



**PJSC Polyus
Management Report
30 June 2019**

6 August 2019



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Cautionary statement

6 August 2019 – PJSC Polyus (the “Company” or “Polyus”) issues this Interim Management Report (“IMR”) to summarise recent operational activities and to provide trading guidance in respect of the condensed consolidated interim financial statements for the three and six months ended 30 June 2019.

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

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

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

Responsibility statement

Directors of PJSC “Polyus” are responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of PJSC “Polyus” and its subsidiaries (the “Group”) as of 30 June 2019, and the results of its operations, cash flows and changes in equity for three and six months ended, in compliance with International Accounting Standard 34 (the “IAS 34”) “Interim Financial Statements”.

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 IAS 34 and providing additional disclosures when compliance with the specific requirements of IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s consolidated financial position and financial performance; and
- making an assessment of the Group’s ability to continue as a going concern.

Directors are also responsible for:

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

The condensed consolidated interim financial statements of the Group for the three and six months ended 30 June 2019 were approved by Directors on 6 August 2019.

By order of the Board of Directors,

Chief Executive Officer and Director



Pavel Grachev

Management Discussion and Analysis

The second quarter 2019 key metrics overview

\$ million (if not mentioned otherwise)	2Q 2019	1Q 2019	Q-o-Q	2Q 2018	Y-o-Y	1H 2019	1H 2018	Y-o-Y
Operating highlights								
Gold production (koz) ¹	684	601	14%	602	14%	1,285	1,109	16%
Gold sold (koz)	685	570	20%	531	29%	1,255	990	27%
Realised prices								
Average realised refined gold price (excluding effect of SPPP) (\$/oz) ²	1,314	1,308	0%	1,300	1%	1,311	1,317	0%
Average realised refined gold price (including effect of SPPP) (\$/oz)	1,314	1,308	0%	1,300	1%	1,311	1,317	0%
Financial performance								
Total revenue	897	751	19%	692	30%	1,648	1,309	26%
Operating profit	506	396	28%	385	31%	902	717	26%
Operating profit margin	56%	53%	3 ppts	56%	0 ppts	55%	55%	0 ppts
Profit for the period	419	528	(21%)	114	N.A.	947	358	N.A.
Earnings per share – basic (US Dollar)	3.13	4.02	(22%)	0.83	N.A.	7.14	2.70	N.A.
Earnings per share – diluted (US Dollar)	3.15	4.00	(21%)	0.74	N.A.	7.14	2.54	N.A.
Adjusted net profit ³	365	243	50%	457	(20%)	608	680	(11%)
Adjusted net profit margin	41%	32%	9 ppts	66%	(25) ppts	37%	52%	(15) ppts
Adjusted EBITDA ⁴	604	488	24%	457	32%	1,092	844	29%
Adjusted EBITDA margin	67%	65%	2 ppts	66%	1 ppts	66%	64%	2 ppts
Net cash flow from operations	451	438	3%	376	20%	889	637	40%
Capital expenditure ⁵	154	99	56%	219	(30%)	253	401	(37%)
Cash costs								
Total cash cost (TCC) per ounce sold (\$/oz) ⁶	352	358	(2%)	345	2%	355	363	(2%)
All-in sustaining cash cost (AISC) per ounce sold (\$/oz) ⁷	584	589	(1%)	584	0%	586	620	(5%)
Financial position								
Cash and cash equivalents	1,249	1,561	(20%)	908	38%	1,249	908	38%
Net debt ⁸	3,639	3,011	21%	3,208	13%	3,639	3,208	13%
Net debt/adjusted EBITDA (x) ⁹	1.7	1.5	13%	1.8	(6%)	1.7	1.8	(6%)

¹ - Gold production is comprised of 615 thousand ounces of refined gold and 69 thousand ounces of gold in flotation concentrate in the second quarter of 2019 and 538 thousand ounces of refined gold and 63 thousand ounces of gold in flotation concentrate in the first quarter of 2019 respectively.

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

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

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

⁵ - Capital expenditure figures are presented on an accrual basis (here presented net of the Sukhoi Log deposit license acquisition cost and net of Omchak power grid construction cost). For details see reconciliation on page 21.

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

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

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

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

Key highlights for the second quarter 2019

1. Total gold sales volumes amounted to 685 thousand ounces, up 20% compared to the first quarter of 2019. This includes 57 thousand ounces of gold contained in concentrate from Olimpiada.
2. Revenue for the second quarter was \$897 million, up 19% compared to \$751 million in the previous quarter, driven by a higher volumes of refined gold output from Olimpiada and Blagodatnoye, reflecting changes in the amount of gold in inventory at the refinery. In addition, an increase in flotation concentrate sales to 57 thousand ounces, compared to 22 thousand ounces in the first quarter of 2019 and the start of the washing season at Alluvials also resulted in higher gold sales volumes during the period.
3. The group's TCC for the second quarter amounted to \$352 per ounce, down 2% compared to \$358 per ounce in the first quarter, primarily due to an improved performance at Olimpiada with a higher average grade in ore processed (4.03 grams per tonne in the second quarter compared to 3.76 grams per tonne in the first quarter) and higher sales of antimony-rich flotation concentrate, which resulted in an increase in by-product credit (\$12 per ounce in the second quarter compared to \$7 per ounce in the first quarter). Improved TCC at Natalka, mainly due to an increase in hourly throughput (1,430 t/h in the second quarter compared to 1,306 t/h in the first quarter), also positively impacted the group's TCC during the period. All of these factors were partially offset by the seasonal start of the structurally higher cost alluvial operations and local currency appreciation of 2% during the reporting period.
4. Adjusted EBITDA for the second quarter was \$604 million, up 24% compared to \$488 million in the previous quarter, driven by higher gold sales volumes and lower TCC per ounce during the reporting period.
5. In the second quarter of 2019, net profit totaled \$419 million, compared to \$528 million in the first quarter. This decrease in net profit reflects the impact of non-cash items.
6. Adjusted net profit amounted to \$365 million, representing a 50% increase from the first quarter.
7. Net cash generated from operations was \$451 million in the second quarter, compared to \$438 million in the previous quarter.
8. Capital expenditures ("capex") amounted to \$154 million, a 56% increase on the previous quarter, reflecting higher capex across all of the group's business units.
9. Cash and cash equivalents as at 30 June 2019 amounted to \$1,249 million, compared to \$1,561 million as at 31 March 2019. Among other factors, this change in the cash position reflects a dividend payout of \$295 million for the second half of 2018.
10. Net debt increased to \$3,639 million, compared to \$3,011 million as at the end of the first quarter, primarily due to the repayment of the derivative liabilities.
11. The net debt/adjusted EBITDA ratio increased to 1.7x compared to 1.5x as at the end of the first quarter 2019, reflecting the growth in the net debt in the second quarter of 2019.
12. The Company's Board of Directors intends to recommend the dividends for the first half of 2019 ended 30 June 2019 in the total amount of \$328 million, representing 30% of the Company's EBITDA for the first half of 2019, in line with the Company's dividend policy. The rouble denominated dividend per share is expected to be announced on the 22nd of August. Based on the current number of shares (excluding treasury stock) dividend amount is expected to be \$2.46 per ordinary share or \$1.23 per depositary share. The dividend record date is expected to be in October 2019.

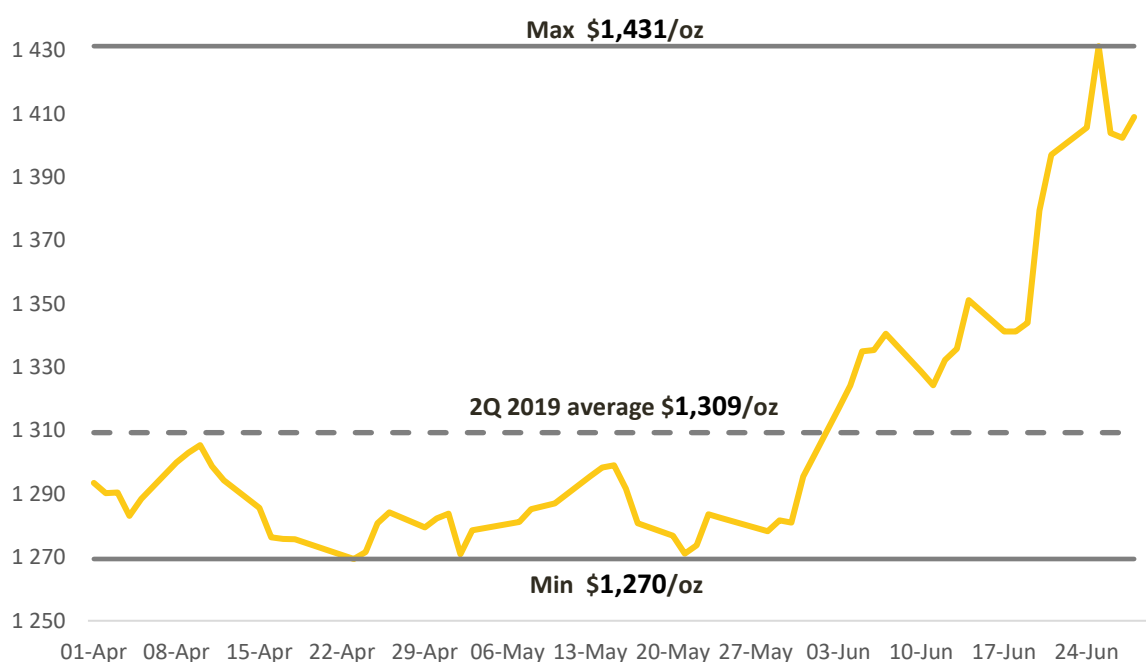
Review of external factors

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

Gold price dynamics

The market price of gold is a significant factor that influences the Group's profitability and operating cash flow generation. In the second quarter of 2019, the average London Bullion Market Association (LBMA) gold price was \$1,309 per ounce, compared to \$1,304 per ounce in the previous quarter.

LBMA gold price dynamics in 2Q 2019, \$/oz

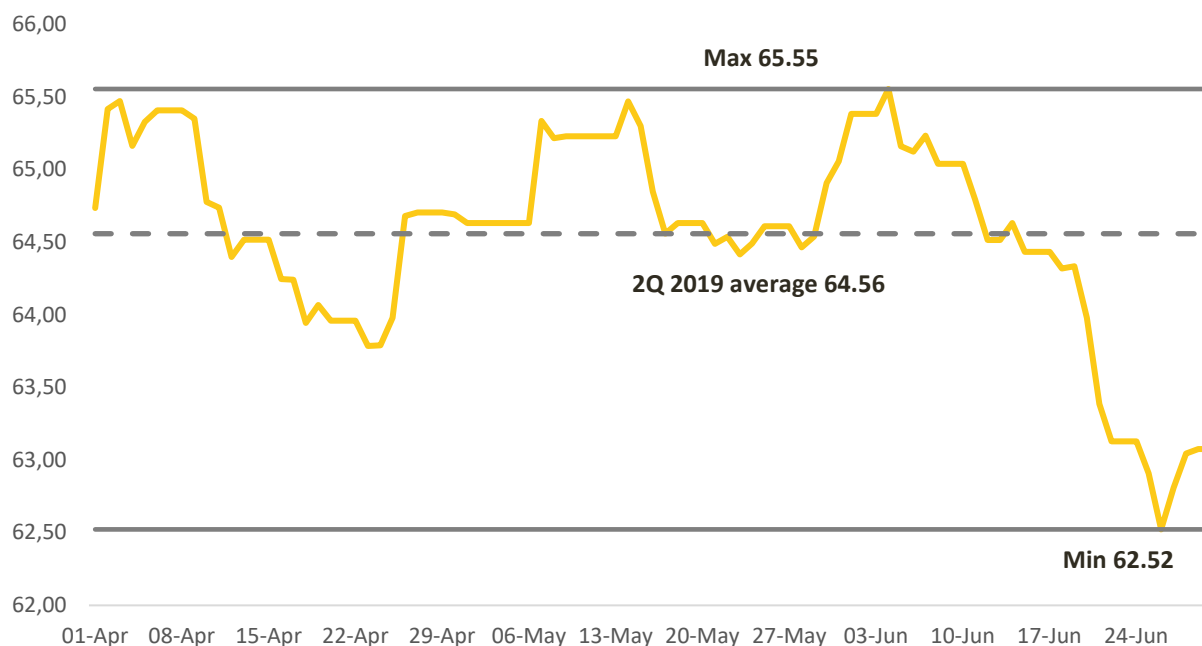


Source: London Bullion Market Association

Rouble exchange rate dynamics

The Group's revenue from gold sales is linked to the US dollar (USD), whereas most of the Group's operating expenses are denominated in Russian roubles (RUB). The strengthening of the RUB against the USD can negatively impact the Group's margins by increasing the USD value of its RUB-denominated costs, while a weaker RUB positively affects its margins as it reduces the USD value of the Group's RUB-denominated costs. In the second quarter of 2019, the average RUB/USD exchange rate amounted to 64.56, compared to 66.13 in the previous quarter.

