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**PJSC Polyus  
Management Report  
31 March 2018**

30 May 2018



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## **Cautionary statement**

30 May 2018 – 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 three months ended 31 March 2018.

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” and its subsidiaries (the “Group”) are responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of the Group as of 31 March 2018, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Accounting Standard 34 ( the “IAS 34”) “Interim Financial Information”.

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 condensed consolidated interim financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards in the jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The condensed consolidated interim financial statements of the Group for the three months ended 31 March 2018 were approved by Directors on 30 May 2018.

By order of the Board of Directors,

Chief Executive Officer and Director



Pavel Grachev

## Management Discussion and Analysis

### the first quarter 2018 key metrics overview

\$ million (if not mentioned otherwise)	1Q 2018	4Q 2017	Q-o-Q	1Q 2018	1Q 2017	Y-o-Y
<b>Operating highlights</b>						
Gold production (koz) <sup>1</sup>	507	580	(13%)	507	450	13%
Gold sold (koz)	459	597	(23%)	459	487	(6%)
<b>Realised prices</b>						
Average realised refined gold price (excluding effect of SPPP) (\$/oz) <sup>2</sup>	1,336	1,275	5%	1,336	1,217	10%
Average realised refined gold price (including effect of SPPP) (\$/oz)	1,336	1,275	5%	1,336	1,258	6%
<b>Financial performance</b>						
Total revenue	617	743	(17%)	617	609	1%
Operating profit	332	391	(15%)	332	330	1%
Operating profit margin	54%	53%	1 ppts	54%	54%	0 ppts
Profit for the period	244	267	(9%)	244	499	(51%)
Earnings per share – basic (US Dollar)	1.87	2.05	(9%)	1.87	4.01	(53%)
Earnings per share – diluted (US Dollar)	1.80	2.05	(12%)	1.80	4.01	(55%)
Adjusted net profit <sup>3</sup>	223	242	(8%)	223	203	10%
Adjusted net profit margin	36%	33%	3 ppts	36%	33%	3 ppts
Adjusted EBITDA <sup>4</sup>	387	465	(17%)	387	383	1%
Adjusted EBITDA margin	63%	63%	0 ppts	63%	63%	0 ppts
Net cash flow from operations	261	344	(24%)	261	282	(7%)
Capital expenditure <sup>5</sup>	182	279	(35%)	182	131	39%
<b>Cash costs</b>						
Total cash cost (TCC) per ounce sold (\$/oz) <sup>6</sup>	383	324	18%	383	380	1%
All-in sustaining cash cost (AISC) per ounce sold (\$/oz) <sup>7</sup>	684	662	3%	684	586	17%
<b>Financial position</b>						
Cash and cash equivalents	1,095	1,204	(9%)	1,095	1,487	(26%)
Net debt <sup>8</sup>	3,079	3,077	0%	3,079	3,128	(2%)
Net debt/adjusted EBITDA (x) <sup>9</sup>	1.8	1.8	0%	1.8	2.0	(10%)

<sup>1</sup> - Gold production is comprised of 432 thousand ounces of refined gold and 75 thousand ounces of gold in flotation concentrate in the first quarter 2018 and 552 thousand ounces of refined gold and 28 thousand ounces of gold in flotation concentrate in the fourth quarter 2017 respectively.

<sup>2</sup> - The Strategic Price Protection Programme comprises a series of zero-cost Asian gold collars ("revenue stabiliser") and gold forward contracts (expired as of the end of 1H 2016).

<sup>3</sup> - 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.

<sup>4</sup> - 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.

<sup>5</sup> - 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 20.

<sup>6</sup> - 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.

<sup>7</sup> - 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.

<sup>8</sup> - 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.

<sup>9</sup> - The Group calculates net debt to Adjusted EBITDA as net debt divided by Adjusted EBITDA.

## Key highlights

1. The Company sold a total of 459 thousand ounces of gold in the first quarter 2018, down 23% compared to the fourth quarter 2017. Total gold sales include 13 thousand ounces of gold contained in concentrate from Olimpiada.
2. In the first quarter 2018, revenue totaled \$617 million, a 17% decrease compared to \$743 million in the fourth quarter 2017 driven by lower sales volumes (including flotation concentrate) as gold output volumes (refined and concentrate) declined 13% compared to the previous quarter on the back of inventory accumulation at the refinery and on site.
3. The Group's TCC increased 18% to \$383 per ounce in the first quarter 2018 from \$324 per ounce in the fourth quarter 2017 mainly due to lower sales volumes of gold and flotation concentrate in the period as well as increase in fuel prices and power tariffs, while consumables cost inflation and local currency appreciation put an additional pressure. The Group has launched high-grade antimony-rich ore processing, with the first volumes of antimony concentrate produced in the first quarter. No shipments to foreign offtakers were made till May 2018, and reported TCC for the first quarter 2018 does not reflect any by-product credit. At the same time, AISC increased to \$684 per ounce, up 3% compared to the fourth quarter 2017.
4. In the first quarter 2018, adjusted EBITDA amounted to \$387 million, a 17% decrease from the fourth quarter 2017 driven by lower gold sales volumes. Adjusted EBITDA margin stood flat at 63% in the first quarter 2018.
5. In the first quarter 2018, profit for the period decreased to \$244 million partly reflecting the decrease in operating profit in the period and impact of non-cash items, such as gain on investments and revaluation of derivative financial instruments and foreign exchange gain in the period.
6. In the first quarter 2018, adjusted net profit amounted to \$223 million, an 8% decrease from the previous quarter.
7. Net cash inflow from operations amounted to \$261 million in the first quarter 2018, compared to \$344 million in the fourth quarter 2017.
8. In the first quarter 2018, capex decreased to \$182 million compared to the previous quarter, reflecting both lower core capital expenditures across all business units and lower maintenance capital expenditures at Olimpiada, Verninskoye and Kuranakh.
9. Cash and cash equivalents as at 31 March 2018 amounted to \$1,095 million, compared to \$1,204 million as at 31 December 2017, following an early prepayment of certain credit facilities.
10. Net debt remained largely unchanged at \$3,079 million at the end of the first quarter 2018 compared to \$3,077 million as at the end of the fourth quarter 2017 (\$3,128 million as at the end of the first quarter 2017).
11. Net debt/adjusted EBITDA ratio remained at the level of 1.8x as at the end of the first quarter 2018.

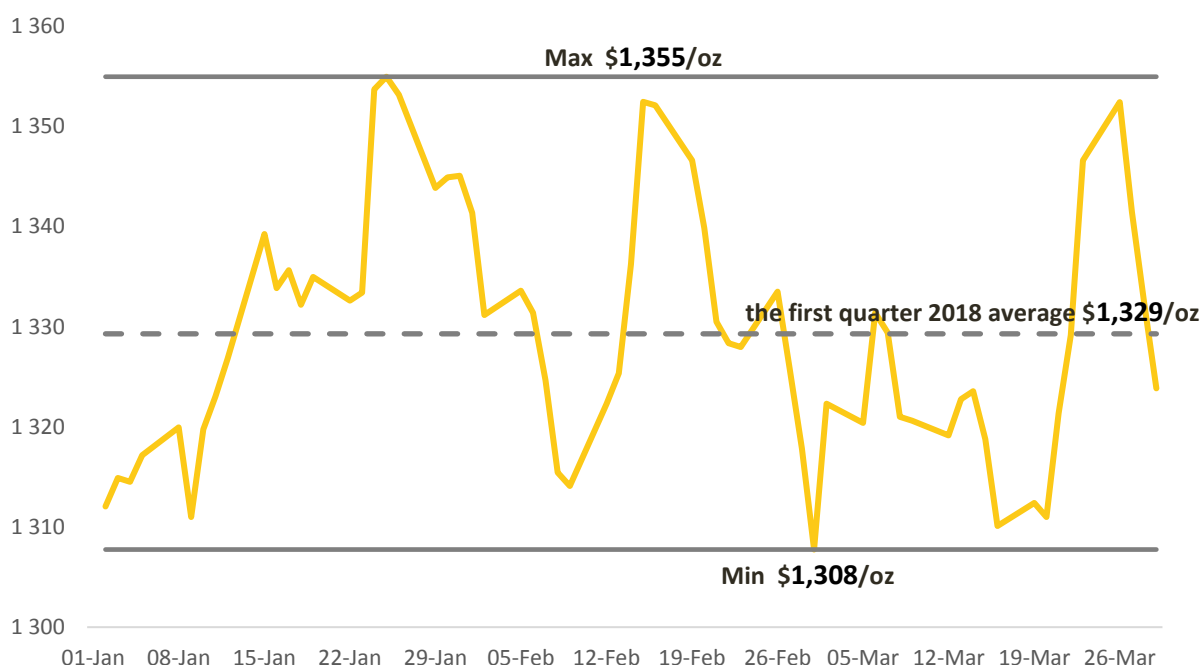
## Review of external factors

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 first quarter of 2018, the average London Bullion Market Association (LBMA) gold price was \$1,329 per ounce, compared to \$1,275 per ounce in the previous quarter and \$1,219 per ounce in the first quarter of 2017.

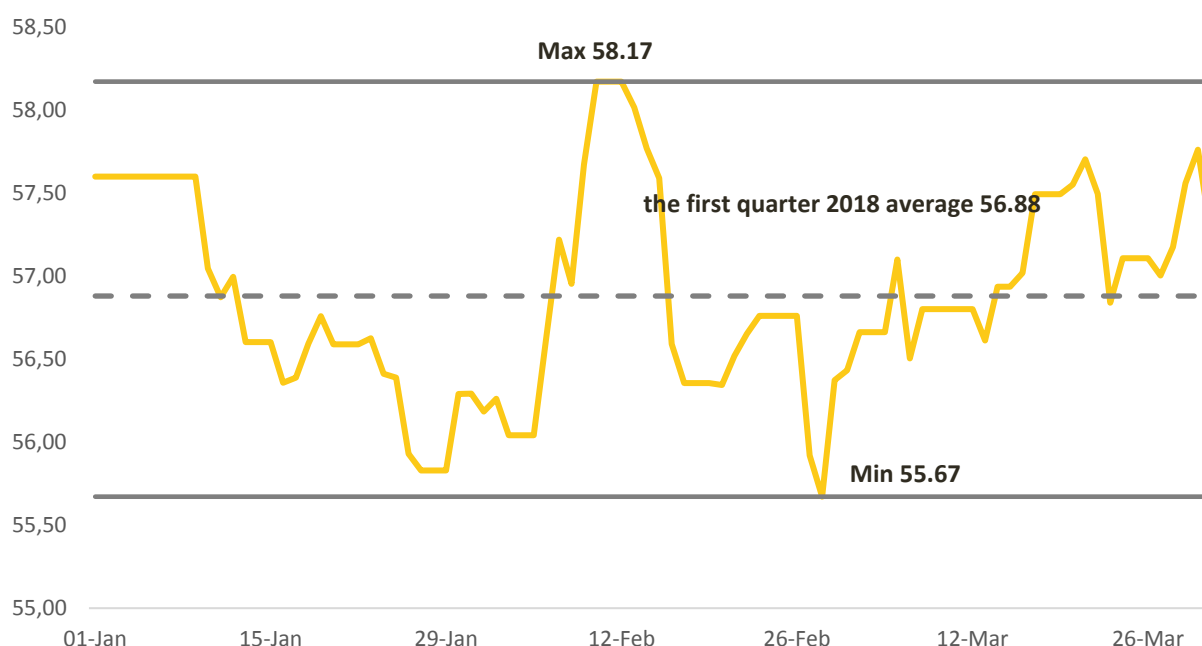
**LBMA gold price dynamics in 1Q 2018, \$/oz**



Source: London Bullion Market Association

### Rouble exchange rate dynamics

The Group's revenue from gold sales is linked to the US dollar (USD), whereas most of the Group's operating expenses are denominated in Russian roubles (RUB). The strengthening of the RUB against the USD can negatively impact the Group's margins by increasing the USD value of its RUB-denominated costs, while a weaker RUB positively affects its margins as it reduces the USD value of the Group's RUB-denominated costs. In the first quarter of 2018, the average USD/RUB exchange rate amounted to 56.88, compared to 58.41 in the previous quarter and 58.84 in the first quarter of 2017.

