Audit Commission of PJSC Polyus. • Preliminary approval of the 2017 Annual Report of PJSC Polyus. • Recommendations regarding distribution of profit and losses, including the amount of dividend based on 2017 results. • Approval of the Report on the related party transactions of PJSC Polyus in 2017.
8	22 May	Joint attendance (Moscow)	All Directors	• Reports of the PJSC Polyus Board Committees upon completion of the meetings of 21 May 2018. • Current financial and administrative issues of PJSC Polyus.

No	Date	Voting		Absentees
9	30 May	Absentee voting	All Directors	• Approval of PJSC Polyus' consolidated interim financial statements for the three months ended 31 March 2018.
10	30 May	Absentee voting	All Directors	• On the Chairman of Annual General Shareholders Meeting of PJSC Polyus.
11	31 May	Absentee voting	All Directors	• On the Chairman of the Board of PJSC Polyus • On the Committees of the Board of Directors of PJSC Polyus
12	09 June	Absentee voting	All Directors	• Determining the price of the property that is the subject of an interested party transaction (several related transactions). • Approving an interested party transaction (several related transactions).
13	03 August	Absentee voting	All Directors	• Approval of PJSC Polyus' interim consolidated financial statement for 3 and 6 months that ended on 30 June 2018.
14	24 August	Joint attendance (call)	All Directors	• On recommendations regarding the amount of dividend on shares of PJSC Polyus based on 6M 2018 results. • Convening an Extraordinary General Shareholders Meeting of PJSC Polyus.
15	04 September	Joint attendance (Moscow)	All Directors	• Reports of the PJSC Polyus Board Committees upon completion of the meetings of 03 September 2018. • Current financial and administrative issues of PJSC Polyus.
16	07 November	Absentee voting	All Directors	• Approval of PJSC Polyus' consolidated interim financial statements for 3 and 9 months ended 30 September 2018. • RAS auditor fees for 2018.
17	04 December	Joint attendance (Moscow)	All Directors	• Budget for 2019 • Current financial and administrative issues of PJSC Polyus.
18	28 December	Absentee voting	All Directors	• Approval of the amended Long Term Incentive Plan for the top management of Polyus Group.

REPORT ON PAYMENTS TO GOVERMENTS

PJSC Polyus publishes its Report on payments to governments for the year 2018.

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 2018 were made to the budgets of the Russian Federation. The total amount of payments reached $425.6 million.

All payments in 2018 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.

2018 net payments to governments (in thousand US dollars)

	Income tax payments	Mineral extraction tax payments (royalties)	Licence payments and similar	Dividends	Total payments
Krasnoyarsk Business Unit	153,844	135,040	–	–	**288,884**
Alluvials	7,574	10,437	–	–	**18,011**
Kuranakh	13,718	15,540	–	–	**29,258**
Verninskoye	22,612	425	–	–	**23,037**
Chertovo Koryto	–	–	–	–	**–**
Natalka	(0)	3,858	–	–	**3,858**
Sukhoi Log	2	–	–	–	**2**
Polyus Logistika	322	–	–	–	**322**
PJSC Polyus	2,323	–	–	–	**2,323**
MC Polyus	4,931	–	–	–	**4,931**
Other consolidated and companies and eliminations	3,933	–	–	–	**3,933**
Total payments	**209,259**	**165,300**	**–**	**–**	**374,559**

CAUTIONARY STATEMENT

31 December 2018 – PJSC Polyus (the 'Company' or 'Polyus') issues this Annual Management Review (AMR) to summarise recent operational activities and to provide trading guidance in respect of the consolidated financial statements for the year ended 31 December 2018.

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 review, but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

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

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