RUB/USD dynamics, 2Q 2019



Source: The Central Bank of the Russian Federation

Inflationary trends

All of the Group’s operations are located in Russia. The rouble-based annualised Russian Consumer Price Index (CPI), calculated by the Federal State Statistics Service, was at 4.7% as of the end of the second quarter of 2019, compared to 5.3% as of the end of the previous quarter and 2.3% as of the end of the second quarter of 2018.

Financial review of the second quarter of 2019 and first half 2019

Statement of profit or loss review

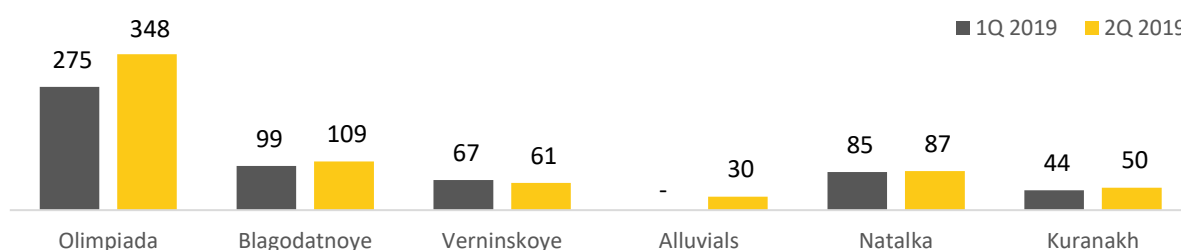
REVENUE ANALYSIS

	2Q 2019	1Q 2019	Q-o-Q	1H 2019	1H 2018	Y-o-Y
Gold sales (koz)	685	570	20%	1,255	990	27%
Average realised refined gold price (excluding effect of SPPP) (\$/oz)	1,314	1,308	0%	1,311	1,317	0%
Average realised refined gold price (including effect of SPPP) (\$/oz)	1,314	1,308	0%	1,311	1,317	0%
Average afternoon gold LBMA price fixing (\$/oz)	1,309	1,304	0%	1,307	1,318	(1%)
Premium of average selling price (including effect of SPPP) over average LBMA price fixing (\$/oz)	5	4	25%	4	(1)	N.A.
Gold sales (\$ million)	886	741	20%	1,627	1,291	26%
Other sales (\$ million)	11	10	10%	21	18	17%
Total revenue (\$ million)	897	751	19%	1,648	1,309	26%

In the second quarter, the group's revenue from gold sales was \$886 million, a 20% increase compared to the previous quarter. Gold sales totaled 685 thousand ounces, a 20% increase compared to the previous quarter, mainly driven by higher volumes of refined gold output from Olimpiada and Blagodatnoye, reflecting changes in the amount of gold in inventory at the refinery. In addition, an increase in flotation concentrate sales to 57 thousand ounces, compared to 22 thousand ounces in the first quarter of 2019 and the start of the washing season at Alluvials also resulted in higher gold sales volumes during the period. The average realised refined gold price was almost flat compared to the first quarter, at \$1,314 per ounce (including the effect of SPPP).

Revenue breakdown by business units, 2Q 2019 vs. 1Q 2019

Assets	2Q 2019 (\$ million)			1Q 2019 (\$ million)		
	Gold sales	Other sales	Total sales	Gold sales	Other sales	Total sales
Olimpiada	443	1	444	355	4	359
Blagodatnoye	142	-	142	130	-	130
Verninskoye	81	-	81	87	-	87
Alluvials	39	1	40	-	1	1
Kuranakh	66	1	67	57	1	58
Natalka	115	2	117	112	2	114
Other	-	6	6	-	2	2
Total	886	11	897	741	10	751

Gold sold by mine, koz

CASH COSTS ANALYSIS

In the second quarter of 2019, the group's cost of gold sales increased 13% compared to the previous quarter, to \$320 million, while cash operating costs increased 19% compared to the prior period, to \$273 million. This increase was primarily driven by the start of production at the alluvial operations.

Cost of sales breakdown

\$ million	2Q 2019	1Q 2019	Q-o-Q	1H 2019	1H 2018	Y-o-Y
Cash operating costs¹⁰	273	230	19%	503	379	33%
Depreciation and amortisation (D&A) of operating assets	81	72	13%	153	109	40%
Total cost of production	354	302	17%	656	488	34%
Increase in stockpiles, gold-in-process and refined gold inventories	(34)	(20)	70%	(54)	(49)	10%
Cost of gold sales	320	282	13%	602	439	37%

Cash operating costs – breakdown by item

\$ million	2Q 2019	1Q 2019	Q-o-Q	1H 2019	1H 2018	Y-o-Y
Consumables and spares	77	63	22%	140	106	32%
Labour	87	68	28%	155	120	29%
Mineral Extraction Tax ("MET")	44	37	19%	81	73	11%
Fuel	31	28	11%	59	35	69%
Power	13	15	(13%)	28	17	65%
Outsourced mining services	2	-	100%	2	1	100%
Other ¹⁰	19	19	0%	38	27	41%
Total	273	230	19%	503	379	33%

In the second quarter, consumables and spares expenses increased 22% compared to the previous quarter due to the start of production at the alluvial operations and scheduled maintenance works at Olimpiada. The seasonal start of heap leaching operations at Kuranakh also contributed to higher consumables expenses.

Labour costs increased 28% compared to the previous quarter. This mainly reflects the aforementioned factors related to the alluvial operations and annual salary indexation across all business units.

MET expenses increased 19% due to the higher production volumes of dore gold and increase in sales volumes of flotation concentrate during the period.

¹⁰ The Group calculates cash operating costs as the sum of the following costs within cost of sales for the period: Labour, Consumables and spares, "MET", Fuel, Power, Outsourced mining services and other costs, including Refining, logistics and costs on explosives.

Management Report for the three and six months ended 30 June 2019

Fuel costs in the second quarter increased 11% compared to the first quarter due to the aforementioned factors related to the start of the washing season at Alluvials.

Power costs decreased 13% compared to the previous quarter driven by a decrease in power tariffs at Nataalka and Kuranakh.

Cash operating costs – breakdown by key business units¹¹, 2Q 2019 vs. 1Q 2019

\$ million	Olimpiada		Blagodatnoye		Verninskoye		Alluvials		Kuranakh		Nataalka	
	2Q 2019	1Q 2019	2Q 2019	1Q 2019	2Q 2019	1Q 2019	2Q 2019	1Q 2019	2Q 2019	1Q 2019	2Q 2019	1Q 2019
Consumables and spares	36	32	11	11	7	6	4	-	6	5	11	8
Labour	21	20	10	8	9	8	12	-	11	10	13	13
MET	27	23	9	9	1	1	3	-	4	4	-	-
Fuel	8	7	4	4	1	2	4	-	4	5	7	8
Power	6	6	2	2	1	1	2	-	2	2	4	4
Outsourced mining services	-	-	-	-	-	-	2	-	-	-	-	-
Other	7	14	7	5	6	3	4	-	3	2	10	11
Total	105	102	43	39	25	21	31	-	30	28	45	44

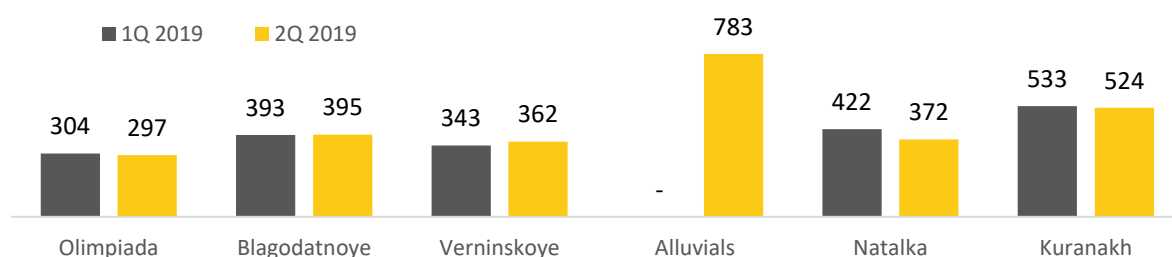
TOTAL CASH COSTS
TCC calculation

\$ million	2Q 2019	1Q 2019	Q-o-Q	1H 2019	1H 2018	Y-o-Y
Cost of gold sales before by-product	328	286	15%	614	444	38%
Antimony by-product credit	(8)	(4)	100%	(12)	(5)	N.A.
Cost of gold sales	320	282	13%	602	439	37%
property, plant and equipment depreciation	(81)	(72)	13%	(153)	(109)	40%
employee benefit obligations cost	-	-	N.A.	-	1	(100%)
change in allowance for obsolescence of inventory	(2)	(1)	100%	(3)	(1)	N.A.
non-monetary changes in inventories	3	(4)	N.A.	(1)	29	N.A.
TCC	240	205	17%	445	359	24%
Gold sold (koz)	685	570	20%	1,255	990	27%
TCC per ounce sold (\$/oz)	352	358	(2%)	355	363	(2%)

In the second quarter, the group's TCC decreased 2% to \$352 per ounce compared to the previous quarter due to improved performance at Olimpiada with higher average grade in ore processed (4.03 grams per tonne in the second quarter compared to 3.76 grams per tonne in the first quarter) and higher sales of antimony-rich flotation concentrate, which resulted in an increase in by-product credit (\$12 per ounce in the second quarter compared to \$7 per ounce in the first quarter). In addition, an increase in the share of lower cost flotation concentrate in total gold sales positively impacted costs performance.

Improved TCC at Nataalka, mainly due to an increase in hourly throughput (1,430 t/h in the second quarter compared to 1,306 t/h in the first quarter), also positively impacted the group's TCC during the reporting period. All of these factors were partially offset by the seasonal start of the structurally higher cost alluvial operations and local currency appreciation of 2% during the reporting period.

¹¹ Calculated on standalone basis and do not include other non-producing business units and consolidation adjustments.

TCC performance by mine, \$/oz


In the second quarter, TCC at Olimpiada decreased to \$297 per ounce, down 2% compared to the first quarter. This decline was driven by a higher average grade in ore processed (4.03 grams per tonne in the second quarter compared to 3.76 grams per tonne in the first quarter) as well as an increase in recovery rate from 80.8% to 82.1% compared to the first quarter of 2019. A higher share of lower cost flotation concentrate in total gold sold during the quarter and higher sales of antimony-rich flotation concentrate, which resulted in an increase in by-product credit (\$23 per ounce in the second quarter compared to \$15 per ounce in the first quarter), also contributed to the improved cost performance. These factors were partially offset by higher maintenance expenses, with Mill No.3 undergoing scheduled maintenance in May 2019.

At Blagodatnoye, TCC amounted to \$395 per ounce, up 1% compared to the first quarter, as higher average grade in ore processed (1.61 grams per tonne in the second quarter compared to 1.57 grams per tonne in the first quarter) was offset by local currency appreciation.

TCC at Verninskoye amounted to \$362 per ounce, up 6% compared to the first quarter due to the higher average cost of ore stockpiles, following changes in the mining sequence and local currency appreciation in the reporting period.

At Kuranakh, TCC declined to \$524 per ounce, a 2% decrease compared to the first quarter mainly due to higher average grade in ore processed at the Kuranakh Mill (1.23 grams per tonne in the second quarter compared to 1.22 grams per tonne in the first quarter) in the reporting period.

TCC at Alluvials stood at \$783 per ounce reflecting the start of the washing season in April 2019.