**RUB/USD dynamics, 1Q 2018**


Source: The Central Bank of the Russian Federation

**Inflationary trends**

All of the Group's operations are located in Russia. The rouble-based annualised Russian Consumer Price Index (CPI), calculated by the Federal State Statistics Service, was at 2.4% as of the end of the first quarter of 2018, compared to 2.5% as of the end of the previous quarter and 4.3% as of the end of the first quarter of 2017.

**Financial review**
**Statement of profit or loss review**
**REVENUE ANALYSIS**

	1Q 2018	4Q 2017	Q-o-Q	1Q 2018	1Q 2017	Y-o-Y
Gold sales (koz)	459	597	(23%)	459	487	(6%)
Average realised refined gold price (excluding effect of SPPP) (\$/oz)	1,336	1,275	5%	1,336	1,217	10%
Average realised refined gold price (including effect of SPPP) (\$/oz)	1,336	1,275	5%	1,336	1,258	6%
Average afternoon gold LBMA price fixing (\$/oz)	1,329	1,275	4%	1,329	1,219	9%
Premium of average selling price (including effect of SPPP) over average LBMA price fixing (\$/oz)	7	-	N.A.	7	39	(82%)
Gold sales (\$ million)	608	734	(17%)	608	600	1%
Other sales (\$ million)	9	9	0%	9	9	0%
<b>Total revenue (\$ million)</b>	<b>617</b>	<b>743</b>	<b>(17%)</b>	<b>617</b>	<b>609</b>	<b>1%</b>

In the first quarter 2018, the Group's revenue from gold sales decreased 17% compared to the fourth quarter 2017 and amounted to \$608 million, whilst gold sales totaled 459 thousand ounce, a 23% decrease compared to the previous quarter. This was driven by an accumulation of gold in inventory at the refinery

and a temporary increase in stockpiled volumes of flotation concentrate at Olimpiada and a seasonal slowdown at Alluvials.

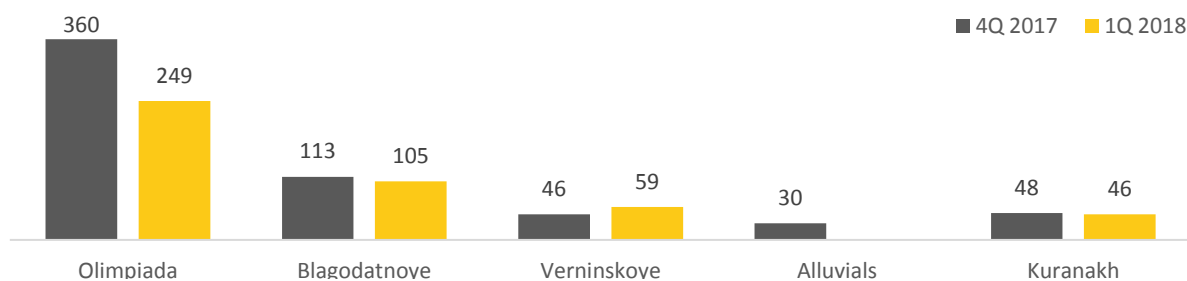
The Group has launched high-grade antimony-rich ore processing, with the first volumes of antimony concentrate produced in the first quarter. In April 2018, Polyus obtained a licence permitting the Group to export antimony-rich flotation concentrate to offtakers abroad and started first shipments in May.

The average realised refined gold price was 5% higher compared to the fourth quarter 2017 and amounted to \$1,336 per ounce.

#### Revenue breakdown by business unit, 1Q 2018 vs. 4Q 2017

Assets	1Q 2018 (\$ million)			4Q 2017 (\$ million)		
	Gold sales	Other sales	Total sales	Gold sales	Other sales	Total sales
Olimpiada	327	3	330	433	4	437
Blagodatnoye	140	-	140	145	-	145
Verninskoye	79	-	79	58	-	58
Alluvials	-	1	1	38	1	39
Kuranakh	62	1	63	60	1	61
Other	-	4	4	-	3	3
<b>Total</b>	<b>608</b>	<b>9</b>	<b>617</b>	<b>734</b>	<b>9</b>	<b>743</b>

#### Gold sold by mine, koz



#### CASH COSTS ANALYSIS

In the first quarter 2018, the Group's cost of gold sales decreased 14% compared to the fourth quarter 2017 and amounted to \$216 million, driven by the seasonal slowdown at Alluvials and lower gold sales volumes. At the same time, cash operating costs decreased 11% compared to the prior period, to \$188 million.

#### Cost of sales breakdown

\$ million	1Q 2018	4Q 2017	Q-o-Q	1Q 2018	1Q 2017	Y-o-Y
Cash operating costs <sup>10</sup>	188	211	(11%)	188	165	14%
Depreciation and amortisation (D&A) of operating assets	53	47	13%	53	40	33%
<b>Total cost of production</b>	<b>241</b>	<b>258</b>	<b>(7%)</b>	<b>241</b>	<b>205</b>	<b>18%</b>
Increase in stockpiles, gold-in-process and refined gold inventories	(25)	(8)	N.A.	(25)	20	N.A.
<b>Cost of gold sales</b>	<b>216</b>	<b>250</b>	<b>(14%)</b>	<b>216</b>	<b>225</b>	<b>(4%)</b>

**Cash operating costs – breakdown by item**

\$ million	1Q 2018	4Q 2017	Q-o-Q	1Q 2018	1Q 2017	Y-o-Y
Consumables and spares	53	60	(12%)	53	49	8%
Labour	56	58	(3%)	56	53	6%
Mineral Extraction Tax (“MET”)	34	42	(19%)	34	29	17%
Fuel	17	18	(6%)	17	16	6%
Power	9	10	(10%)	9	7	29%
Outsourced mining services	-	-	N.A.	-	-	N.A.
Other <sup>10</sup>	19	23	(17%)	19	11	73%
<b>Total</b>	<b>188</b>	<b>211</b>	<b>(11%)</b>	<b>188</b>	<b>165</b>	<b>14%</b>

In the first quarter 2018 consumables and spares expenses declined 12% compared to the fourth quarter 2017, accounting for 28% of cash operating costs. This reflects the seasonal slowdown at Alluvials as well as a decrease in maintenance expenses at Verninskoye and Kuranakh in the first quarter 2018.

Labour costs remained almost in line with the previous quarter and accounted for 30% of total cash operating costs, reflecting a seasonal downscale of production at the alluvial operations.

MET expenses (18% of cash operating costs) decreased 19% compared to the fourth quarter 2017 due to a decline in sales volumes of flotation concentrate and production volumes of dore gold at Olimpiada and Blagodatnoye. This was partially offset by the growth of average sales price in the period.

Fuel costs decreased 6% compared to the fourth quarter 2017 due to the completion of the washing season at Alluvials. At the same time, fuel prices rose across all business units compared to the previous quarter.

Power costs decreased 10% overall compared to the fourth quarter 2017 as reduced seasonal activities at Alluvials fully offset an increase in power tariff at Olimpiada, Blagodatnoye and Kuranakh.

**Cash operating costs – breakdown by key business units<sup>11</sup>, 1Q 2018 vs. 4Q 2017**

\$ million	Olimpiada		Blagodatnoye		Verninskoye		Alluvials		Kuranakh	
	1Q 2018	4Q 2017	1Q 2018	4Q 2017	1Q 2018	4Q 2017	1Q 2018	4Q 2017	1Q 2018	4Q 2017
Consumables and spares	27	31	11	10	7	8	-	3	5	6
Labour	19	15	10	8	8	9	-	10	9	10
MET	20	27	9	11	-	-	-	1	4	4
Fuel	5	5	3	4	2	2	-	2	5	4
Power	5	6	2	2	1	1	-	1	2	1
Outsourced mining services	-	-	-	-	-	-	-	1	-	-
Other	17	16	7	7	3	5	-	2	2	4
<b>Total</b>	<b>93</b>	<b>100</b>	<b>42</b>	<b>42</b>	<b>21</b>	<b>25</b>	<b>-</b>	<b>20</b>	<b>27</b>	<b>29</b>

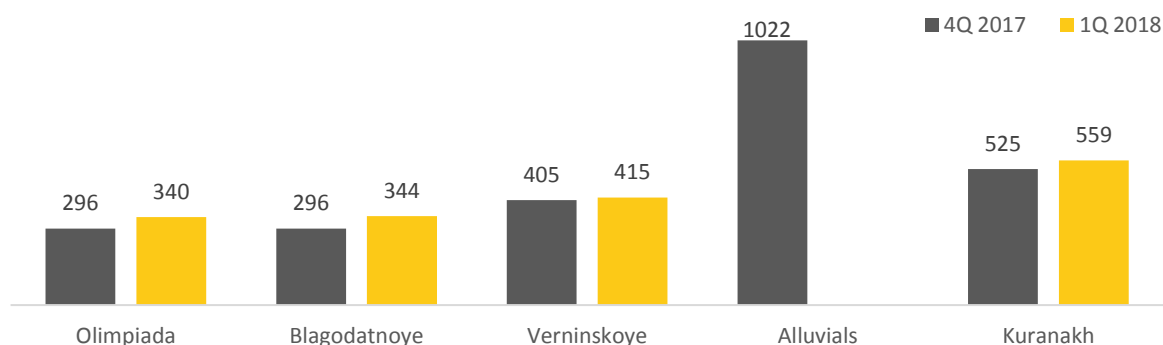
<sup>10</sup> The Group calculates cash operating costs as the sum of the following costs within cost of sales for the period: Labour, Consumables and spares, Tax on mining, Fuel, Power, Outsourced mining services. Other costs, including Refining, logistics and costs on explosives

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

**TOTAL CASH COSTS**
**TCC calculation**

\$ million	1Q 2018	4Q 2017	Q-o-Q	1Q 2018	1Q 2017	Y-o-Y
<b>Cost of gold sales</b>	216	250	(14%)	216	225	(4%)
property, plant and equipment depreciation	(53)	(47)	13%	(53)	(40)	33%
provision for annual vacation payment	-	-	N.A.	-	(3)	(100%)
employee benefit obligations cost	-	(6)	(100%)	-	-	N.A.
change in allowance for obsolescence of inventory	(1)	(4)	(75%)	(1)	1	N.A.
non-monetary changes in inventories	14	1	N.A.	14	2	N.A.
<b>TCC</b>	<b>176</b>	<b>194</b>	<b>(9%)</b>	<b>176</b>	<b>185</b>	<b>(5%)</b>
Gold sold (koz)	459	597	(23%)	459	487	(6%)
<b>TCC per ounce sold (\$/oz)</b>	<b>383</b>	<b>324</b>	<b>18%</b>	<b>383</b>	<b>380</b>	<b>1%</b>

In the first quarter 2018, group TCC increased 18% to \$383 per ounce compared to the previous quarter, mainly due to lower gold and flotation concentrate sales volumes in the period. At the same time the Company observed an inflation in diesel prices across all business units and an increase in power tariff at Olimpiada, Blagodatnoye and Kuranakh, while local currency appreciation and consumables cost inflation put an additional pressure. The Group has launched high-grade antimony-rich ore processing, with the first volumes of antimony concentrate produced in the first quarter. No shipments to foreign offtakers were made before May 2018, and reported TCC for the first quarter 2018 does not reflect any by-product credit.