At Natalka, TCC decreased 12% to \$372 per ounce compared to the first quarter, primarily due to a 9% increase in hourly throughput (1,430 t/h in the second quarter compared to 1,306 t/h in the first quarter). In addition, lower power expenses driven by the decrease in power tariff also contributed to the improved cost performance. This performance was partially offset by lower average grade in ore processed (1.56 grams per tonne in the second quarter compared to 1.78 grams per tonne in the first quarter), reflecting a temporary increase of lower-grade content in the ore feed.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

The group's selling, general, and administrative (SG&A) expenses amounted to \$67 million, a 10% increase compared to the first quarter. Distribution expenses increased in line with the rise in flotation concentrate sales volumes to foreign offtakers during the reporting period.

SG&A breakdown by item

\$ million	2Q 2019	1Q 2019	Q-o-Q	1H 2019	1H 2018	Y-o-Y
Salaries	41	41	0%	82	68	21%
Distribution expenses related to gold-bearing products	6	3	100%	9	6	50%
Taxes other than mining and income taxes	4	5	(20%)	9	6	50%
Professional services	3	1	N.A.	4	4	0%
Amortisation and depreciation	5	5	0%	10	4	N.A.
Other	8	6	33%	14	12	17%
Total	67	61	10%	128	100	28%

ALL-IN SUSTAINING COSTS (AISC)

In the second quarter, the group's AISC decreased to \$584 per ounce, down 1% compared to the first quarter, trending in line with TCC per ounce.

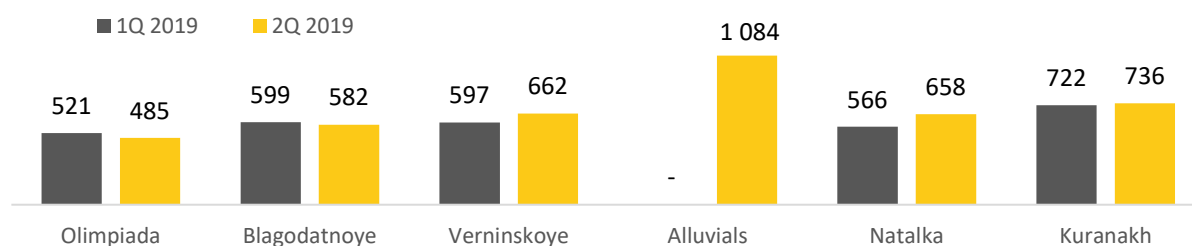
All-in sustaining costs calculation

\$ million	2Q 2019	1Q 2019	Q-o-Q	1H 2019	1H 2018	Y-o-Y
Total TCC	240	205	17%	445	359	24%
selling, general and administrative expenses	67	61	10%	128	100	28%
amortisation and depreciation related to SG&A	(5)	(5)	0%	(10)	(4)	N.A.
stripping activity asset additions ¹²	47	47	0%	94	80	18%
sustaining capital expenditure ¹³	48	26	85%	74	77	(4%)
unwinding of discounts on decommissioning liabilities	1	1	0%	2	2	0%
adding back expenses excluded from cost of gold sales						
employee benefit obligations cost	-	-	N.A.	-	(1)	(100%)
change in allowance for obsolescence of inventory	2	1	100%	3	1	N.A.
Total all-in sustaining costs	400	336	19%	736	614	20%
Gold sold (koz)	685	570	20%	1,255	990	27%
All-in-sustaining cost (\$/oz)	584	589	(1%)	586	620	(5%)

In the second quarter, AISC at Olimpiada decreased to \$485 per ounce, in line with TCC performance during the period. AISC at Blagodatnoye decreased to \$582 per ounce, primarily due to the lower stripping and SG&A expenses in the reporting period. AISC at Verninskoye increased to \$662 per ounce, while AISC at Kuranakh increased to \$736 per ounce, both reflecting higher sustaining capital expenditures for the period. AISC at Natalka increased to \$658 per ounce driven by higher stripping expenses and sustaining capital expenditures during the period.

¹² 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 \$17 million in the second quarter of 2019, \$16 million in the first quarter of 2019, \$8 million in the second quarter of 2018.

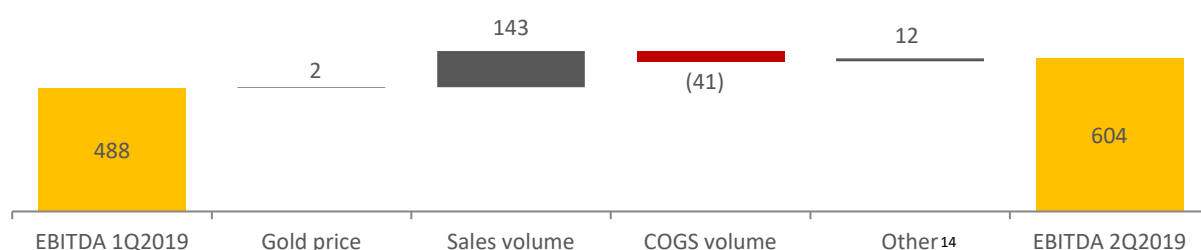
¹³ Sustaining capital expenditures represent capital expenditures at existing operations comprising mine development costs and ongoing replacement of mine equipment and other capital facilities, and does not include capital expenditures for major growth projects or enhancement capital for significant infrastructure improvements at existing operations.

All-in sustaining costs by mine, \$/oz

ADJUSTED EBITDA

In the second quarter, the group's adjusted EBITDA amounted to \$604 million, an 24% increase compared to \$488 million in the previous quarter, driven by higher gold sales volumes and lower TCC per ounce during the reporting period.

Adjusted EBITDA calculation

\$ million	2Q 2019	1Q 2019	Q-o-Q	1H 2019	1H 2018	Y-o-Y
Profit for the period	419	528	(21%)	947	358	N.A.
Income tax expense / (benefit)	89	101	(12%)	190	(18)	N.A.
Depreciation and amortisation	85	82	4%	167	86	94%
Loss / (gain) on derivative financial instruments and investments, net	9	(97)	N.A.	(88)	53	N.A.
Finance costs, net	64	63	2%	127	93	37%
Equity-settled share-based payment plans	7	6	17%	13	5	N.A.
Foreign exchange (gain) / loss, net	(63)	(189)	(67%)	(252)	242	N.A.
Interest income	(12)	(10)	20%	(22)	(11)	100%
Impairment	-	1	(100%)	1	27	(96%)
Special charitable contributions	5	3	67%	8	9	(11%)
Loss on disposal of property, plant and equipment	1	-	N.A.	1	-	N.A.
Adjusted EBITDA	604	488	24%	1,092	844	29%
Total revenue	897	751	19%	1,648	1,309	26%
Adjusted EBITDA margin (%)	67%	65%	2 pts	66%	64%	2 pts

Adjusted EBITDA bridge, \$ million


¹⁴ Includes operating efficiency and FX effects.

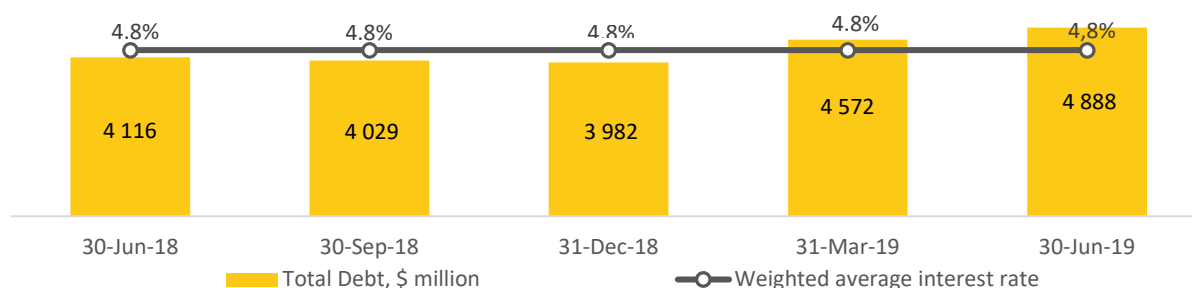
Adjusted EBITDA breakdown by business units, \$ million

\$ million	2Q 2019	1Q 2019	Q-o-Q	1H 2019	1H 2018	Y-o-Y
Olimpiada	325	251	29%	576	500	15%
Blagodatnoye	95	84	13%	179	185	(3%)
Verninskoye	52	59	(12%)	111	94	18%
Alluvials	14	(3)	N.A.	11	5	N.A.
Kuranakh	34	28	21%	62	60	3%
Natalka	71	65	9%	136	-	N.A.
Other ¹⁵	13	4	N.A.	17	-	N.A.
Total	604	488	24%	1,092	844	29%

FINANCE COST ANALYSIS

\$ million	2Q 2019	1Q 2019	Q-o-Q	1H 2019	1H 2018	Y-o-Y
Interest on borrowings	77	64	20%	141	139	1%
Interest on lease liabilities	-	2	(100%)	2	-	100%
Write-off of unamortised debt costs due to early extinguishment of debt and bank one-off commissions	1	-	100%	1	11	(91%)
Unwinding of discounts	4	3	33%	7	7	-
Gain on debt modification ¹⁶	(10)	-	(100%)	(10)	-	(100%)
Gain on an early redemption of financial liabilities	-	-	-	-	(2)	(100%)
Gain on exchange of interest payments under cross currency swap and interest rate swap	(8)	(6)	33%	(14)	(16)	(13%)
Sub-total finance cost, net	64	63	2%	127	139	(9%)
Interest included in the cost of qualifying assets	-	-	N.A.	-	(46)	N.A.
Total finance cost expended	64	63	2%	127	93	37%

The group's total finance costs amounted to \$64 million, compared to \$63 million in the first quarter. Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps) increased 20% to \$77 million compared to the first quarter of 2019. This figure reflects the growth in gross debt in the second quarter of 2019.

Weighted average interest rate dynamics¹⁷


¹⁵ Reflects consolidation adjustments of Sukhoi Log and non-producing business units, including the exploration business unit, capital construction business unit and unallocated segments.

¹⁶ For additional information on gain on debt modification, see Note 17 of the condensed consolidated interim financial statements.

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

Foreign exchange loss and derivatives

The group's foreign exchange gain was \$63 million, compared to a \$189 million gain in the first quarter, which reflects the revaluation of USD-denominated bank deposits, USD-denominated accounts receivables and USD-denominated liabilities as at 30 June 2019 due to FX rate fluctuation.

Valuation of derivative financial instruments as at 30 June and for the three and six months ended 30 June 2019

\$ million	Asset	Liability	Fair value recorded in the statement of financial position	Profit & loss (expenses)/ income
Revenue stabiliser	-	(24)	(24)	3
Cross-currency swaps	19	(42)	(23)	110
Interest rate swaps	3	(6)	(3)	(6)
Conversion option on convertible bonds	-	(23)	(23)	(19)
Total	22	(95)	(73)	88

Revenue stabiliser¹⁸

There were no changes to the revenue stabiliser option agreements during the six months ended 30 June 2019.

Cross-currency and interest rate swaps

In the second quarter of 2019, the overall positive effect from cross-currency and interest rate swaps on finance cost amounted to \$8 million. This was recorded within note 8 of the condensed consolidated interim 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 30 June 2019, the fair value of conversion option of \$23 million was determined with reference to the quoted market price and is presented within note 11 of the condensed consolidated interim financial statements. In the second quarter of 2019, the overall loss from the conversion option amounted to \$11 million compared to \$8 million loss recognised in the first quarter of 2019.

PROFIT BEFORE TAX & INCOME TAXES

In the second quarter of 2019, profit before tax decreased to \$508 million compared to \$629 million in the previous reporting period. This was primarily driven by lower foreign exchange gains in the reporting period. Income tax amounted to \$89 million, resulting in an effective income tax rate of 18%.

NET PROFIT

In the second quarter of 2019, net profit totaled \$419 million, compared to net profit of \$528 million in the first quarter. The net profit decrease reflects the impact of non-cash items.

¹⁸ For additional information on revenue stabiliser, cross-currency and interest rate swaps, see Note 11 of the condensed consolidated interim financial statements.

Adjusted net profit calculation

\$ million	2Q 2019	1Q 2019	Q-o-Q	1H 2019	1H 2018	Y-o-Y
Net profit for the period	419	528	(21%)	947	358	N.A.
impairment	-	1	(100%)	1	27	(96%)
loss/(gain) on derivative financial instruments and investments, net	9	(97)	N.A.	(88)	53	N.A.
foreign exchange (gain) / loss, net	(63)	(189)	(67%)	(252)	242	N.A.
Adjusted net profit	365	243	50%	608	680	(11%)
Total revenue	897	751	19%	1,648	1,309	26%
Adjusted net profit margin	41%	32%	9 ppts	37%	52%	(15) ppts

Statement of financial position review
DEBT

The Company's gross debt increased to \$4,888 million, compared to \$4,572 million as at the end of the first quarter of 2019. In April 2019, the Company repaid the principal amount on credit facilities nominated in RUB and liabilities under cross-currency swaps totalling \$1 billion, utilizing a RUB 65 billion credit facility with Sberbank due in 2024. In addition, Polyus utilised a portion of cash on balance, totalling \$250 million, which was secured for the Sberbank 2023 loan prepayment, to fully redeem it in April 2019.