**TCC performance by mine, \$/oz**


In the first quarter 2018, TCC at Olimpiada increased to \$340 per ounce, up 15% compared to the fourth quarter 2017, resulting from a decline in the share of lower cost flotation concentrate as part of the total gold sold during the quarter. In addition, an increase in fuel prices and power tariff inflation put further pressure on costs while the higher average grades in ore processed (4.2 grams per tonne in the first quarter 2018 compared to 3.9 grams per tonne in the fourth quarter 2017) partially mitigated the negative effect.

At Blagodatnoye, TCC amounted to \$344 per ounce, up 16% compared to the fourth quarter 2017, due to a decline in average grade in ore processed (1.7 grams per tonne in the first quarter 2018 compared to 2.1 grams per tonne in the fourth quarter 2017). Polyus temporarily intensified mining activities at low-grade flank areas of the Blagodatnoye deposit during a pit cutback. In the first quarter 2018, the Company proceeded with scheduled maintenance works at Mill-4.

TCC at Verninskoye remained almost flat at \$415 per ounce, up 2% compared to the fourth quarter 2017.

At Kuranakh, TCC increased to \$559 per ounce, up 6% compared to the fourth quarter 2017, reflecting a decline in average grade in ore processed (1.2 grams per tonne in the first quarter 2018 compared to 1.3 grams per tonne in the fourth quarter 2017) according to the mining plan and power tariff indexation.

Due to the seasonality of activity at placer deposits, no gold was produced at Alluvials in the first quarter 2018. The washing season ended in November 2017, and was resumed in April 2018 as usual.

### SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

The Group's selling, general, and administrative (SG&A) expenses decreased to \$52 million, a 27% decline compared to the fourth quarter 2017. The Company recognised additional LTIP-related expenses in the the fourth quarter 2017. Lower professional service expenses and savings on transportation costs during the period also contributed to the improvement.

#### SG&A breakdown by item

\$ million	1Q 2018	4Q 2017	Q-o-Q	1Q 2018	1Q 2017	Y-o-Y
Salaries	37	50	(26%)	37	27	37%
Distribution expenses related to gold-bearing products	3	5	(40%)	3	4	(25%)
Taxes other than mining and income taxes	3	2	50%	3	3	0%
Professional services	2	3	(33%)	2	2	0%
Amortisation and depreciation	2	2	0%	2	1	100%
Other	5	9	(44%)	5	5	0%
<b>Total</b>	<b>52</b>	<b>71</b>	<b>(27%)</b>	<b>52</b>	<b>42</b>	<b>24%</b>

### ALL-IN SUSTAINING COSTS (AISC)

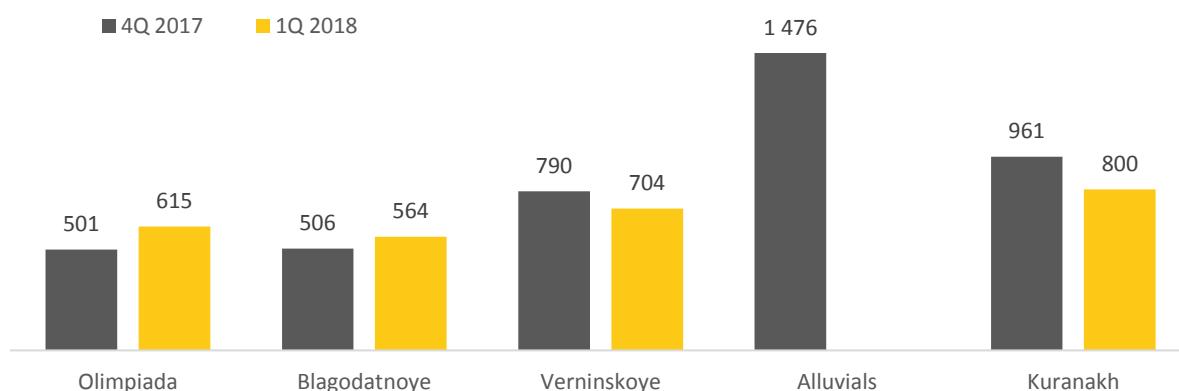
In the first quarter 2018, the Group's AISC increased to \$684 per ounce, up 3% compared to the fourth quarter 2017, driven by lower gold sales volumes in the period.

#### All-in sustaining costs calculation

\$ million	1Q 2018	4Q 2017	Q-o-Q	1Q 2018	1Q 2017	Y-o-Y
<b>Total TCC</b>	<b>176</b>	<b>194</b>	<b>(9%)</b>	<b>176</b>	<b>185</b>	<b>(5%)</b>
selling, general and administrative expenses	52	71	(27%)	52	42	24%
amortisation and depreciation related to SG&A	(2)	(2)	0%	(2)	(1)	100%
stripping activity asset additions	49	38	29%	49	35	40%
sustaining capital expenditure <sup>12</sup>	37	84	(56%)	37	22	68%
unwinding of discounts on decommissioning liabilities	1	1	0%	1	-	N.A.
<b>adding back expenses excluded from cost of gold sales</b>						
provision for annual vacation payment	-	-	N.A.	-	3	(100%)
employee benefit obligations cost	-	6	(100%)	-	-	N.A.
change in allowance for obsolescence of inventory	1	4	(75%)	1	(1)	N.A.
<b>Total all-in sustaining costs</b>	<b>314</b>	<b>396</b>	<b>(21%)</b>	<b>314</b>	<b>285</b>	<b>10%</b>
Gold sold (koz)	459	597	(23%)	459	487	(6%)
<b>All-in-sustaining cost (\$/oz)</b>	<b>684</b>	<b>662</b>	<b>3%</b>	<b>684</b>	<b>586</b>	<b>17%</b>

<sup>12</sup> 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.

In the first quarter 2018 AISC at Olimpiada increased to \$615 per ounce driven by higher stripping activity. At Blagodatnoye AISC increased to \$564 per ounce due to a pit cutback in the reporting period. In the first quarter 2018 AISC at Verninskoye decreased to \$704 per ounce, while AISC at Kuranakh decreased to \$800 per ounce both driven by lower sustaining capital expenditures.

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

**ADJUSTED EBITDA**

In the first quarter 2018, the Group's adjusted EBITDA decreased 17% compared to the fourth quarter 2017.

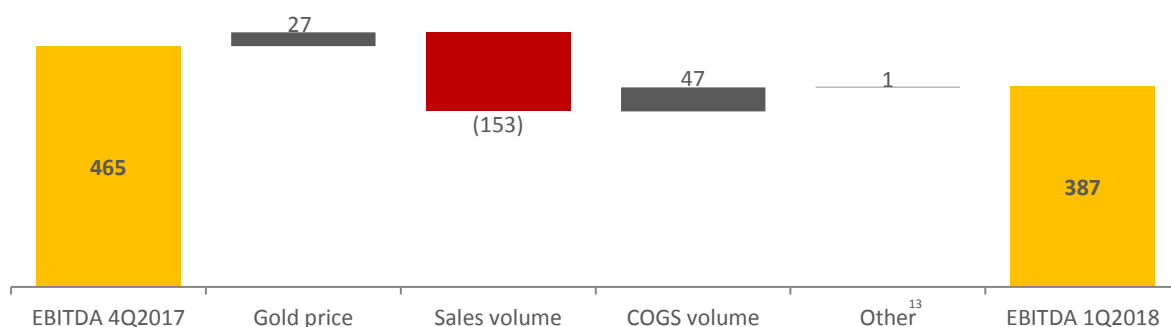
This was predominantly a result of lower gold sales volumes in the reporting period (including sales of flotation concentrate) from Olimpiada, which represents 57% of the Group's adjusted EBITDA for the first quarter 2018.

The adjusted EBITDA margin stood at 63% in the first quarter 2018, remaining one of the highest among mining companies globally.

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

**Adjusted EBITDA calculation**

\$ million	1Q 2018	4Q 2017	Q-o-Q	1Q 2018	1Q 2017	Y-o-Y
<b>Profit for the period</b>	244	267	(9%)	244	499	(51%)
Income tax expense	63	118	(47%)	63	77	(18%)
Depreciation and amortisation	43	49	(12%)	43	39	10%
Gain on derivative financial instruments and investments, net	(6)	(20)	(70%)	(6)	(108)	(94%)
Finance costs, net	54	49	10%	54	63	(14%)
Equity-settled share-based payment plans	3	12	(75%)	3	7	(57%)
Foreign exchange gain, net	(16)	(18)	(11%)	(16)	(190)	(92%)
Interest income	(7)	(5)	40%	(7)	(11)	(36%)
Impairment	1	13	(92%)	1	-	N.A.
Special charitable contributions	8	10	(20%)	8	7	14%
Gain on property, plant and equipment disposal	-	(10)	(100%)	-	-	N.A.
<b>Adjusted EBITDA</b>	<b>387</b>	<b>465</b>	<b>(17%)</b>	<b>387</b>	<b>383</b>	<b>1%</b>
Total revenue	617	743	(17%)	617	609	1%
<b>Adjusted EBITDA margin (%)</b>	<b>63%</b>	<b>63%</b>	<b>0 ppts</b>	<b>63%</b>	<b>63%</b>	<b>0 ppts</b>

**Adjusted EBITDA bridge, \$ million**

**Adjusted EBITDA breakdown by business unit, \$ million**

\$ million	1Q 2018	4Q 2017	Q-o-Q	1Q 2018	1Q 2017	Y-o-Y
Olimpiada	222	299	(26%)	222	194	14%
Blagodatnoye	96	103	(7%)	96	120	(20%)
Titimukhta	-	-	N.A.	-	-	N.A.
Verninskoye	50	29	72%	50	38	32%
Alluvials	(3)	2	N.A.	(3)	-	N.A.
Kuranakh	31	30	3%	31	26	19%
Other <sup>14</sup>	(9)	2	N.A.	(9)	5	N.A.
<b>Total</b>	<b>387</b>	<b>465</b>	<b>(17%)</b>	<b>387</b>	<b>383</b>	<b>1%</b>

**FINANCE COST ANALYSIS**

\$ million	1Q 2018	4Q 2017	Q-o-Q	1Q 2018	1Q 2017	Y-o-Y
Interest on borrowings	72	76	(5%)	72	87	(17%)
Write-off of unamortised debt costs due to early extinguishment of debt and bank commissions	11	-	N.A.	11	11	0%
Unwinding of discounts	4	3	33%	4	1	300%
Gain on exchange of interest payments under cross currency swap and interest rate swap	(10)	(12)	(17%)	(10)	(9)	11%
Other	-	-	N.A.	-	1	(100%)
<b>Sub-total finance cost, net</b>	<b>77</b>	<b>67</b>	<b>15%</b>	<b>77</b>	<b>91</b>	<b>(15%)</b>
Interest included in the cost of qualifying assets	(23)	(18)	28%	(23)	(28)	(18%)
<b>Total finance cost expended</b>	<b>54</b>	<b>49</b>	<b>10%</b>	<b>54</b>	<b>63</b>	<b>(14%)</b>

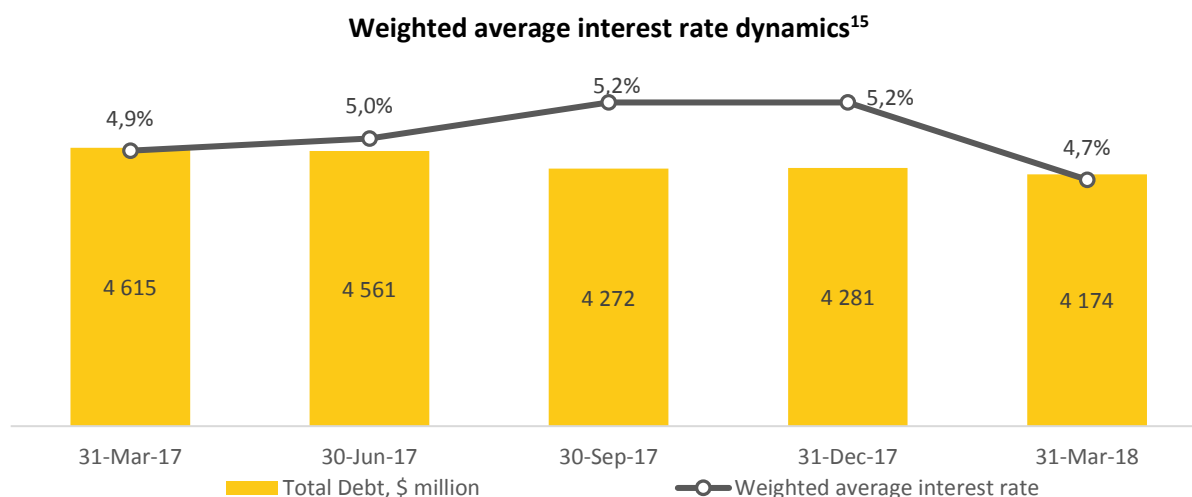
The Group's total finance costs in the first quarter 2018 amounted to \$54 million, compared to \$49 million in the fourth quarter 2017. The increase reflected a write-off of unamortised debt costs as a part of early

<sup>13</sup> Includes operating efficiency and FX effects.

<sup>14</sup> Reflects consolidation adjustments and financial results of Magadan business unit, Sukhoi log and non-producing business units, including exploration business unit, capital construction business unit and unallocated segments.

prepayment of certain credit facilities, while the Company managed to decrease the interest on borrowings in the period.

Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps), totaled \$72 million in the first quarter 2018. This decline was driven by pro-active debt portfolio management. Specifically, floating interest rate debt instruments share within the debt portfolio structure declined to 4% as at 31 March 2018 (compared to 31% as at 31 December 2017) as well as reducing total debt during the period.



### Foreign exchange gain and derivatives

The Group's foreign exchange gain in the first quarter 2018 amounted to \$16 million, compared to a \$18 million gain in the fourth quarter 2017, which reflects the revaluation of USD-denominated bank deposits, USD-denominated accounts receivables and USD-denominated liabilities as at 31 December 2017 due to FX rate fluctuation.

### Valuation of derivative financial instruments as of 31 March 2018 and for the three months ended 31 March 2018

\$ million	Asset	Liability	Fair value recorded in the statement of financial position	Profit & loss (expenses)/ income
Revenue stabiliser	-	(75)	(75)	(11)
Cross-currency swaps	37	(376)	(339)	13
Interest rate swaps	7	(2)	5	-
Conversion option on convertible bonds	-	(16)	-	4
<b>Total</b>	<b>44</b>	<b>(469)</b>	<b>(409)</b>	<b>6</b>

### Revenue stabiliser<sup>16</sup>

There were no changes to the revenue stabiliser option agreements during the three months ended 31 March 2018. On 30 June 2017, the hedges for Tranches 1 and 2 were de-designated and hedge accounting in terms of IFRS 9 no longer applies on a prospective basis, because strikes on the remaining options are

<sup>15</sup> Weighted average interest rate is calculated as of the end of the period.

<sup>16</sup> For additional information on revenue stabiliser, cross-currency and interest rate swaps, see Note 11 of the condensed consolidated interim financial statements.

out of the forecasted gold price. Starting from 1 July 2017 remaining outstanding options of the Tranches 1 and 2 are accounted at fair value through profit or loss.

#### **Cross-currency and interest rate swaps<sup>16</sup>**

In the first quarter 2018, the overall positive effect from cross-currency and interest rate swaps on finance cost amounted to \$10 million. This was recorded within note 11 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**

In the first quarter 2018, the Group issued \$250 million convertible bonds due in 2021 that have a fixed coupon of 1.0% per annum payable on a semi-annual basis in arrears. Bondholders have a right to convert their bonds starting from 8 March 2018 until 7 days before maturity based on the GDRs price which is subject to certain price adjustments. This right is presented in financial statements as derivative financial instrument conversion option. As at 31 March 2018 the fair value of conversion option of USD million was determined with the reference to quoted market price and is presented within note 11. In the first quarter 2018, the overall gain from conversion option amounted to \$4 million.

#### **PROFIT BEFORE TAX & INCOME TAXES**

In the first quarter 2018, profit before tax decreased to \$307 million compared to the previous quarter partially driven by lower foreign exchange gain and lower gain on investments and revaluation of derivative financial instruments. Income tax totaled \$63, resulting in an effective income tax rate of 21%.

#### **NET PROFIT**

In the first quarter 2018, net profit totaled \$244 million, compared to \$267 million in the fourth quarter 2017. The net profit decline is trending in line with the change in operating profit and partially reflects the impact of non-cash items such as gain on investments and revaluation of derivative financial instruments and foreign exchange gain in the period.

#### **Adjusted net profit calculation**

<b>\$ million</b>	<b>1Q 2018</b>	<b>4Q 2017</b>	<b>Q-o-Q</b>	<b>1Q 2018</b>	<b>1Q 2017</b>	<b>Y-o-Y</b>
<b>Net profit for the period</b>	244	267	(9%)	244	499	(51%)
impairment/(reversal of impairment)	1	13	(92%)	1	-	N.A.
gain on derivative financial instruments and investments, net	(6)	(20)	(70%)	(6)	(108)	(94%)
foreign exchange gain, net	(16)	(18)	(11%)	(16)	(190)	(92%)
deferred income tax related to derivatives	-	-	N.A.	-	2	(100%)
<b>Adjusted net profit</b>	<b>223</b>	<b>242</b>	<b>(8%)</b>	<b>223</b>	<b>203</b>	<b>10%</b>
Total revenue	617	743	(17%)	617	609	1%
<b>Adjusted net profit margin</b>	<b>36%</b>	<b>33%</b>	<b>3 pts</b>	<b>36%</b>	<b>33%</b>	<b>3 pts</b>

**Statement of financial position review**
**DEBT**

As at 31 March 2018, the Group's gross debt amounted to \$4,174 million, down 2% compared to \$4,281 million as at 31 December 2017. The Company demonstrated a pro-active approach in debt portfolio management. In January 2018, the Company completed two bond offerings (\$250 million convertible bonds and \$500 million Eurobonds). As a result, Polyus used proceeds from the recent bond issuances and additional \$225 million commercial bank loans to prepay \$1,000 million out of a \$1,250 million credit facility, maturing in 2023. The share of fixed-rate liabilities within the Company's debt portfolio stood at 96% (compared to 69% as of the end of the fourth quarter 2017) as of the end of the first quarter 2018.

**Debt breakdown by type**

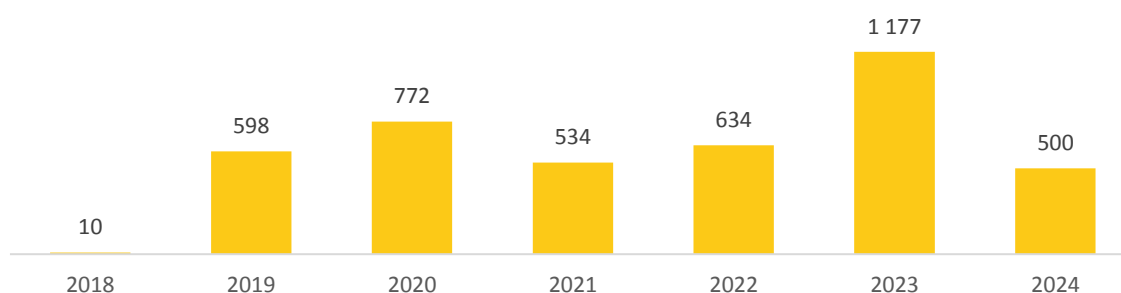
<b>\$ million</b>	<b>31 March 2018</b>	<b>31 December 2017</b>	<b>31 March 2017</b>
Eurobonds	2,530	2,033	2,038
Convertible bonds	228	-	-
RUB bonds	266	265	271
Deferred payments under letters of credit	-	-	9
Finance lease	13	13	15
Bank loans	1,137	1,970	2,282
<b>Total</b>	<b>4,174</b>	<b>4,281</b>	<b>4,615</b>

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

**Debt breakdown by currency**

	<b>31 March 2018</b>		<b>31 December 2017</b>		<b>31 March 2017</b>	
	<b>\$ million</b>	<b>% of total</b>	<b>\$ million</b>	<b>% of total</b>	<b>\$ million</b>	<b>% of total</b>
EUR	-	0%	-	0%	3	0%
RUB	932	22%	928	22%	943	20%
USD	3,242	78%	3,353	78%	3,669	80%
<b>Total</b>	<b>4,174</b>	<b>100%</b>	<b>4,281</b>	<b>100%</b>	<b>4,615</b>	<b>100%</b>

The Company's debt profile remains smooth with the current portion of long-term borrowings amounting to \$10 million in 2018. Existing cash balances cover the vast portion of all principal debt repayments up to 2020. As a result of refinancing activity, the majority of the maturities due during or after 2021 comprise the Eurobond issues (\$500 million due in 2022, \$800 million due in 2023 and \$500 million due in 2024)

**Debt maturity schedule<sup>17</sup>, \$ million**


<sup>17</sup> The breakdown is based on actual maturities and excludes \$51 million of banking commissions and effect from discounting of convertible bonds.

**CASH AND CASH EQUIVALENTS AND BANK DEPOSITS**

The Group's cash and cash equivalents and bank deposits totaled \$1,095 million, down 9% compared with the end of the fourth quarter 2017. The decrease in cash and cash equivalents was due to a prepayment of certain credit facilities during the period.