As at 30 June 2019, the Company's cash and cash equivalents stood at \$1,249 million (31 March 2019: \$1,561 million). Among other factors, the change in cash position reflects a dividend payout for the second half of 2018 in the amount of \$295 million.

The estimated net debt position increased compared to the previous quarter and amounted to \$3,639 million (31 March 2019: \$3,011 million) mainly due to the repayment of the aforementioned derivative liabilities amounting to \$472 million.

The share of fixed-rate liabilities within the Company's debt portfolio stood at 72% as at the end of second quarter of 2019.

As of 30 June 2019, the group recognised the lease liability in the amount of \$83 million, which is discussed further within note 2 of the condensed consolidated interim financial statements. This follows the introduction of IFRS 16 "Leases" approved by the International Accounting Standard Board.

Debt breakdown by type¹⁹

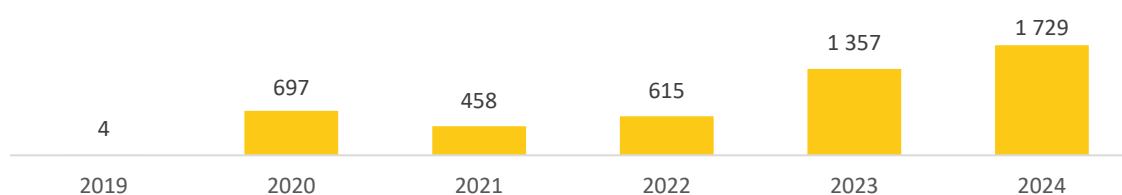
\$ million	30 June 2019	31 March 2019	31 December 2018	30 June 2018
Eurobonds	2,406	2,405	2,404	2,531
Convertible bonds	191	188	186	183
RUB bonds	240	234	218	242
Lease	83	71	10	12
Bank loans	1,968	1,674	1,164	1,148
Total	4,888	4,572	3,982	4,116

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

Debt breakdown by currency

	30 June 2019		31 March 2019		31 December 2018		30 June 2018	
	\$ million	% of total	\$ million	% of total	\$ million	% of total	\$ million	% of total
RUB	1,594	33%	1,072	23%	762	19%	849	21%
USD	3,294	67%	3,500	77%	3,220	81%	3,267	79%
Total	4,888	100%	4,572	100%	3,982	100%	4,116	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.

Debt maturity schedule (as at 30 June 2019)¹⁹, \$ million

CASH AND CASH EQUIVALENTS AND BANK DEPOSITS

As of the end of the second quarter 2019, the group's cash and cash equivalents and bank deposits totaled \$1,249 million, down 20% compared to the end of the first quarter of 2019. Among other factors, the change in cash position reflects a dividend payout for the second half of 2018 in the amount of \$295 million.

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

Cash, cash equivalents and bank deposits breakdown by currency

\$ million	30 June 2019	31 March 2019	31 December 2018	30 June 2018
RUB	124	136	132	119
USD	1,125	1,425	764	789
Total	1,249	1,561	896	908

NET DEBT

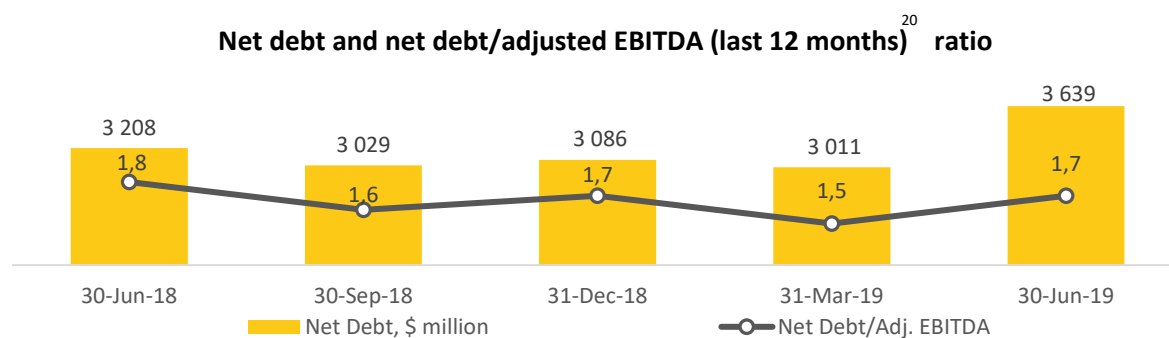
At the end of the second quarter of 2019, the group's net debt amounted to \$3,639 million, up 21% compared to the end of the first quarter.

Net debt calculation

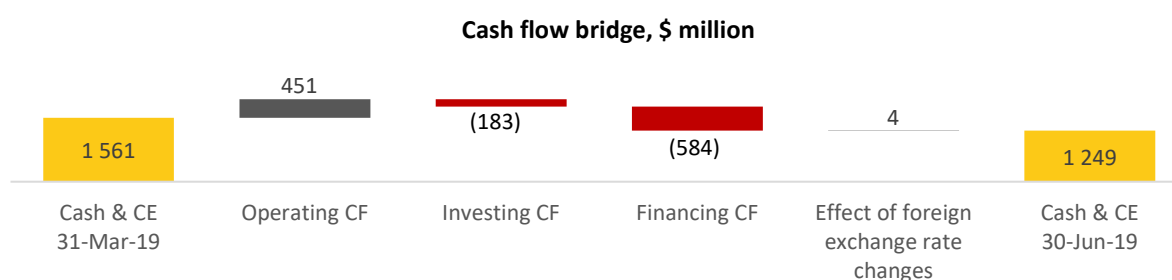
\$ million	30 June 2019	31 March 2019	31 December 2018	30 June 2018
Non-current borrowings	4,192	4,558	3,975	3,574
+ Current borrowings	696	14	7	542
– Cash and cash equivalents	(1,249)	(1,561)	(896)	(908)
Net debt	3,639	3,011	3,086	3,079

¹⁹ The breakdown is based on actual maturities and excludes \$49 million of banking commissions and deduction of conversion option component of convertible bonds and the lease liabilities recognised under IFRS 16 as of 30 June 2019 in amount of \$83 million.

The net debt/adjusted EBITDA ratio increased to 1.7x compared to 1.5x in the first quarter 2019, reflecting an increase in the net debt, following the repayment of derivative liabilities in the reporting period and dividend payments for the second half of 2018.



Statement of cash flows review



In the second quarter, net cash generated from operations was \$451 million, compared to \$438 million in the first quarter. Net cash utilised in investing activities increased to \$183 million compared to \$170 million in the previous quarter, reflecting higher capex during the reporting period. Net cash outflow from financing activities totaled \$584 million compared to \$391 million of cash inflow in the prior period, mainly due to repayment of derivative liabilities in the reporting period.

OPERATING CASH FLOW

In the second quarter of 2019, the group generated operational cash flow of \$451 million, which was negatively impacted by a working capital outflow of \$105 million. This figure primarily reflects an inventory accumulation of ore stockpiles at Olimpiada and Natalka, as well as increased stocks of fuel and chemical reagents at Olimpiada and seasonal deferred expenditures at Alluvials. In addition, an increase in receivables related to sales of antimony-rich flotation concentrate and merchant gold containing flotation concentrate also impacted a working capital outflow during the reporting period.

²⁰ Net debt to Adjusted EBITDA ratio is calculated as net debt as of the end of the relevant period divided by Adjusted EBITDA for the relevant period. For the purpose of the net debt to Adjusted EBITDA ratio as of 30 June 2019, Adjusted EBITDA is calculated as the trailing twelve months ended on 30 June 2019 (being Adjusted EBITDA for 2018 less Adjusted EBITDA for the six months ended 30 June 2018 plus Adjusted EBITDA for the six months ended 30 June 2019). For the purpose of the net debt to Adjusted EBITDA ratio as of 31 March 2019, Adjusted EBITDA is calculated as the trailing twelve months ended on 31 March 2019 (being Adjusted EBITDA for 2018 less Adjusted EBITDA for the three months ended 31 March 2018 plus Adjusted EBITDA for the three months ended 31 March 2019). For the purpose of the net debt to Adjusted EBITDA ratio as of 30 September 2018, Adjusted EBITDA is calculated as the trailing twelve months ended on 30 September 2018 (being Adjusted EBITDA for 2017 less Adjusted EBITDA for the nine months ended 30 September 2017 plus Adjusted EBITDA for the nine months ended 30 September 2018). For the purpose of the net debt to Adjusted EBITDA ratio as of 30 June 2018, Adjusted EBITDA is calculated as the trailing twelve months ended on 30 June 2018 (being Adjusted EBITDA for 2017 less Adjusted EBITDA for the six months ended 30 June 2017 plus Adjusted EBITDA for the six months ended 30 June 2018).

INVESTING CASH FLOW

In the second quarter of 2019, capital expenditures (“capex”) increased to \$154 million, from \$99 million in the first quarter of 2019. This growth reflects higher capex spending across all business units.

Capital expenditures at Nataalka amounted to \$48 million in the second quarter compared to \$23 million in the previous period, reflecting progress on construction works at the Nataalka Mill’s auxiliary and infrastructure facilities. This includes dam filling at a new tailings facility, the construction of water intake wells and the installation of power supply systems at the fuel storage facility. The Company also completed the installation of tanks at the fuel storage facility during the reporting period.

The Company is continuing to work on achieving a gradual increase in recovery at Nataalka. In the reporting period, Polyus introduced two additional concentrators at the first stage of gravity separation and commissioned a CIC column and the fourth stage of gravity concentration.

Polyus plans to further debottleneck the first stage of gravity concentration by introducing a further two Knelson concentrators. The Company has also approved the roll out of flash flotation technology at the Nataalka Mill and anticipates the commissioning of flash flotation units in 2020.

At Olimpiada, capital expenditures amounted to \$35 million in the second quarter compared to \$25 million in the first quarter. The Company continued its expansion of throughput at the mills to 13.4 mtpa as well as the upgrade of its mining fleet. In the reporting period, grade control drilling at the Vostochny pit increased significantly compared to the previous quarter.

At Blagodatnoye, capital expenditures amounted to \$12 million in the second quarter compared to \$6 million in the first quarter. The Company proceeds with the mill expansion project to reach throughput capacity of 9.0 million tonnes per annum. This includes the replacement of pumps at hydrocyclones, upgrade of the milling circuit as well as the engineering and design of tailings storage facility.

At Verninskoye, capital expenditures amounted to \$15 million in the second quarter compared to \$11 million in the first quarter due to the procurement of a TZ WK20 shovel and higher maintenance capital expenditures in the reporting period.

At Kuranakh, capital expenditures increased to \$10 million in the second quarter compared to \$4 million in the first quarter. Polyus completed the construction of an additional ore feeder and commissioned a thickener during the reporting period. Further mill’s throughput expansion to 5.8 mtpa is expected to be completed in 2020.

At Alluvials, capital expenditures amounted to \$6 million in the second quarter and consisted of ongoing replacement of worn-out equipment as well as the exploration activity.

IT-related capital expenditures amounted to \$9 million. The Company continues to implement the ERP programme and other IT related projects.

Capital expenditures at Sukhoi Log totaled \$8 million. Polyus is proceeding with the Pre-feasibility study. In the reporting period, the Company progressed with trade-off studies and together with international consultants, finalized studies on comminution, gravity and flotation circuits as well as the Mill’s optimal throughput capacity. In addition, the Company completed trade-off studies on mining equipment.

At the end of the second quarter of 2019, the Company had completed approximately 90% of the planned 223 thousand meters drilling campaign at Sukhoi Log. Following the completion of drilling activities, Polyus will focus on finalizing the assaying of samples and further data analytics. In line with the initial schedule, the Company expects to provide an update on Measured & Indicated Mineral Resources along with a Maiden estimate of Proven & Probable Ore Reserves for Sukhoi Log in the first half of 2020.