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

**Cash, cash equivalents, and bank deposits breakdown by currency**

\$ million	31 March 2018	31 December 2017	31 March 2017
RUB	129	154	224
USD	966	1,050	1,263
<b>Total</b>	<b>1,095</b>	<b>1,204</b>	<b>1,487</b>

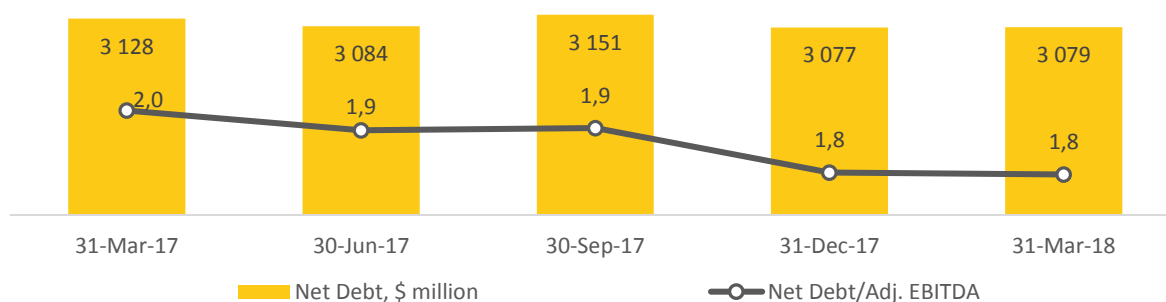
**NET DEBT**

At the end of the first quarter 2018, the Group's net debt stood at \$3,079 million, remaining flat compared to the end of 2017.

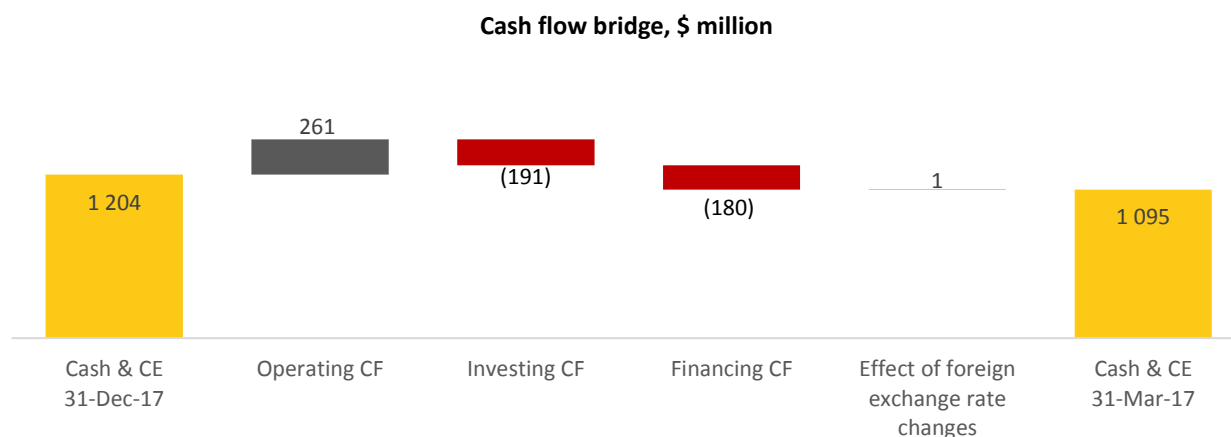
**Net debt calculation**

\$ million	31 March 2018	31 December 2017	31 March 2017
Non-current borrowings	4,163	4,269	4,591
+ Current borrowings	11	12	24
– Cash and cash equivalents	(1,095)	(1,204)	(1,487)
<b>Net debt</b>	<b>3,079</b>	<b>3,077</b>	<b>3,128</b>

The net debt/adjusted EBITDA ratio as at 31 March 2018 remained in line with the end of 2017 at the level of 1.8x.

**Net debt and net debt/adjusted EBITDA (last 12 months)<sup>18</sup> ratio**


<sup>18</sup> 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. Net debt to Adjusted EBITDA ratio is calculated as net debt as of the end of the relevant period divided by Adjusted EBITDA for the relevant period. For the purpose of the net debt to Adjusted EBITDA ratio as of 31 March 2018, Adjusted EBITDA is calculated as the trailing twelve months ended on 31 March 2018 (being Adjusted EBITDA for 2017 less Adjusted EBITDA for the three months ended 31 March 2017 plus Adjusted EBITDA for the three months ended 31 March 2018). For the purpose of the net debt to Adjusted EBITDA ratio as of 30 September 2017, Adjusted EBITDA is calculated as the trailing twelve months ended on 30 September 2017 (being Adjusted EBITDA for 2016 less Adjusted EBITDA for the nine months ended 30 September 2016 plus Adjusted EBITDA for the nine months ended 30 September 2017). For the purpose of the net debt to Adjusted EBITDA ratio as of 30 June 2017, Adjusted EBITDA is calculated as the trailing twelve months ended on 30 June 2017 (being Adjusted EBITDA for 2016 less Adjusted EBITDA for the six months ended 30 June 2016 plus Adjusted EBITDA for the six months ended 30 June 2017). For the purpose of the net debt to Adjusted EBITDA ratio as of 31 March 2017, Adjusted EBITDA is calculated as the trailing twelve months ended on 31 March 2017 (being Adjusted EBITDA for 2016 less Adjusted EBITDA for the three months ended 31 March 2016 plus Adjusted EBITDA for the three months ended 31 March 2017).

**Statement of cash flows review**


In the first quarter 2018, cash flow from operations amounted to \$261 million, compared to \$344 million in the fourth quarter 2017 due to lower sales volumes in the reporting period. Due to lower capex spending in the first quarter 2018, cash outflow on investing activities reached \$191 million. Net financing cash outflow totaled \$180 million, reflecting the repayment of borrowings and other financing activities, partly offset by positive net proceeds on cross-currency and interest rate swaps.

**OPERATING CASH FLOW**

In the first quarter 2018, the Group generated operational cash flow of \$261 million. This was negatively impacted by a working capital outflow totaling \$48 million reflecting an inventory accumulation at the refinery and stockpiled flotation concentrate at Olimpiada as well as advanced purchase of diesel and spare parts at Alluvials, and reagents at Olimpiada and Blagodatnoye.

**INVESTING CASH FLOW**

In the first quarter 2018, capital expenditures decreased to \$182, from \$279 million in the fourth quarter 2017.

Capital expenditures at Natalka, the Group's main development project, decreased 13% in the first quarter 2018, to \$82 million as the major part of the project's investment program was completed in 2017 and the asset is now operating in a ramp-up mode. Purchase of equipment during the period amounted to \$45 million, compared to \$54 million in the fourth quarter 2017.

In the reporting period, the Group continued to capitalise borrowing costs and other directly attributable operating costs related to development of Natalka. In particular, total capitalised costs amounted to \$37 million, including \$23 million of borrowing costs and \$14 million of operating cost net of revenue.

The construction works at the Natalka Mill's auxiliary facilities are ongoing. Preparation works for access roads and groundwork for the installation of slurry pipelines at the main tailings storage facility are ongoing, while the recirculating water supply system has been completed.

In the first quarter 2018, the gyratory crusher MK-60-110E was temporarily idled as a result of destruction of surfaces of the eccentric sleeve and deterioration of the main shaft of the crusher due to deep oxidation. The Company implemented a temporary crushing scheme with the use of Metso Lokotrack LT125 and LT160 mobile crushing complexes. Those mobile crushers fully cover the Natalka Mill's crushed ore volumes requirements, with the combined throughput capacity of more than 30 thousand tonnes of ore per day. The Company expects both the eccentric sleeve and the main shaft to be installed at the end of 2018 upon their delivery on site.

As of May 2018, the Natalka Mill has reached the level of above 80% of its design throughput capacity of 10 million tons on an annualized basis. As the ramp-up continues, mining fleet procurement is ongoing with eight dump trucks delivered on site in the reporting period.

Capital expenditures at Olimpiada decreased to \$36 million in the first quarter 2018. The construction of Bio Oxidation circuit (“BIO-4”) at the Mills-1, 2, 3 complex was completed with the remaining four reactors having been installed in the first quarter 2018. All eight reactors have been in operation since March. In addition, maintenance capital expenditures were lower compared to the previous quarter.

At Blagodatnoye, capital expenditures remained almost flat at \$17 million in the first quarter 2018.

At Verninskoye, capital expenditures decreased to \$10 million as the Stage 2 of Verninskoye Mill expansion project has been completed. At the same time, mining fleet procurement occurred in the fourth quarter 2017 with two Caterpillar 785C trucks delivered on site.

Capital expenditures at Kuranakh decreased to \$9 million in the first quarter 2018 due to the postponement to the next quarter of the procurement of certain fixed asset components related to the Mill expansion project.

At Alluvials, capital expenditures remained almost flat at \$6 million in the first quarter 2018 and related to exploration activity as well as the ongoing replacement of worn-out equipment.

#### Capex breakdown<sup>19</sup>

\$ million	1Q 2018	4Q 2017	Q-o-Q	1Q 2018	1Q 2017	Y-o-Y
Natalka, including						
Purchase of equipment	45	54	(18%)	45	40	12%
Capitalisation of borrowing costs	23	16	44%	23	22	5%
Operating costs	17	24	(29%)	17	13	31%
Net proceeds from selling gold produced during the ramp-up period	(3)	-	N.A.	(3)	-	N.A.
<b>Natalka, total</b>	<b>82</b>	<b>94</b>	<b>(13%)</b>	<b>82</b>	<b>75</b>	<b>9%</b>
Olimpiada	36	84	(57%)	36	14	N.A.
Blagodatnoe	17	19	(11%)	17	3	N.A.
Verninskoye	10	16	(38%)	10	5	100%
Alluvials	6	9	(33%)	6	7	(14%)
Kuranakh	9	26	(65%)	9	8	13%
Other <sup>20</sup>	22	31	(29%)	22	19	16%
<b>CAPEX</b>	<b>182</b>	<b>279</b>	<b>(35%)</b>	<b>182</b>	<b>131</b>	<b>39%</b>
Omchak electricity transmitting line	9	48	N.A.	9	1	N.A.
Items capitalised <sup>21</sup> , net	5	13	(62%)	5	(1)	N.A.
Change in working capital for purchase property, plant and equipment	4	(19)	N.A.	4	(3)	N.A.
<b>Purchase of PP&amp;E<sup>22</sup></b>	<b>200</b>	<b>321</b>	<b>(38%)</b>	<b>200</b>	<b>128</b>	<b>56%</b>

<sup>19</sup> The capex above presents the capital construction-in-progress unit as allocated to other business units, whilst in the condensed consolidated interim financial statements capital construction-in-progress is presented as a separate business unit.

<sup>20</sup> Reflects expenses related to exploration business unit, construction of Razdolinskaya-Taiga, Peleduy-Mamakan grid lines and Sukhoi Log expenses, net of the deposit license acquisition cost and payments to RT.

<sup>21</sup> 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.

<sup>22</sup> Presented net of the Sukhoi Log deposit license acquisition cost and payments to RT.

The total cash amount spent on the purchase of PP&E decreased to \$200 million, from \$321 million in the previous quarter. This mainly reflects the respective decline in total capital expenditures outlined above as well as changes in items capitalised and expenses related to construction of the “Ust’-Omchug – Omchak” power grid.

At Sukhoi Log, the Company is carrying out verification drilling and will continue with in-fill, deep-level and flanks drilling. As at the end of the first quarter of 2018, Polyus had completed 75% of the planned 40 thousand meters of verification drilling. AMC has been engaged to supervise the drilling program and review the results in compliance with JORC standards. The Company expects to upgrade the classification of a portion of the Sukhoi Log Resources estimates from Inferred Mineral Resource to Measured & Indicated Resources before the end of 2018. Polyus engaged Hatch to develop the Scoping Study and SRK for results’ quality assurance. At the end of the first quarter of 2018, the scoping study was at its final stage.

Other areas of investing activities in the first quarter 2018 comprised of \$7 million of interest received and \$2 million of proceeds received from the Federal Grid Company for the disposal of Razdolinskaya-Taiga in line with initial agreements.

#### **FINANCING CASH FLOW**

In the first quarter 2018, net financing cash outflow totaled \$180 million compared to \$68 million of cash outflow in the prior period. Polyus completed prepayments of certain credit facilities, including the repayment of \$1,000 million of the \$1,250 million credit facility with Sberbank maturing in 2023, using proceeds from the recent bond issuances as well as \$225 million in commercial bank loans and cash on balance.

**RECENT CORPORATE DEVELOPMENTS****Convertible bonds buyback**

On 12 April 2018, Polyus announced an invitation to holders of its \$250 million 1% guaranteed convertible bonds due 2021 (the "Bonds") to tender up to \$50 million (or 20% of the issue) in aggregate principal amount of the Bonds for purchase. The offer was structured as a reverse bookbuilding modified Dutch auction process. The Final Buyback Price was 86.7% (expressed as a percentage of the principal amount of the Bonds). The Company has decided to accept Bonds submitted pursuant to valid Tender Instructions which specified a purchase price equal to or below the Final Buyback Price in an aggregate nominal amount of \$50 million.

**2H 2017 Dividend Recommendation**

On 27 April 2018, the Company's Board of Directors has recommended the dividends for the second half of 2017 in the amount of 147.12 Russian roubles per ordinary share. The dividend is subject to approval by the Company's annual general shareholders' meeting ("AGM") on 31 May 2018. The dividend amount is equivalent to approximately \$2.35 dollars per ordinary share or \$1.18 dollars per depositary share (with two depositary shares representing interest in one ordinary share). The total recommended dividend payout for the second half of 2017 will amount to 19,469,807,248.32 Russian roubles and correspond to \$311 million dollars. The total dividend payout for the full year of 2017 will correspond to \$550 million dollars. Polyus' current dividend policy suggests the total dividend payout in respect of each of the years 2017 and 2018 as the higher of 30% of the Company's EBITDA for the respective reporting year or \$550 million dollars. This amount includes \$239 million dollars paid out in form of dividend for the first half of 2017 in October 2017. The dividend record date will be 10 June 2018.

## **Going concern**

The financial position of the Group, its cash flows, liquidity position, and borrowing facilities are set out in this MD&A on pages 19 to 21. As of 31 March 2018 the Group held \$1,095 million in cash and cash equivalents and bank deposits and had a net debt of \$3,079 million, with \$699 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 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 programme.

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

The Directors do not believe that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 December 2017. Detailed explanation of the risks summarized below, together with the Group's risk mitigation plans, can be found on pages 30 to 33 of the 2017 Annual Report which is available at [http://www.polyus.com/upload/iblock/222/polyus\\_annual\\_report\\_2017\\_en.pdf](http://www.polyus.com/upload/iblock/222/polyus_annual_report_2017_en.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 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 31 March 2018, 88% 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 4% of the Group's debt portfolio is made up of USD floating rate borrowings. Fluctuations in interest rates may affect the Group's financial results. The Group continues to shift from floating to fixed interest rate on the back of higher finance cost expectations.

**Inflation risk**

As stated on page 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 31 March 2018 and the related condensed consolidated interim statements of profit or loss, comprehensive income, changes in equity and cash flows for the three 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 interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Olga Tabakova  
Engagement partner

*Deloitte*

30 May 2018



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: ZAO "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 months ended  
31 March 2018 (unaudited)*

## PJSC “POLYUS”

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS FOR THE THREE MONTHS ENDED 31 MARCH (UNAUDITED)

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

	Notes	Three months ended 31 March	
		2018	2017
Gold sales	5	608	600
Other sales		9	9
<b>Total revenue</b>		<b>617</b>	<b>609</b>
Cost of gold sales	6	(216)	(225)
Cost of other sales		(9)	(9)
<b>Gross profit</b>		<b>392</b>	<b>375</b>
Selling, general and administrative expenses	7	(52)	(42)
Other expenses, net		(8)	(3)
<b>Operating profit</b>		<b>332</b>	<b>330</b>
Finance costs, net	8	(54)	(63)
Interest income		7	11
Gain on investments and revaluation of derivative financial instruments, net	9	6	108
Foreign exchange gain, net		16	190
<b>Profit before income tax</b>		<b>307</b>	<b>576</b>
Income tax expense		(63)	(77)
<b>Profit for the period</b>		<b>244</b>	<b>499</b>
Profit for the period attributable to:			
Shareholders of the Company		247	504
Non-controlling interests		(3)	(5)
		<b>244</b>	<b>499</b>
Weighted average number of ordinary shares'000			
- for basic earnings per share	16	131,984	125,628
- for dilutive earnings per share	16	135,781	125,743
Earnings per share (US Dollar)			
- basic		1.87	4.01
- dilutive		1.80	4.01

## PJSC “POLYUS”

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH (UNAUDITED)

(in millions of US Dollars)

	Three months ended 31 March	
	2018	2017
<b>Profit for the period</b>	<b>244</b>	<b>499</b>
<b>Other comprehensive income / (loss) for the period</b>		
<b><i>Items that may be subsequently reclassified to profit or loss:</i></b>		
Increase / (decrease) in revaluation of cash flow hedge reserve on revenue stabiliser	-	5
Deferred tax relating to change in revaluation of cash flow hedge reserve	-	(1)
	-	4
<b><i>Items that will not be subsequently reclassified through profit or loss:</i></b>		
Effect of translation to presentation currency	1	(15)
<b><i>Items that have been reclassified through profit or loss:</i></b>		
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser	-	(16)
Deferred tax relating to cash flow hedge reserve reclassified to consolidated statement of profit or loss	-	3
	-	(13)
<b>Other comprehensive loss for the period</b>	<b>1</b>	<b>(24)</b>
<b>Total comprehensive income for the period</b>	<b>245</b>	<b>475</b>
Total comprehensive income for the period attributable to:		
Shareholders of the Company	248	473
Non-controlling interests	(3)	2
	<b>245</b>	<b>475</b>

# PJSC “POLYUS”

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AT 31 MARCH (UNAUDITED) (in millions of US Dollars)

	Notes	31 Mar. 2018	31 Dec. 2017
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	4,186	4,005
Derivative financial instruments and investments	11	44	38
Inventories	12	266	300
Deferred tax assets		61	60
Other receivables		97	97
Other non-current assets		57	58
		<b>4,711</b>	<b>4,558</b>
<b>Current assets</b>			
Inventories	12	532	435
Deferred expenditure		32	14
Trade and other receivables	13	56	101
Advances paid to suppliers and prepaid expenses		27	21
Taxes receivable	14	117	114
Cash and cash equivalents	15	1,095	1,204
		<b>1,859</b>	<b>1,889</b>
<b>Total assets</b>		<b>6,570</b>	<b>6,447</b>
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Share capital		5	5
Additional paid-in capital		1,933	1,948
Treasury shares		(67)	(89)
Other reserves		(2)	(2)
Translation reserve		(2,722)	(2,723)
Retained earnings		1,666	1,425
<b>Equity attributable to shareholders of the Company</b>		<b>813</b>	<b>564</b>
Non-controlling interests		89	92
		<b>902</b>	<b>656</b>
<b>Non-current liabilities</b>			
Borrowings	17	4,163	4,269
Derivative financial instruments	11	469	448
Deferred revenue	18	133	132
Deferred consideration	19	163	216
Deferred tax liabilities		237	217
Site restoration, decommissioning and environmental obligations		47	47
Other non-current liabilities		48	45
		<b>5,260</b>	<b>5,374</b>
<b>Current liabilities</b>			
Borrowings	17	11	12
Deferred consideration	19	55	-
Trade and other payables	20	296	318
Taxes payable	21	46	87
		<b>408</b>	<b>417</b>
<b>Total liabilities</b>		<b>5,668</b>	<b>5,791</b>
<b>Total equity and liabilities</b>		<b>6,570</b>	<b>6,447</b>

## PJSC “POLYUS”

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH (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	Cash flow hedge revaluation reserve	Translation reserve	Retained earnings			
<b>Balance at 31 December 2016</b>	<b>125,632</b>	<b>7</b>	<b>2,288</b>	<b>(3,712)</b>	<b>-</b>	<b>12</b>	<b>(2,720)</b>	<b>3,617</b>	<b>(508)</b>	<b>94</b>	<b>(414)</b>
Profit for the period	-	-	-	-	-	-	-	504	504	(5)	499
Increase in cash flow hedge revaluation reserve	-	-	-	-	-	(9)	-	-	(9)	-	(9)
Effect of translation to presentation currency	-	-	-	-	-	-	(22)	-	(22)	7	(15)
<b>Total comprehensive income / (loss)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9)</b>	<b>(22)</b>	<b>504</b>	<b>473</b>	<b>2</b>	<b>475</b>
Equity-settled share-based payment plans (LTIP), net of tax	-	-	6	-	-	-	-	-	6	-	6
Buy-back of treasury shares	(14)	-	-	(1)	-	-	-	-	(1)	-	(1)
<b>Balance at 31 March 2017</b>	<b>125,618</b>	<b>7</b>	<b>2,294</b>	<b>(3,713)</b>	<b>-</b>	<b>3</b>	<b>(2,742)</b>	<b>4,121</b>	<b>(30)</b>	<b>96</b>	<b>66</b>
<b>Balance at 31 December 2017</b>	<b>131,924</b>	<b>5</b>	<b>1,948</b>	<b>(89)</b>	<b>(2)</b>	<b>-</b>	<b>(2,723)</b>	<b>1,425</b>	<b>564</b>	<b>92</b>	<b>656</b>
Profit for the period	-	-	-	-	-	-	-	247	247	(3)	244
Effect of translation to presentation currency	-	-	-	-	-	-	1	-	1	-	1
<b>Total comprehensive (loss) / income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>247</b>	<b>248</b>	<b>(3)</b>	<b>245</b>
Equity-settled share-based payment plans (LTIP), net of tax	16	-	2	-	-	-	-	-	2	-	2
Exercise of the LTIP first tranche	16	415	(17)	22	-	-	-	(6)	(1)	-	(1)
<b>Balance at 31 March 2018</b>	<b>132,339</b>	<b>5</b>	<b>1,933</b>	<b>(67)</b>	<b>(2)</b>	<b>-</b>	<b>(2,722)</b>	<b>1,666</b>	<b>813</b>	<b>89</b>	<b>902</b>

# PJSC “POLYUS”

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED 31 MARCH (UNAUDITED)

(in millions of US Dollars)