Capex breakdown²¹

\$ million	2Q 2019	1Q 2019	Q-o-Q	1H 2019	1H 2018	Y-o-Y
Nataika, including						
Purchase of equipment	-	-	N.A.	-	91	(100%)
Capitalisation of borrowing costs	-	-	N.A.	-	47	(100%)
Operating costs	-	-	N.A.	-	25	(100%)
Net proceeds from selling gold produced during the ramp-up period	-	-	N.A.	-	(17)	(100%)
Nataika, total	48	23	N.A.	71	146	(51%)
Olimpiada	35	25	40%	60	100	(40%)
Blagodatnoe	12	6	100%	18	51	(65%)
Verninskoye	15	11	36%	26	19	37%
Alluvials	6	5	20%	11	14	(21%)
Kuranakh	10	4	N.A.	14	23	(39%)
Sukhoi Log	8	6	33%	14	9	56%
IT Capex	9	9	-	18	13	38%
Other ²²	11	10	10%	21	26	(19%)
CAPEX	154	99	56%	253	401	(37%)
Omchak electricity transmitting line	6	7	(14%)	13	17	(24%)
Items capitalised ²³ , net	41	40	3%	81	15	N.A.
Change in working capital for purchase property, plant and equipment	(6)	7	N.A.	1	(18)	N.A.
Purchase of PP&E²⁴	195	153	27%	348	415	(16%)

In the second quarter, the total cash amount spent on the purchase of PP&E increased to \$195 million, compared to \$153 million in the previous quarter. This mainly reflects the respective increase in total capital expenditures outlined above. Other investing activities in the second quarter include \$12 million of interest received.

FINANCING CASH FLOW

In the second quarter, net financing cash outflow totaled \$584 million compared to \$391 million of cash inflow in the prior period.

DIVIDEND UPDATE

The Company's Board of Directors intends to recommend the dividends for the first half of 2019 ended 30 June 2019 in the total amount of \$328 million, representing 30% of the Company's EBITDA for the first half of 2019, in line with the Company's dividend policy. The rouble denominated dividend per share is expected to be announced on the 22nd of August. Based on the current number of shares (excluding treasury stock) dividend amount is expected to be \$2.46 per ordinary share or \$1.23 per depositary share. The dividend record date is expected to be in October 2019.

²¹ The capex above presents the capital construction-in-progress unit as allocated to other business units, whilst in the consolidated financial statements capital construction-in-progress is presented as a separate business unit.

²² Reflects expenses related to exploration business unit, IT projects and construction of Razdolinskaya-Taiga, Peleduy-Mamakan grid lines.

²³ Including capitalised stripping costs net of capitalised interest on loans and capitalised within capital construction-in-progress. For more details see Note 10 of the condensed consolidated interim financial statements.

²⁴ Presented net of the Sukhoi Log deposit license acquisition cost and payments to Rostec.

Going concern

The financial position of the Group, its cash flows, liquidity position, and borrowing facilities are set out in this MD&A on pages 17 to 21. As of 30 June 2019 the Group held \$1,249 million in cash and cash equivalents and bank deposits and had a net debt of \$3,639 million, with \$1,456 million of undrawn but committed credit facilities, subject to covenant compliance. Details on borrowings and credit facilities are disclosed in note 17 to the condensed consolidated interim financial statements. In assessing its going-concern status, the directors have considered the uncertainties affecting future cash flows and have taken into account its financial position, anticipated future trading performance, borrowings, and other available credit facilities, as well as its forecast compliance with the covenants on those borrowings and its capital expenditure commitments and plans. In the event of certain reasonably possible adverse pricing and forex scenarios and the risks and uncertainties below, management has within its control the option of deferring uncommitted capital expenditure, or managing the dividend payment profile to maintain the Group's funding position.

Having examined all the scenarios, the Directors concluded that no covenants will be breached in any of these adverse pricing scenarios for at least the next 12 months from the date of signing the consolidated interim financial statements. Accordingly, the Board is satisfied that the Group's forecasts and projections, having taken into account reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of signing the condensed consolidated interim financial statements.

Risks and uncertainties

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

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

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

The Directors do not believe that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 December 2018. Detailed explanation of the risks summarized below, together with the Group's risk mitigation plans, can be found on pages 32 to 34 of the 2018 Annual Report which is available at <http://www.polyus.com/upload/iblock/52e/polyus-annual-review-2018-eng-1.pdf>

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

Commodity price risk

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

Foreign exchange risk

As stated on page 7, the Group's revenue is linked to the USD, as the gold price is quoted in this currency. Thus the Group's strategy is to have mostly USD-denominated debt and to keep its cash and deposits in USD. As of 30 June 2019, 90% of the cash and cash equivalents and bank deposits of the Group were in USD – see page 18 of this MD&A for a detailed description. As part of this strategy, the Group entered into a number of cross-currency swaps with leading Russian banks economically to hedge interest payments and the exchange of the principal amounts (see page 16).

Interest rate risk

The Group is exposed to interest rate risk, as 25% of the Group's debt portfolio is made up of RUB floating rate borrowings. Fluctuations in interest rates may affect the Group's financial results.

Inflation risk

As stated on page 8, the Group's earnings are exposed to inflationary trends in Russia, and inflation negatively impacts the Group's earnings, increasing future operating costs. To mitigate rouble inflation risk, the Group estimates possible inflation levels and incorporates them into its cost planning; it has implemented cost reduction initiatives at its operations, and its treasury team is responsible for ensuring that the majority of cash and cash equivalents are held in USD.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of PJSC "Polyus" and its subsidiaries (collectively - the "Group") as at 30 June 2019 and the related condensed consolidated interim statements of profit or loss, comprehensive income for the three and six months then ended, condensed consolidated interim statements of changes in equity and cash flows for the six months then ended, and selected explanatory notes. Directors are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.


Olga Tabakova
Engagement partner

6 August 2019



The Entity: Public Joint Stock Company Polyus

Primary State Registration Number: 1068400002990

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

Address: 123104, Russian Federation, Moscow, Tverskoy bulvar, 15/1

Audit Firm: AO "Deloitte & Touche CIS"

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

Primary State Registration Number: 1027700425444

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

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

PJSC “Polyus”

**Condensed consolidated interim
financial statements**

*for the three and six months ended
30 June 2019 (unaudited)*

PJSC “POLYUS”

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

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

	Notes	Three months ended 30 June		Six months ended 30 June	
		2019	2018	2019	2018
Gold sales	5	886	683	1,627	1,291
Other sales		11	9	21	18
Total revenue		897	692	1,648	1,309
Cost of gold sales	6	(320)	(223)	(602)	(439)
Cost of other sales		(9)	(8)	(17)	(17)
Gross profit		568	461	1,029	853
Selling, general and administrative expenses	7	(67)	(48)	(128)	(100)
Other income / (expense), net		5	(28)	1	(36)
Operating profit		506	385	902	717
Finance costs, net	8	(64)	(39)	(127)	(93)
Interest income		12	4	22	11
(Loss) / gain on investments and revaluation of derivative financial instruments, net	9	(9)	(59)	88	(53)
Foreign exchange gain / (loss), net		63	(258)	252	(242)
Profit before income tax		508	33	1,137	340
Income tax (expense) / benefit		(89)	81	(190)	18
Profit for the period		419	114	947	358
Profit / (loss) for the period attributable to:					
Shareholders of the Company		417	110	949	357
Non-controlling interests		2	4	(2)	1
		419	114	947	358
Weighted average number of ordinary shares '000					
- for basic earnings per share		133,196	132,339	132,835	132,162
- for dilutive earnings per share		135,391	136,031	134,988	136,019
Earnings per share (US Dollar)					
- basic		3.13	0.83	7.14	2.70
- dilutive		3.15	0.74	7.14	2.54

PJSC “POLYUS”

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

(in millions of US Dollars)

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Profit for the period	419	114	947	358
Other comprehensive income / (loss) for the period				
<i>Items that may be subsequently reclassified to profit or loss:</i>				
Effect of translation to presentation currency	27	(67)	69	(66)
Other comprehensive income / (loss) for the period	27	(67)	69	(66)
Total comprehensive income for the period	446	47	1,016	292
Total comprehensive income / (loss) for the period attributable to:				
Shareholders of the Company	441	50	1,009	298
Non-controlling interests	5	(3)	7	(6)
	446	47	1,016	292

PJSC “POLYUS”

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2019 (UNAUDITED) (in millions of US Dollars)

	Notes	30 Jun. 2019	31 Dec. 2018
Assets			
Non-current assets			
Intangible assets		90	73
Property, plant and equipment	10	4,367	3,720
Inventories	12	349	277
Deferred tax assets		133	120
Derivative financial instruments and investments	11	19	6
Other receivables		65	60
Other non-current assets		6	9
		5,029	4,265
Current assets			
Inventories	12	686	557
Deferred expenditure		39	14
Derivative financial instruments and investments	11	3	1
Advances paid to suppliers and prepaid expenses		40	30
Trade and other receivables	13	85	94
Taxes receivable	14	118	166
Cash and cash equivalents	15	1,249	896
		2,220	1,758
Total assets		7,249	6,023
Equity and liabilities			
Capital and reserves			
Share capital	16	5	5
Additional paid-in capital	16	1,946	1,949
Treasury shares	16	(20)	(67)
Translation reserve		(2,758)	(2,824)
Retained earnings		1,938	1,300
Equity attributable to shareholders of the Company		1,111	363
Non-controlling interests		91	87
		1,202	450
Non-current liabilities			
Borrowings	17	4,192	3,975
Derivative financial instruments	11	88	118
Deferred revenue	18	125	117
Deferred consideration	19	116	168
Deferred tax liabilities		259	207
Site restoration, decommissioning and environmental obligations		53	40
Other non-current liabilities		41	29
		4,874	4,654
Current liabilities			
Borrowings	17	696	7
Derivative financial instruments	11	7	510
Deferred consideration	19	56	57
Trade and other payables	20	334	289
Taxes payable	21	80	56
		1,173	919
Total liabilities		6,047	5,573
Total equity and liabilities		7,249	6,023

PJSC “POLYUS”

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

(in millions of US Dollars)

Notes	Number of outstanding shares'000	Equity attributable to shareholders of the Company						Total	Non- controlling interests	Total
		Share capital	Additional paid-in capital	Treasury shares	Other reserves	Translation reserve	Retained earnings			
Balance at 31 December 2017	131,924	5	1,948	(89)	(2)	(2,723)	1,425	564	92	656
Profit for the period	-	-	-	-	-	-	357	357	1	358
Effect of translation to presentation currency	-	-	-	-	-	(59)	-	(59)	(7)	(66)
Total comprehensive income / (loss)	-	-	-	-	-	(59)	357	298	(6)	292
Equity-settled share-based payment plans (LTIP), net of tax	-	-	4	-	-	-	-	4	-	4
Exercise of the first performance period under LTIP 2016	415	-	(17)	22	-	-	(6)	(1)	-	(1)
Increase ownership in subsidiaries	-	-	-	-	-	-	-	-	(2)	(2)
Dividends declared to shareholders of non-controlling interests	-	-	-	-	-	-	-	-	(2)	(2)
Dividends declared to shareholders of the Company	-	-	-	-	-	-	(311)	(311)	-	(311)
Balance at 30 June 2018	132,339	5	1,935	(67)	(2)	(2,782)	1,465	554	82	636
Balance at 31 December 2018	132,339	5	1,949	(67)	-	(2,824)	1,300	363	87	450
Profit / (loss) for the period	-	-	-	-	-	-	949	949	(2)	947
Effect of translation to presentation currency	-	-	-	-	-	60	-	60	9	69
Total comprehensive income	-	-	-	-	-	60	949	1,009	7	1,016
Equity-settled share-based payment plans (LTIP), net of tax	16	-	9	-	-	-	-	9	-	9
Exercise of the second performance period under LTIP 2016	16	487	(18)	27	-	3	(15)	(3)	-	(3)
Purchase of additional ownership in SL Gold through issuance of treasury shares	19	370	6	20	-	3	-	29	-	29
Dividends declared to shareholders of non-controlling interests	-	-	-	-	-	-	-	-	(3)	(3)
Dividends declared to shareholders of the Company	16	-	-	-	-	-	(296)	(296)	-	(296)
Balance at 30 June 2019	133,196	5	1,946	(20)	-	(2,758)	1,938	1,111	91	1,202

PJSC “POLYUS”