	Notes	Three months ended 31 March	
		2018	2017
<b>Operating activities</b>			
<b>Profit before income tax</b>		<b>307</b>	<b>576</b>
Adjustments for:			
Finance costs, net	8	54	63
Interest income		(7)	(11)
Gain on investments and revaluation of derivative financial instruments, net	9	(6)	(108)
Depreciation and amortisation		43	39
Foreign exchange gain, net		(16)	(190)
Other		3	5
		<b>378</b>	<b>374</b>
Movements in working capital			
Inventories		(45)	5
Deferred expenditure		(18)	(18)
Trade and other receivables		46	10
Advances paid to suppliers and prepaid expenses		(7)	3
Taxes receivable		7	20
Trade and other payables and accrued expenses		2	3
Taxes payable		(33)	(1)
Other		-	(14)
		<b>330</b>	<b>382</b>
<b>Cash flows from operations</b>		<b>330</b>	<b>382</b>
Income tax paid		(69)	(100)
		<b>261</b>	<b>282</b>
<b>Net cash generated from operating activities</b>		<b>261</b>	<b>282</b>
<b>Investing activities<sup>1</sup></b>			
Purchase of property, plant and equipment (excluding payments for the Sukhoi Log deposit and construction of Omchak high-voltage power grid)		(191)	(113)
Payments for the Sukhoi Log deposit		-	(15)
Payments for the Omchak high-voltage power grid		(9)	-
Interest received		7	12
Proceeds from disposal of joint venture		-	100
Proceeds from disposal of electricity transmission grids		2	-
Other		-	1
		<b>(191)</b>	<b>(15)</b>
<b>Net cash utilised in investing activities</b>		<b>(191)</b>	<b>(15)</b>
<b>Financing activities<sup>1</sup></b>			
Proceeds from borrowings		975	800
Repayment of borrowings		(1,070)	(1,259)
Interest paid		(84)	(95)
Commissions on borrowings paid		(10)	-
Proceeds from sales and leaseback transactions		-	10
Repayments of principal under finance lease		(1)	(2)
Net proceeds on exchange of interest payments under interest and cross currency rate swaps	8	10	9
Payment for buy-back of shares		-	(1)
		<b>(180)</b>	<b>(538)</b>
<b>Net cash utilised in financing activities</b>		<b>(180)</b>	<b>(538)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(110)</b>	<b>(271)</b>
<b>Cash and cash equivalents at beginning of the period</b>	15	<b>1,204</b>	<b>1,740</b>
Effect of foreign exchange rate changes on cash and cash equivalents		1	18
		<b>1,095</b>	<b>1,487</b>
<b>Cash and cash equivalents at end of the period</b>	15	<b>1,095</b>	<b>1,487</b>

<sup>1</sup> Significant non-cash transactions relating to investing and financing activities are disclosed in notes 16, 17 and 19 to these condensed consolidated interim financial statements.

# PJSC “POLYUS”

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2018

(in millions of US Dollars)

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### 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 and Irkutsk regions and the Sakha Republic of the Russian Federation. The Group also performs research, exploration and development works; the ramp-up works being primarily at the Natalka licence area located in the Magadan region of the Russian Federation. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 24.

The shares of the Company are “level one” listed on the Moscow Exchange. On 5 July 2017, global depository shares (GDSs) representing Polyus’ shares (with two global depository shares representing interest in one Polyus share) were admitted to the official list maintained by the United Kingdom Financial Conduct Authority and to trading on the main market for listed securities of the London Stock Exchange plc (“LSE”). The controlling shareholder of the Company is Polyus Gold International Limited (“PGIL”), a public limited company registered in Jersey. The most senior parent of the Company is Wandle Holding Limited, a company registered in Cyprus. As at 31 March 2018 and 31 December 2017, the ultimate controlling party of the Company was Mr. Said Kerimov.

### 2. BASIS OF PREPARATION AND PRESENTATION

#### 2.1. Going concern

In assessing the appropriateness of the going concern assumption, the Directors have taken account of the Group’s financial position, expected future trading performance, its borrowings, available credit facilities and its capital expenditure commitments, expectations of the future gold price, currency exchange rates and other risks facing the Group. After making appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for at least the next 12 months 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 Standards 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 2017.

#### 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 MONTHS ENDED 31 MARCH 2018

(in millions of US Dollars)

#### 2.4. IFRS standards first time applied in 2018

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

<u>Title</u>	<u>Subject</u>	<u>Effective for annual periods beginning on or after</u>	<u>Expected effect on the condensed consolidated interim financial statements</u>
Amendments to IAS 40	Investment Property	1 January 2018	No effect
Amendments to IFRS 1	First-time Adoption of International Financial Reporting Standards	1 January 2018	No effect
Amendments to IFRS 2	Share-based payment	1 January 2018	No effect
IFRS 9	Financial instruments	1 January 2018	No significant changes, see below for further discussion
IFRS 15	Revenue from contracts with customers	1 January 2018	No significant changes, see below for further discussion.
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	No effect
Amendments to IAS 28	Investments in Associates and Joint Ventures	1 January 2018	No effect

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

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

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

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

All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED 31 MARCH 2018**

*(in millions of US Dollars)*

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reporting date to reflect changes in credit risk since initial recognition. It is no longer necessary for a credit event to have occurred before credit losses are recognised.

***Effect on the condensed consolidated interim financial statements***

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

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

*Derivative financial assets and liabilities* were already accounted at fair value through profit or loss (FVTPL) reflecting the expected credit loss model before IFRS 9 adoption.

*Trade receivables*, except for *trade receivables for gold-bearing products*, do not contain any significant financing component. The Group adopted a simplified model to calculate impairment losses (loss allowance is measured at an amount equal to lifetime expected credit losses) as allowed by IFRS 9. *Trade receivables for gold-bearing products* are now accounted at FVTPL (see discussion in paragraph 2.4.2 below), however the effect of the change in the basis of measurement was insignificant.

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

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

As at 1 January 2018, the Group reviewed and assessed the existing financial assets for impairment using reasonable and supportable information that is available in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised. This resulted in no adjustment to the carrying amounts.

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

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

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

***Effect on the condensed consolidated interim financial statements***

The Group has a number of sales contracts for other gold bearing products which contain provisional pricing terms depending on quantity and price. The adjustment to the quantity delivered is treated as a variable consideration and is not a financial asset within the scope of IFRS 9, thus completely recognised in *Other gold-bearing products* within *Gold sales*. The adjustment to the price depends on gold market prices, therefore represents a sales contract with an embedded derivative within the accounts receivable. The embedded derivative relates to the accounts receivable, which is recognised and measured based on IFRS 9. The embedded derivative causes the receivable to fail the “solely payments of principal and interest” test under IFRS 9 meaning the receivable is measured at fair value through profit or loss within *Gain on investments and revaluation of derivative financial instruments, net*.

The adoption of IFRS 15 has not had an impact on the timing or the amount of recognition of revenue on gold sales, except for separate recognition of a component related to charges for transportation costs embedded in the sales contract for other gold bearing products, which is now treated as a separate performance obligation; *Revenue from transportation services* is presented

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2018

(in millions of US Dollars)

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within *Other sales* and related costs within *Cost of other sales*. However, the impact of this change was not significant.

### **2.5. Accounting policies regarding financial instruments (IFRS 9) and Revenue (IFRS 15) applied from 1 January 2018**

#### **2.5.1. Financial instruments**

##### **Financial assets**

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

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

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

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

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

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

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

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

##### **Impairment of financial assets**

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

The Group always recognises lifetime expected credit losses (“ECL”) for its trade and other receivables (the “simplified approach” under IFRS 9) and updates this expectation at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. . The expected credit losses on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 month ECL. The assessment of

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whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

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

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

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

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

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

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

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

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

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

#### **Derecognition**

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

#### **Effective interest method**

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

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

#### **Financial liabilities**

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

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

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

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

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

#### **De-recognition of financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

#### **Derivative financial instruments**

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

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

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

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

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

#### **2.5.2. Revenue from Contracts with Customers**

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

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

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

#### **2.6. IFRS standards to be applied after 2018**

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

<b>Title</b>	<b>Subject</b>	<b>Effective for annual periods beginning on or after</b>	<b>Expected effect on the condensed consolidated interim financial statements</b>
IFRS 16	Leases	1 January 2019	For changes, see below
Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019	Under review
IFRIC 23	Uncertainty over Income Tax Treatment	1 January 2019	Under review

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#### **IFRS 16 Leases**

As at 31 March 2018, the Group has non-cancellable operating lease commitments of USD 131 million (note 23). IAS 17 does not require the recognition of any right-of-use assets or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 23. A preliminary assessment indicates that these arrangements would meet the definition of a lease under IFRS 16, and hence the Group would recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's condensed consolidated interim financial statements and the Group is currently assessing its full potential effect. It is not practicable to provide a reasonable estimate of the financial effect until the Group completes the review.

### **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 2017, except for the new accounting policies discussed in 2.4. and 2.5. above resulting from application of the new standards.

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

### **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 months ended 31 March 2018 are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2017.

### **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”).

Starting from 30 June 2017, the Group enhanced the disclosure of the segmental performance by splitting the former Krasnoyarsk business unit into the Olimpiada and Blagodatnoye business units. This presentation reflects the way segments are now analysed by the chief operating decision maker and comparative information for the three months ended 31 March 2017 was presented respectively.

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

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

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gold from the Verninskoye mine, research, exploration and development works at the Smezhny and Medvezhy Zapadny deposits;

- **Kuranakh business unit** (renamed, previously Yakutia Kuranakh business unit, Sakha Republic of the Russian Federation) – mining (including initial processing) and sale of gold from the Kuranakh mines;
- **Natalka business unit** (renamed, previously Magadan business unit, Magadan region of the Russian Federation) – represented by JSC Polyus Magadan which performs development and ramp-up works at the Natalka deposit;
- **Sukhoi Log business unit** (Irkutsk region of the Russian Federation) – represented by SL Gold which performs exploration and evaluation works at the Sukhoi Log deposit;
- **Exploration business unit** (Krasnoyarsk region, Irkutsk region, Amur region, and others) – research and exploration works in several regions of the Russian Federation;
- **Capital construction unit** - represented by LLC Polyus Stroy, JSC TaigaEnergostroy and JSC VitimEnergostroy, which perform construction works at Verninskoye, Olimpiada and other deposits;
- **Unallocated** – the 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 required to be disclosed as operating segments because quantitative thresholds are not met.

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

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

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

	Gold sales	Ounces of gold sold in thousands <sup>2</sup>	Adjusted EBITDA	TCC (USD per ounce) <sup>2</sup>	Capital expenditure
<b>For the three months ended 31 March 2018</b>					
<b>Business units</b>					
Olimpiada	327	249	222	340	36
Blagodatnoye	140	105	96	344	17
Alluvials	-	-	(3)	-	6
Verninskoye	79	59	50	415	10
Kuranakh	62	46	31	559	9
Exploration	-	-	-	-	1
Natalka	-	-	1	-	82
Capital construction	-	-	-	-	4
Sukhoi Log	-	-	-	-	5
Unallocated	-	-	(10)	-	12
<b>Total</b>	<b>608</b>	<b>459</b>	<b>387</b>	<b>383</b>	<b>182</b>
<b>For the three months ended 31 March 2017</b>					
<b>Business units</b>					
Olimpiada	327	268	194	393	14
Blagodatnoye	158	124	120	306	3
Alluvials	-	-	-	-	7
Verninskoye	65	54	38	389	5
Kuranakh	50	41	26	585	8
Exploration	-	-	-	-	1
Natalka	-	-	1	-	75
Capital construction	-	-	-	-	6
Sukhoi Log	-	-	-	-	4
Unallocated	-	-	4	-	8
<b>Total</b>	<b>600</b>	<b>487</b>	<b>383</b>	<b>380</b>	<b>131</b>

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

	Three months ended 31 March	
	2018	2017
<b>Capital expenditure</b>	<b>182</b>	<b>131</b>
Acquisition of the Sukhoi Log mineral rights	-	136
Construction of Omchak high-voltage power grid	9	1
Stripping activity assets additions (note 10)	49	35
Less: other non-current assets additions	(6)	(1)
<b>Property plant and equipment additions (note 10)</b>	<b>234</b>	<b>302</b>

<sup>2</sup> Unaudited and not reviewed

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### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2018

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#### Gold sales

	Three months ended 31 March	
	2018	2017
Refined gold	596	576
Other gold-bearing products	12	24
<b>Total</b>	<b>608</b>	<b>600</b>

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales during the three months ended 31 March 2018 and 2017. There were no realised gains on derivatives included within gold sales during three months ended 2018 (31 March 2017: USD 19 million), see Note 11.