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

(in millions of US Dollars)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2019	2018	2019	2018
Operating activities					
Profit before income tax		508	33	1,137	340
Adjustments for:					
Finance costs, net	8	64	39	127	93
Interest income		(12)	(4)	(22)	(11)
Loss / (gain) on investments and revaluation of derivative financial instruments, net	9	9	59	(88)	53
Depreciation and amortisation	10	85	43	167	86
Foreign exchange (gain) / loss, net		(63)	258	(252)	242
Other		11	24	19	27
		602	452	1,088	830
Movements in working capital					
Inventories		(62)	(27)	(116)	(72)
Deferred expenditure		(8)	(11)	(23)	(29)
Trade and other receivables		(10)	(12)	15	34
Advances paid to suppliers and prepaid expenses		-	1	(11)	(6)
Taxes receivable		(16)	-	(9)	7
Trade and other payables and accrued expenses		(7)	(13)	20	(11)
Taxes payable		(2)	2	(6)	(31)
Cash flows from operations		497	392	958	722
Income tax paid		(46)	(16)	(69)	(85)
Net cash generated from operating activities		451	376	889	637
Investing activities¹					
Purchase of property, plant and equipment (excluding purchase of additional ownership in LLC SL Gold and construction of the Omchak high-voltage power grid)		(189)	(207)	(335)	(398)
Purchase of additional ownership in LLC SL Gold	19	-	-	(28)	-
Payments for the Omchak high voltage power grid	5	(6)	(8)	(13)	(17)
Interest received		12	4	22	11
Other		-	-	1	2
Net cash utilised in investing activities		(183)	(211)	(353)	(402)
Financing activities¹					
Proceeds from borrowings		515	70	989	1,045
Repayment of borrowings		(252)	(46)	(253)	(1,116)
Interest paid		(57)	(43)	(137)	(127)
Commissions on borrowings paid		-	(7)	(5)	(17)
Payments on initial exchange of principal amounts under cross currency swaps		(27)	-	(27)	-
Payments on expiration of cross-currency swaps		(472)	-	(472)	-
Repayments of lease liability		(4)	(1)	(7)	(2)
Net proceeds on exchange of interest payments under cross currency rate swaps	8	7	5	13	15
Net proceeds on exchange of interest payments under interest rate swaps	8	1	1	1	1
Increase of ownership in subsidiaries		-	(2)	-	(2)
Dividends paid to shareholders of the Company		(295)	(293)	(295)	(293)
Net cash utilised in financing activities		(584)	(316)	(193)	(496)
Net (decrease) / increase in cash and cash equivalents		(316)	(151)	343	(261)
Cash and cash equivalents at the beginning of the period	15	1,561	1,095	896	1,204
Effect of foreign exchange rate changes on cash and cash equivalents		4	(36)	10	(35)
Cash and cash equivalents at the end of the period	15	1,249	908	1,249	908

¹ Significant non-cash transactions relating to investing and financing activities are disclosed in the notes 2.4 and 19 to these condensed consolidated interim financial statements.

PJSC “POLYUS”

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

(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 24.

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 30 June 2019 and 31 December 2018, the ultimate controlling party of the Company was Mr. Said Kerimov.

2. BASIS OF PREPARATION AND PRESENTATION

2.1. Going concern

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

2.2. Compliance with the International Financial Reporting Standards

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”). Accordingly, the condensed consolidated interim financial statements do not include all information and disclosures required for a complete set of financial statements, and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2018.

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 condensed consolidated interim financial statements are presented in accordance with IFRS.

The condensed consolidated interim 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.

PJSC “POLYUS”

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

(in millions of US Dollars)

2.4. IFRS standards first time applied in 2019

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

<u>Title</u>	<u>Subject</u>	<u>Effective for annual periods beginning on or after</u>	<u>Effect on the condensed consolidated interim financial statements</u>
IFRS 16	<i>Leases</i>	1 January 2019	For the effect see below
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation and modifications of financial liabilities</i>	1 January 2019	No effect
IFRIC 23	<i>Uncertainty over Income Tax Treatment</i>	1 January 2019	No effect
Amendments IAS 12	<i>Income tax consequences of dividends</i>	1 January 2019	No effect
Amendments IAS 19	<i>Plan Amendments, Curtailment and Settlement</i>	1 January 2019	No effect
Amendments IAS 23	<i>Treatment of borrowings after the related asset is ready for its intended use or sale</i>	1 January 2019	No effect

IFRS 16

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

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate which is determined based on observable market inputs which are classified as Level 2 in accordance with the hierarchy of fair value (yield to maturity for bonds traded on the active market and adjusted for LIBOR spreads and credit risks).

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented within *Borrowings* in the condensed consolidated interim statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

PJSC “POLYUS”

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

(in millions of US Dollars)

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make such adjustments during the current reporting period as there were no such modifications.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated on a straight-line basis over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

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

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

Transition to IFRS 16

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

- In these condensed consolidated interim financial statements for the six months ended 30 June 2019, the Group has not restated comparative information for the six months ended 30 June 2018 and as of 31 December 2018;
- As of 1 January 2019, the Group recognised a lease liability in the amount of USD 63 million, calculated as net present value of the remaining lease payments (as of the application date), discounted using the Group's weighted average incremental borrowing rate of 5.15% as of 1 January 2019;
- As of 1 January 2019, the Group recognised an asset in the form of a right-of-use in the amount of USD 64 million;
- The Group applies IAS 36 Impairment of Assets to an asset in the form of a right-of-use. As of 1 January 2019, no such indicators of impairment were identified.

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

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

PJSC “POLYUS”

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

(in millions of US Dollars)

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

- With variable lease payments that do not depend on index or a rate; and
- Those to explore for or use minerals and similar non-regenerative resources (note 23).

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

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

Right-of-use assets

Movements of the right-of-use assets for the six months ended 30 June 2019 are as follows:

	Related party transactions	Non-related party transaction	Total
Rights-of-use assets as of 1 January 2019 (including USD 4 million of assets previously recognised under IAS 17)	59	9	68
Additions	-	13	13
Depreciation charge	(2)	(2)	(4)
Effect of translation to presentation currency	3	4	7
Right-of-use assets as of 30 June 2019	60	24	84

The most significant leases of the Group are office leases.

Lease liabilities

Movements of the lease liabilities for the six months ended 30 June 2019 are as follows:

	Related party transactions	Non-related party transaction	Total
Lease liabilities as of 1 January 2019	58	15	73
New lease contracts	-	14	14
Forex	(5)	(1)	(6)
Interest on lease liabilities	2	-	2
Repayments of lease liability	(3)	(4)	(7)
Effect of translation to presentation currency	2	5	7
Lease liabilities as of 30 June 2019	54	29	83

PJSC “POLYUS”

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

(in millions of US Dollars)

Maturity profile of lease liabilities

Future minimum undiscounted lease payments due under lease agreements as of 30 June 2019 were as follows:

	Related party transactions	Non-related party transaction	Total
Due within one year	6	7	13
From one to five years	28	31	59
Thereafter	40	-	40
Total	74	38	112

Lease expenses

Lease expenses for the three and six months ended 30 June 2019 includes the following components:

	Three months ended 30 June 2019	Six months ended 30 June 2019
Expenses for lease with variable lease payments that do not depend on index or a rate	1	2
Other	-	1
Sub-total	1	3
Interest on lease liabilities	-	2
Depreciation of rights-of-use assets	3	4
Sub-total	3	6
Total lease expenses	4	9

2.5. IFRS standards to be applied after 2019

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

Title	Subject	Effective for annual periods beginning on or after	Expected effect on the condensed consolidated interim financial statements
Amendment IFRS 3	<i>Business Combinations</i>	1 January 2020	No effect
Amendments IAS 1 and IAS 8	<i>Definition of Material</i>	1 January 2020	No effect
Amendments to References to the Conceptual Framework in IFRS Standards	<i>Updates of references to or from the Conceptual Frameworks to the IFRS standards</i>	1 January 2020	No effect
IFRS 17	<i>Insurance Contracts</i>	1 January 2021	No effect

3. SIGNIFICANT ACCOUNTING POLICIES

The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated interim financial statements as were applied in the Group's audited consolidated financial statements for the year ended 31 December 2018, except for changes introduced by the adoption of new accounting standard on leases as described in Note 2.4.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The critical accounting judgements, estimates and assumptions made by management of the Group and applied in the accompanying condensed consolidated interim financial statements for the three and six months ended 30 June 2019 are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2018.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

(in millions of US Dollars)

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.
- **Natalka business unit** (Magadan region of the Russian Federation) – mining (including initial processing) and sale of gold from the Natalka mine, as well as research, exploration and development work at the Natalka deposit. Construction of the Omchak high-voltage power grid is not included within this segment, as it is funded by a government grant (note 18).
- **Verninskoye business unit** (Irkutsk region of the Russian Federation) – mining (including initial processing) and sale of gold from the Verninskoye mine, research, exploration and development works at the Smezhny and Medvezhy Zapadny deposits.
- **Kuranakh business unit** (Sakha Republic of the Russian Federation) – mining (including initial processing) and sale of gold from the Kuranakh mines.
- **Alluvials business unit** (Irkutsk region of the Russian Federation) – mining (including initial processing) and sale of gold from several alluvial deposits.
- **Exploration business unit** (Krasnoyarsk, Irkutsk, Amur and other regions of the Russian Federation) – 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, Natalka and other deposits.
- **Sukhoi Log business unit** (Irkutsk region of the Russian Federation) – represented by LLC SL Gold which performs exploration and evaluation works at the Sukhoi Log deposit.
- **Unallocated** – the Group does not allocate segment results of companies that perform management, investing activities and certain other functions. Neither standalone results nor the aggregated results of these companies are significant enough to be disclosed as operating segments because quantitative thresholds are not met.

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

- Gold sales;
- Ounces of gold sold, in thousands;
- Adjusted earnings before interest, tax, depreciation and amortisation and other items (Adjusted EBITDA);
- Total cash cost;
- 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 condensed consolidated interim financial statements.

PJSC “POLYUS”

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

(in millions of US Dollars)

	<u>Gold sales</u>	<u>Ounces of gold sold in thousands²</u>	<u>Adjusted EBITDA</u>	<u>Total cash costs</u>	<u>TCC (USD per ounce)²</u>	<u>Capital expenditure</u>
For the three months ended 30 June 2019						
Business units						
Olimpiada	443	348	325	104	297	35
Blagodatnoye	142	109	95	43	395	12
Natalka	115	87	71	32	372	48
Verninskoye	81	61	52	22	362	15
Kuranakh	66	50	34	26	524	10
Alluvials	39	30	14	23	782	6
Exploration	-	-	-	-	-	2
Capital construction	-	-	(1)	-	-	1
Sukhoi Log	-	-	-	-	-	8
Unallocated	-	-	14	(10)	-	17
Total	886	685	604	240	352	154
For the three months ended 30 June 2018						
Business units						
Olimpiada	393	308	278	93	302	64
Blagodatnoye	133	102	89	37	368	34
Natalka	-	-	1	-	-	64
Verninskoye	70	53	44	20	368	9
Kuranakh	57	44	29	22	516	14
Alluvials	30	24	8	16	691	8
Exploration	-	-	-	-	-	3
Capital construction	-	-	(1)	-	-	4
Sukhoi Log	-	-	-	-	-	4
Unallocated	-	-	9	(5)	-	15
Total	683	531	457	183	345	219
For the six months ended 30 June 2019						
Business units						
Olimpiada	798	623	576	187	300	60
Blagodatnoye	272	208	179	83	394	18
Natalka	227	172	136	68	397	71
Verninskoye	168	128	111	45	352	26
Kuranakh	123	94	62	49	528	14
Alluvials	39	30	11	23	783	11
Exploration	-	-	-	-	-	3
Capital construction	-	-	(2)	-	-	4
Sukhoi Log	-	-	-	-	-	14
Unallocated	-	-	19	(10)	-	32
Total	1,627	1,255	1,092	445	355	253
For the six months ended 30 June 2018						
Business units						
Olimpiada	720	557	500	178	319	100
Blagodatnoye	273	207	185	73	355	51
Natalka	-	-	2	-	-	146
Verninskoye	149	112	94	44	393	19
Kuranakh	119	90	60	48	538	23
Alluvials	30	24	5	16	692	14
Exploration	-	-	-	-	-	4
Capital construction	-	-	(1)	-	-	8
Sukhoi Log	-	-	-	-	-	9
Unallocated	-	-	(1)	-	-	27
Total	1,291	990	844	359	363	401

² Unaudited and not reviewed

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(in millions of US Dollars)

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

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Profit for the period	419	114	947	358
Income tax expense / (benefit)	89	(81)	190	(18)
Depreciation and amortisation (note 10)	85	43	167	86
Finance costs, net (note 8)	64	39	127	93
Equity-settled share-based plans (LTIP) (note 16)	7	2	13	5
Foreign exchange (gain) / loss, net	(63)	258	(252)	242
Loss / (gain) on investments and revaluation of derivative financial instruments (note 9)	9	59	(88)	53
Interest income	(12)	(4)	(22)	(11)
Special charitable contributions	5	1	8	9
Impairment	-	26	1	27
Loss on disposal of property, plant and equipment	1	-	1	-
Adjusted EBITDA	604	457	1,092	844

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

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Cost of gold sales before by-product	328	228	614	444
Antimony by-product sales	(8)	(5)	(12)	(5)
Cost of gold sales	320	223	602	439
<i>Adjusted for:</i>				
Depreciation and amortisation (note 10)	(81)	(56)	(153)	(109)
Effect of depreciation, amortisation, accrual and provisions in inventory change	1	16	(4)	29
TCC	240	183	445	359
Ounces of gold sold, in thousands ³	685	531	1,255	990
TCC per ounce of gold sold, USD per ounce³	352	345	355	363

Gold sales

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Refined gold	825	650	1,543	1,246
Other gold-bearing products	61	33	84	45
Total	886	683	1,627	1,291

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales and no realised gains on derivatives during the three and six months ended 30 June 2019 and 2018.

Gold sales in the Alluvial business unit are more heavily weighted towards the second half of the calendar year, with all annual sales usually occurring from May until October.

³ Unaudited and not reviewed

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Reconciliation of capital expenditure to the property plant and equipment additions (note 10) is presented below:

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Capital expenditure	154	219	253	401
Construction of the Omchak high-voltage power grid	6	8	13	17
Stripping activity assets additions (note 10)	63	50	126	99
Right-of-use assets additions (note 2.4)	13	-	13	-
Less: intangible and other non-current assets additions	(9)	(10)	(13)	(16)
Property plant and equipment additions (note 10)	227	267	392	501

Capital expenditure are primarily related to the following projects:

- **Natalka:** the assay lab was put into operation; ongoing construction on the infrastructure facilities, including earth works for the starter dam on Zimny creek at the main tailing storage facility, completion of tank installations at the fuel warehouse, completion of construction and pre-commissioning of additional water wells and completion of the stand-by diesel power plant complex; WK-20 shovel was delivered, assembly was in progress.
- **Olimpiada:** expansion of mill throughput to 13.4 mtpa was ongoing (flash-flotation, alkaline leaching section, mill replacement at Mill-3); design works on the modernization of bacterial oxidation units were initiated; delivery of the mining fleet continued; bulk drilling rigs PV-351 were delivered and placed into service; ongoing grade control drilling at the Vostochny pit.
- **Blagodatnoye:** further works on mill expansion to 9 mtpa were in progress (pump replacements, upgrade of the concentrate milling process stage); engineering and design for the tailings storage facility was ongoing.
- **Kuranakh:** new thickener was commissioned; assembly of an additional feeder was completed as part of the ore stock yard reconstruction; a new adsorption line was commissioned under the mill's throughput expansion to 5.8 mtpa.
- **Verninskoye:** the following works related to the mill's expansion to 3.5 mtpa were initiated: site vertical planning, removal of in-site engineering lines, foundation concreting; the TZ WK20 shovel was delivered as part of the next stage of mine development.

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

6. COST OF GOLD SALES

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Employee compensation	87	64	155	120
Consumables and spares	77	53	140	106
Depreciation and amortisation of operating assets (note 10)	81	56	153	109
Tax on mining	44	39	81	73
Fuel	31	18	59	35
Power	13	8	28	17
Other	21	9	40	28
Total cost of production	354	247	656	488
Increase in stockpiles, gold-in-process and refined gold inventories	(34)	(24)	(54)	(49)
Total	320	223	602	439

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(in millions of US Dollars)

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Employee compensation	41	31	82	68
Distribution expenses related to gold-bearing products	6	3	9	6
Taxes other than mining and income taxes	4	3	9	6
Professional services	3	2	4	4
Depreciation and amortisation (note 10)	5	2	10	4
Other	8	7	14	12
Total	67	48	128	100

8. FINANCE COSTS, NET

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Interest on borrowings	77	67	141	139
Interest on lease liabilities	-	-	2	-
Gain on an early redemption of financial liabilities	-	(2)	-	(2)
Unwinding of discounts	4	3	7	7
Gain on debt modification	(10)	-	(10)	-
Bank commission and write-off of unamortised debt cost due to early extinguishment	1	-	1	11
Gain on exchange of interest payments under cross currency swaps	(7)	(5)	(13)	(15)
Gain on exchange of interest payments under interest rate swaps	(1)	(1)	(1)	(1)
Sub-total finance cost, net	64	62	127	139
Interest included in the cost of qualifying assets	-	(23)	-	(46)
Total	64	39	127	93

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

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Revaluation gain / (loss) on cross currency swaps	20	(120)	110	(107)
Revaluation (loss) / gain on revenue stabiliser	(14)	47	3	36
Revaluation loss on interest rate swaps	(4)	(1)	(6)	(1)
Revaluation (loss) / gain on conversion option (note 11)	(11)	15	(19)	19
Total	(9)	(59)	88	(53)

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(in millions of US Dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	Fixed assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
Cost						
Balance at 31 December 2017	2,014	1,876	522	335	592	5,339
Additions	-	163	99	224	15	501
Transfers	162	-	-	(162)	-	-
Change in site restoration, decommissioning and environmental obligations	(1)	-	-	-	-	(1)
Disposals	(16)	(16)	(26)	(1)	-	(59)
Effect of translation to presentation currency	(174)	(163)	(46)	(29)	(49)	(461)
Balance at 30 June 2018	1,985	1,860	549	367	558	5,319
Balance at 31 December 2018	3,467	-	611	600	532	5,210
Recognition of right-of-use assets at the transition date according to IFRS 16 (note 2.4)	64	-	-	-	-	64
Balance at 1 January 2019 after transition to IFRS 16	3,531	-	611	600	532	5,274
Additions	13	-	126	225	28	392
Transfers	190	-	-	(190)	-	-
Change in site restoration, decommissioning and environmental obligations	8	-	-	-	-	8
Disposals	(23)	-	-	(2)	-	(25)
Effect of translation to presentation currency	363	-	67	62	56	548
Balance at 30 June 2019	4,082	-	804	695	616	6,197
Accumulated amortisation, depreciation and impairment						
Balance at 31 December 2017	(1,120)	(13)	(158)	(11)	(32)	(1,334)
Charge	(96)	-	(51)	-	-	(147)
Disposals	15	16	26	-	-	57
Impairment	-	(26)	-	-	-	(26)
Effect of translation to presentation currency	97	1	13	1	3	115
Balance at 30 June 2018	(1,104)	(22)	(170)	(10)	(29)	(1,335)
Balance at 31 December 2018	(1,192)	-	(222)	(49)	(27)	(1,490)
Charge	(173)	-	(30)	-	-	(203)
Disposals	20	-	-	-	-	20
Impairment	-	-	-	(1)	-	(1)
Effect of translation to presentation currency	(126)	-	(22)	(6)	(2)	(156)
Balance at 30 June 2019	(1,471)	-	(274)	(56)	(29)	(1,830)
Net book value at						
31 December 2017	894	1,863	364	324	560	4,005
30 June 2018	881	1,838	379	357	529	3,984
31 December 2018 before transition to IFRS 16	2,275	-	389	551	505	3,720
1 January 2019 after transition to IFRS 16	2,339	-	389	551	505	3,784
30 June 2019	2,611	-	530	639	587	4,367

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(in millions of US Dollars)

Mineral rights

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

	30 Jun. 2019	31 Dec. 2018
Mineral rights presented within:		
- fixed assets	73	67
- exploration and evaluation assets	405	370
Total	478	437

Exploration and evaluation assets

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

	30 Jun. 2019	31 Dec. 2018
Sukhoi Log	430	377
Chertovo Koryto	29	26
Razdolinskoye	27	24
Panimba	18	16
Olimpiada	18	12
Bamsky	17	15
Natalka	15	7
Smezhny	10	9
Burgakhchan area	11	9
Blagodatnoye	7	7
Medvezhy Zapadny	2	2
Other	3	1
Total	587	505

Amounts related to Sukhoi Log license were capitalised as follows:

Balance at 31 December 2018	377
Additions	14
Effect of translation to presentation currency	39
Balance at 30 June 2019	430

Depreciation and amortisation charges are allocated as follows:

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Cost of gold sales	78	40	154	80
Depreciation in change in inventory	3	16	(1)	29
Depreciation and amortisation within cost of production (note 6)	81	56	153	109
Capitalised within property, plant and equipment	20	18	43	38
Selling, general and administrative expenses (note 7)	5	2	10	4
Cost of other sales	2	1	3	2
Total depreciation and amortisation	108	77	209	153
Less: amortisation of intangible and other non-current assets	(3)	(4)	(6)	(6)
Total depreciation of property, plant and equipment	105	73	203	147

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11. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS

	30 Jun. 2019	31 Dec. 2018
Non-current derivative financial assets and investments		
Cross currency swaps	19	1
Interest rate swaps	-	5
Total non-current derivative financial assets and investments	19	6
Current derivative financial assets and investments		
Interest rate swaps	3	-
Cross currency swaps	-	1
Total current derivative financial assets and investments	3	1
Total derivative financial assets and investments	22	7
Non-current derivative financial liabilities		
Cross currency swaps	41	96
Revenue stabiliser	19	16
Conversion option on convertible bonds	23	4
Interest rate swaps	5	2
Total non-current derivative financial liabilities	88	118
Current derivative financial liabilities		
Cross currency swaps	1	500
Interest rate swaps	1	-
Revenue stabiliser	5	10
Total current derivative financial liabilities	7	510
Total derivative financial liabilities	95	628

Revenue stabiliser

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

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. In 2019, the Group entered into new revenue stabiliser agreements for 100 thousand ounces.

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 (loss) / gain on revenue stabiliser*.

As of 30 June 2019, the remaining revenue stabiliser options have the following summarised terms:

	From 1 July 2019 to 31 March 2020	
	Put options	Call options
Volume, thousand ounces	645	770
Average strike, USD per ounce	988	1,409
Average knock-in/out barrier, USD per ounce	930	1,603

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

Cross currency swaps

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

In March 2019 the Group entered into new cross currency swap agreements with leading Russian banks to economically hedge interest payments and principal amounts nominated in RUB.

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In April-May 2019, the Group amended previous cross currency contracts and entered into new swap to fix interest rates, so that the following terms were in place as of 30 June 2019:

- The Group semi-annually pays to the banks LIBOR + 4.45% for RUB 10 billion and 5.9% for RUB 5.3 billion in USD and receives from the banks 12.1% in RUB; and at maturity (July 2021) the Group will exchange principal amounts paying USD 255 million and receiving RUB 15.3 billion;
- At 5 March 2019 the Group exchanged principal amounts paying RUB 8,225 million and receiving USD 125 million. The Group starting from 12 March 2019 will quarterly pay to the banks 5.09% in USD and receive from the banks MosPrime 3m + 0.2% in RUB; and at maturity (12 March 2024) the Group will exchange principal amounts paying USD 125 million and receiving RUB 8,225 million.
- At 13 March 2019 the Group exchanged principal amounts paying RUB 8,169 million and receiving USD 125 million. The Group starting from 14 March 2019 will quarterly pay to the banks 4.99% in USD and receive from the banks 9.35% in RUB; and at maturity (14 March 2024) the Group will exchange principal amounts paying USD 125 million and receiving RUB 8,169 million.
- The Group starting from 9 July 2019 quarterly pays to the banks 5.00% in USD and receives from the banks MosPrime 3m - 0.45% in RUB; and at maturity (9 April 2024) the Group will exchange principal amounts paying USD 965 million and receiving RUB 64,801 million.

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

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

Interest rate swaps

In February 2019 the Group entered into new interest rate swap agreements to swap interest payments on Pre-Export Finance facility agreement from variable into fixed. The Group will monthly pay 2.425%-2.44% and receive LIBOR until maturity from March 2023 to February 2024.

Additionally, as of 30 June 2019, the Group was a party to interest rate swap agreements, concluded in 2014 and 2016 according to which:

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

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

The Group accounts for the interest rate swaps at fair value through profit or loss. Changes in the fair value of the interest rate swaps are recognised within the *(Loss) / gain on investments and revaluation on derivative financial instruments, net* of the condensed consolidated interim 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 (forward USD LIBOR rates), which are observable in the market and are classified as Level 2 in accordance with the hierarchy of fair value.

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Conversion option on convertible bonds

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

As at 30 June 2019, the fair value of conversion option of USD 23 million was determined using a discounted cash flow valuation technique with the reference to the Group's credit spread, risk-free interest rate and share price volatility (Level 2 of the fair value hierarchy). The result of change in the fair value of the conversion option for the period is disclosed in note 9 under heading of *Revaluation (loss) / gain on conversion option*.

Adjustment for credit risk

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.

12. INVENTORIES

	30 Jun. 2019	31 Dec. 2018
Stockpiles	335	265
Gold-in-process	14	12
Inventories expected to be used after 12 months	349	277
Stockpiles	110	112
Gold-in-process	124	85
Antimony in gold-antimony flotation concentrate	15	15
Refined gold and gold in flotation concentrate	11	13
Stores and materials	446	348
Less: obsolescence provision for stores and materials	(20)	(16)
Inventories expected to be used in the next 12 months	686	557
Total	1,035	834

13. TRADE AND OTHER RECEIVABLES

	30 Jun. 2019	31 Dec. 2018
Trade receivables for gold-bearing products at FVTPL (Level 2)	44	57
Other receivables	51	46
Less: allowance for other receivables	(10)	(9)
Total	85	94

14. TAXES RECEIVABLE

	30 Jun. 2019	31 Dec. 2018
Reimbursable value added tax	106	90
Income tax prepaid	12	74
Other prepaid taxes	-	2
Total	118	166

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(in millions of US Dollars)

15. CASH AND CASH EQUIVALENTS

	<u>30 Jun. 2019</u>	<u>31 Dec. 2018</u>
Bank deposits		
- USD	1,084	661
- RUB	77	54
Current bank accounts		
- USD	41	101
- RUB	10	33
Cash in the Federal Treasury	37	45
Other cash equivalents	-	2
Total	<u>1,249</u>	<u>896</u>

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

Interest rates on bank deposits denominated in:

- USD	1.5-4.4%	0.6-4.4%
- RUB	6.6-7.35%	5.5-7.5%

16. SHARE CAPITAL

Authorised, issued and fully paid share capital of the Company as of 30 June 2019 comprised 133,561 thousand ordinary shares at par value of RUB 1.

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

In 2016, the Board of Directors of PJSC Polyus approved a long-term incentive plan (LTIP 2016) 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 performance periods: 2016-2017, 2016-2018 and 2017-2019. During six months ended 30 June 2019 the options in respect of the second performance period of the LTIP 2016 vested and the Group issued 487 thousand shares from the treasury stock of USD 27 million.

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

Total expense for the six months ended 30 June 2019 arising from the LTIP was recognised in the condensed consolidated interim statement of profit or loss within *Employee compensation* included within *Selling, general and administrative expenses* in the amount of USD 13 million (six months ended 30 June 2018: USD 5 million).

Dividends

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

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(in millions of US Dollars)

Weighted average number of ordinary shares

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

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Ordinary shares in issue at the beginning of the period	133,196	132,339	132,339	131,924
Exercise of LTIP 2016	-	-	487	415
Purchase of additional ownership in LLC SL Gold through issuance of treasury shares	-	-	370	-
Ordinary shares in issue at the end of the period	133,196	132,339	133,196	132,339
Weighted average number of ordinary shares – basic EPS	133,196	132,339	132,835	132,162
Convertible bonds (note 11)	1,998	2,070	1,998	2,246
Potential Shares to be issued upon increase in LLC SL Gold ownership interest (note 19)	-	1,336	-	1,336
LTIP	197	286	155	275
Weighted average number of ordinary shares – dilutive EPS	135,391	136,031	134,988	136,019
Profit after tax attributable to the shareholders of the Company (million USD)	417	110	949	357
Effect of potential dilution (million USD)	9	(10)	15	(11)
Profit after tax attributable to the shareholders of the Company for diluted EPS calculation (million USD)	426	100	964	346

17. BORROWINGS

	Nominal rate %	30 Jun. 2019	31 Dec. 2018
USD 750 million Eurobonds with fixed interest rate due in 2020	5.625%	676	675
USD 500 million Eurobonds with fixed interest rate due in 2022	4.699%	479	479
USD 800 million Eurobonds with fixed interest rate due in 2023	5.250%	783	782
USD 500 million Eurobonds with fixed interest rate due in 2024	4.7%	468	468
USD 250 million convertible bonds with fixed interest rate due in 2021	1%	191	186
Notes due in 2025 (Rusbonds) with noteholders’ early repayment option in 2021	12.1%	240	218
Credit facilities with financial institutions nominated in USD with fixed interest rates	4.1%-5.7%	486	620
Credit facilities with financial institutions nominated in RUR with fixed interest rates	9.35%	111	481
Credit facilities with financial institutions nominated in RUR with variable interest rates	Central bank rate + 2.3% MosPrime + 0.2% / - 0.45%	1,223	63
Lease liabilities nominated in USD and RUR	5.15%	83	10
Credit facilities with financial institutions nominated in USD with variable interest rates	USD LIBOR + 1.65%	148	-
Sub-total		4,888	3,982
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(696)	(7)
Long-term borrowings		4,192	3,975

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

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(in millions of US Dollars)

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

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

In April 2019, the Group drew down an additional RUB 31 billion under the existing credit facility agreement with the fixed rate to finance the liabilities under the cross-currency swaps (note 11). In April - May 2019 the Group has refinanced RUB 64.8 billion with a new credit facility due in 2024 with a floating interest rate of MosPrime 3m – 0.45%. This was treated as a non-substantial debt modification and resulted in USD 10 million gain reflected in line *Gain on debt modification* within *Finance costs, net* (note 8).

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

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

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

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

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

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

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

Unused credit facilities

As of 30 June 2019, the Group has unused credit facilities in the total amount of USD 1,456 million.

Pledge

As at 30 June 2019 and 31 December 2018, all shares of JSC TaigaEnergostroy belonging to the Group were pledged to secure a credit line. Additionally, the Group pledged proceeds from certain gold sales agreements as a security for the Pre-Export Finance facility.

Other matters

There were a number of financial covenants under several loan agreements in effect as of 30 June 2019 according to which the respective subsidiaries of the Company and the Company itself are limited in its level of leverage and other financial and non-financial parameters.

The Group tests covenants quarterly and was in compliance with the covenants as of 30 June 2019.

Fair value measurements

The fair value of the Group's borrowings is estimated as follows:

	30 June 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Eurobonds (Level 1)	2,406	2,486	2,404	2,368
Borrowings (Level 2)	2,051	2,010	1,174	1,151
Rusbonds (Level 1)	240	256	218	232
Convertible bonds (Level 2)	191	217	186	188
Total	4,888	4,969	3,982	3,939

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(in millions of US Dollars)

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 bonds was determined using a discounted cash flow valuation technique with reference to observable market inputs: spot currency exchange rates, forward USD LIBOR and RUB interest rates, the company's own credit risk and quoted price of the convertible bonds.

18. DEFERRED REVENUE

As of 30 June 2019, JSC Polyus Magadan, was a party to the agreement with the Ministry for the Development of the Russian Far East (“Minvastokrazvitiya”) under which Minvastokrazvitiya was to provide to JSC Polyus Magadan a government grant in the total amount RUB 8,797 million (USD 139 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 Minvastokrazvitiya. JSC Polyus Krasnoyarsk is a guarantor under the agreement.

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

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Carrying value as of the beginning of the period	126	133	117	132
VAT attributable to construction of the Omchak high-voltage power grid	(3)	(2)	(3)	(2)
Effect of translation to presentation currency	2	(12)	11	(11)
Carrying value as of the end of the period	125	119	125	119

19. DEFERRED CONSIDERATION

In March 2019 the Group exercised the next tranche of options in LLC SL Gold and increased its participation interest from 58.4% to 68.2%. The Group paid approximately USD 28 million for a 4.8% participation interest and transferred 370 thousand PJSC Polyus treasury shares (note 16) totalling USD 29 million for a 5% participation interest in LLC SL Gold. Under the remaining outstanding option agreements the Group is expected to increase its ownership in LLC SL Gold to 100% by 2022 with a right to accelerate.

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

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

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(in millions of US Dollars)

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

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

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

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Carrying value as of the beginning of the period	170	218	225	216
Settled in shares	-	-	(29)	-
Settled in cash	-	-	(28)	-
Unwinding of interest on deferred consideration	1	2	3	4
Foreign exchange (gain) / loss, net	(7)	21	(17)	19
Effect of translation to presentation currency	8	(20)	18	(18)
Total carrying value as of the end of the period	172	221	172	221
Less: short-term part of the option liabilities	(56)	(56)	(56)	(56)
Long-term part of the option liabilities as of the end of the period	116	165	116	165

The fair value measurement on the date of initial recognition is based on inputs (spot currency exchange rates and discount rates), which are observable in the market and are classified as Level 2 in accordance with the hierarchy of fair value measurements. As of 30 June 2019, the fair value of the *Deferred consideration* approximately equals USD 174 million (2018: USD 219 million).

20. TRADE AND OTHER PAYABLES

	30 Jun. 2019	31 Dec. 2018
Wages and salaries payable	58	78
Interest payable	66	66
Trade payables	95	52
Accrued annual leave	32	21
Dividends payable	5	2
Other accounts payable and accrued expenses	78	70
Total	334	289

21. TAXES PAYABLE

	30 Jun. 2019	31 Dec. 2018
Social taxes	10	14
Tax on mining	14	12
Value added tax	15	12
Property tax	5	5
Income tax payable	31	4
Other taxes	5	9
Total	80	56

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(in millions of US Dollars)

22. RELATED PARTIES

Related parties include substantial shareholders, entities under common ownership and control within the Group and members of key management. The Group, in the ordinary course of business, has entered into property lease agreement which is accounted for in accordance with IFRS 16 with an entity that was subsequently acquired by members of key management. Accordingly, the balances and transactions recognised during the period are presented within note 2.4.

Key management personnel

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Short-term compensation to key management personnel accrued	4	5	14	16
Equity-settled share-based payments plans (LTIP)	7	2	13	6
Total	11	7	27	22

23. COMMITMENTS

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

The Land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2065. Future minimum lease payments due under non-cancellable operating lease agreements excluded from IFRS 16 scope (note 2.4) were as follows:

	30 Jun. 2019	31 Dec. 2018
Due within one year	4	11
From one to five years	11	39
Thereafter	36	80
Total	51	130

Capital commitments

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

	30 Jun. 2019	31 Dec. 2018
Projects in Krasnoyarsk	95	78
Project Nataalka	45	44
Project Omchak high-voltage power grid	3	15
Other capital commitments	2	10
Total	145	147

24. 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 condensed consolidated interim financial statements.

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(in millions of US Dollars)

Information about significant subsidiaries of the Group

Subsidiaries	Nature of business	Effective % held at ⁴	
		30 Jun. 2019	31 Dec. 2018
Incorporated in Russian Federation			
JSC Polyus Krasnoyarsk (renamed, previously JSC Gold Mining Company Polyus)	Mining (open pit)	100	100
JSC Polyus Aldan (renamed, previously JSC Aldanzoloto GRK)	Mining (open pit)	100	100
JSC Polyus Verninskoye (renamed, previously JSC Pervenets)	Mining (open pit)	100	100
PJSC Lenzoloto	Holding company	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 ⁵	Exploration and evaluation of the Sukhoi Log deposit	68	58

25. 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 condensed consolidated interim financial statements, except for those mentioned below.

In July 2019 the Group restructured part of its revenue stabiliser agreements, resulting in an increase in the strike price for call options expiring in 2020. The premium paid amounted to approximately USD 11 million.

⁴ Effective % held by the Company, including holdings by other subsidiaries of the Group.

⁵ In March 2019 the Group increased effective ownership in SL Gold (note 19) from 58.4% to 68.2% for a cash consideration of USD 28 million and a transfer of PJSC Polyus shares valued at USD 29 million.