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

	Three months ended 31 March	
	2018	2017
<b>Profit for the year</b>	<b>244</b>	<b>499</b>
Income tax expense	63	77
Depreciation and amortisation (note 10)	43	39
Finance costs, net (note 8)	54	63
Equity-settled share-based payment plans (note 16)	3	7
Foreign exchange gain, net	(16)	(190)
Gain on derivative financial instruments and investments, net (note 9)	(6)	(108)
Interest income	(7)	(11)
Special charitable contributions	8	7
Impairment	1	-
<b>Adjusted EBITDA</b>	<b>387</b>	<b>383</b>

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

	Three months ended 31 March	
	2018	2017
<b>Cost of gold sales</b>	<b>216</b>	<b>225</b>
<i>Adjusted for:</i>		
Depreciation and amortisation (note 10)	(53)	(40)
Other non-cash items in cost of gold sales	13	-
<b>TCC<sup>3</sup></b>	<b>176</b>	<b>185</b>
Ounces of gold sold, in thousands <sup>3</sup>	459	487
<b>TCC per ounce of gold sold (USD per ounce)<sup>3</sup></b>	<b>383</b>	<b>380</b>

<sup>3</sup> Unaudited and not reviewed

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#### Natalka capital expenditure

	Three months ended 31 March	
	2018	2017
Purchase of equipment and construction works	45	40
Capitalisation of borrowing costs	23	22
Capitalisation of other directly attributable costs including cost of testing during the ramp-up period	14	13
<b>Total</b>	<b>82</b>	<b>75</b>

#### Capital expenditure are primarily related to the following projects:

- **Natalka:** ramp-up to design capacity in accordance with approved schedule; delivery and assemble of mining fleet to increase the mining volume; works on auxiliary facilities of the start-up complex which are about to be completed; ongoing works on Natalka’s infrastructure facilities; commenced earthworks on the main tailing dam.
- **Olimpiada:** procurement of mining fleet, expansion of Olimpiada mills’ throughout, completion of BIO-4 construction, reconstruction of the power infrastructure.
- **Blagodatnoye:** further reconfiguration and expansion of the Blagodatnoye mill, procurement of the mining fleet.
- **Kuranakh:** ongoing works on technical refurbishment of the mill within the existing building required to ensure stable performance of the mill, with the achieved throughput being unaffected; in particular, ongoing works at the thickening, tailings hydraulic transport, grinding, and classification areas; as part of the Heap Leaching project, ongoing works on the rest of the leaching panels, elimination of the design deficiencies in the process flowsheet elicited during the trial operation last year.
- **Verninskoye:** as part of the mill’s expansion, the rest of second stage works at adsorption are ongoing, with the achieved throughput being unaffected.

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

## 6. COST OF GOLD SALES

	Three months ended 31 March	
	2018	2017
Labour	56	53
Consumables and spares	53	49
Depreciation and amortisation of operating assets (note 10)	53	40
Tax on mining	34	29
Fuel	17	16
Power	9	7
Other	19	11
<b>Total cost of production</b>	<b>241</b>	<b>205</b>
(Increase) / decrease in stockpiles, gold-in-process and refined gold inventories	(25)	20
<b>Total</b>	<b>216</b>	<b>225</b>

*Cost of production* is recognised net of USD 10 million representing net realizable value of antimony (by-product) contained in the gold-antimony flotation concentrate produced. No gold-antimony flotation concentrate was sold during the three months ended 31 March 2018.

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### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2018

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#### 7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 31 March	
	2018	2017
Salaries	37	27
Professional services	2	2
Distribution expenses related to gold-bearing products	3	4
Taxes other than mining and income taxes	3	3
Depreciation and amortisation (note 10)	2	1
Other	5	5
<b>Total</b>	<b>52</b>	<b>42</b>

#### 8. FINANCE COSTS, NET

	Three months ended 31 March	
	2018	2017
Interest on borrowings	72	87
Bank commissions and write-off of unamortised debt cost due to early extinguishment of the debt	11	11
Unwinding of discounts	4	1
Gain on exchange of interest payments under cross currency swap (note 11)	(10)	(9)
Other	-	1
<b>Sub-total finance cost</b>	<b>77</b>	<b>91</b>
Interest included in the cost of qualifying assets	(23)	(28)
<b>Total</b>	<b>54</b>	<b>63</b>

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

	Three months ended 31 March	
	2018	2017
Revaluation gain on cross currency swaps (note 11)	13	96
Revaluation gain on conversion option (note 17)	4	-
Revaluation loss on revenue stabiliser	(11)	(49)
Revaluation loss on interest rate swap (note 11)	-	(1)
Revaluation loss on ineffective part of the revenue stabiliser under Tranches 1 and 2 during cash flow hedge period (note 11)	-	(30)
Gain on disposal of joint venture	-	92
<b>Total</b>	<b>6</b>	<b>108</b>

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### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2018

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#### 10. PROPERTY, PLANT AND EQUIPMENT

	Fixed assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
<b>Cost</b>						
<b>Balance at 31 December 2016</b>	<b>1,703</b>	<b>1,370</b>	<b>353</b>	<b>301</b>	<b>306</b>	<b>4,033</b>
Additions	-	76	35	49	142	302
Disposals	(5)	-	-	-	-	(5)
Transfers	31	-	-	(31)	-	-
Effect of translation to presentation currency	128	107	28	30	27	320
<b>Balance at 31 March 2017</b>	<b>1,857</b>	<b>1,553</b>	<b>416</b>	<b>349</b>	<b>475</b>	<b>4,650</b>
<b>Balance at 31 December 2017</b>	<b>2,014</b>	<b>1,876</b>	<b>522</b>	<b>335</b>	<b>592</b>	<b>5,339</b>
Additions	-	91	49	87	7	234
Change in site restoration, decommissioning and environmental obligations	1	-	-	-	-	1
Disposals	(8)	-	(26)	-	-	(34)
Transfers	84	-	-	(84)	-	-
Effect of translation to presentation currency	12	10	2	1	3	28
<b>Balance at 31 March 2018</b>	<b>2,103</b>	<b>1,977</b>	<b>547</b>	<b>339</b>	<b>602</b>	<b>5,568</b>
<b>Accumulated amortisation, depreciation and impairment</b>						
<b>Balance at 31 December 2016</b>	<b>(938)</b>	<b>(7)</b>	<b>(99)</b>	<b>(8)</b>	<b>(43)</b>	<b>(1,095)</b>
Charge	(38)	-	(13)	-	-	(51)
Disposals	5	-	-	-	-	5
Effect of translation to presentation currency	(71)	-	(8)	(1)	(3)	(83)
<b>Balance at 31 March 2017</b>	<b>(1,042)</b>	<b>(7)</b>	<b>(120)</b>	<b>(9)</b>	<b>(46)</b>	<b>(1,224)</b>
<b>Balance at 31 December 2017</b>	<b>(1,120)</b>	<b>(13)</b>	<b>(158)</b>	<b>(11)</b>	<b>(32)</b>	<b>(1,334)</b>
Charge	(49)	-	(25)	-	-	(74)
Disposals	8	-	26	-	-	34
Impairment	-	(1)	-	-	-	(1)
Effect of translation to presentation currency	(6)	-	(1)	-	-	(7)
<b>Balance at 31 March 2018</b>	<b>(1,167)</b>	<b>(14)</b>	<b>(158)</b>	<b>(11)</b>	<b>(32)</b>	<b>(1,382)</b>
<b>Net book value at</b>						
<b>31 December 2016</b>	<b>765</b>	<b>1,363</b>	<b>254</b>	<b>293</b>	<b>263</b>	<b>2,938</b>
<b>31 March 2017</b>	<b>815</b>	<b>1,546</b>	<b>296</b>	<b>340</b>	<b>429</b>	<b>3,426</b>
<b>31 December 2017</b>	<b>894</b>	<b>1,863</b>	<b>364</b>	<b>324</b>	<b>560</b>	<b>4,005</b>
<b>31 March 2018</b>	<b>936</b>	<b>1,963</b>	<b>389</b>	<b>328</b>	<b>570</b>	<b>4,186</b>

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### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2018

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#### Mineral rights

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

	<u>31 Mar. 2018</u>	<u>31 Dec. 2017</u>
Mineral rights presented within fixed assets	48	48
Mineral rights presented within mine under development	36	36
Mineral rights presented within exploration and evaluation assets	<u>447</u>	<u>445</u>
<b>Total</b>	<b><u>531</u></b>	<b><u>529</u></b>

#### Exploration and evaluation assets

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

	<u>31 Mar. 2018</u>	<u>31 Dec. 2017</u>
Sukhoi Log	437	430
Chertovo Koryto	30	30
Razdolinskoye	28	28
Bamsky	18	18
Panimba	18	17
Smezhny	10	10
Olympiada	10	8
Blagodatnoye	8	8
Burgakhchan area	7	7
Medvezhy Zapadny	2	2
Other	<u>2</u>	<u>2</u>
<b>Total</b>	<b><u>570</u></b>	<b><u>560</u></b>

Amounts related to Sukhoi Log exploration and evaluation asset were capitalised as follows:

<b>Balance at 31 December 2017</b>	<b>430</b>
Capitalised costs of exploration and evaluation activities	5
Effect of translation to presentation currency	<u>2</u>
<b>Balance at 31 March 2018</b>	<b><u>437</u></b>

Depreciation and amortisation charge for the year is allocated as follows:

	<u>Three months ended 31 March</u>	
	<u>2018</u>	<u>2017</u>
Cost of gold sales	40	38
Depreciation in change in inventory	<u>13</u>	<u>2</u>
<b>Depreciation and amortisation within cost of production (note 6)</b>	<b>53</b>	<b>40</b>
Capitalised within property, plant and equipment	20	10
Selling, general and administrative expenses (note 7)	2	1
Cost of other sales	<u>1</u>	<u>-</u>
<b>Total depreciation and amortisation</b>	<b>76</b>	<b>51</b>
Less: amortisation of other non-current assets	<u>(2)</u>	<u>-</u>
<b>Total depreciation of property, plant and equipment</b>	<b><u>74</u></b>	<b><u>51</u></b>

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#### Capitalised borrowing costs

Capitalised borrowing costs are included in the cost of qualifying assets comprise of the following:

	Three months ended 31 March	
	2018	2017
Interest expenses	23	28
Foreign exchange loss / (gain), net	1	-
Interest income on bank deposits	(1)	(2)
<b>Total</b>	<b>23</b>	<b>26</b>

#### 11. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS

	31 Mar. 2018	31 Dec. 2017
<b>Non-current derivative financial assets and investments</b>		
Cross currency swaps	37	32
Interest rate swaps	7	6
<b>Total non-current derivative financial assets and investments</b>	<b>44</b>	<b>38</b>
<b>Non-current derivative financial liabilities</b>		
Cross currency swaps	376	383
Revenue stabiliser	75	64
Conversion option on convertible bonds (note 17)	16	-
Interest rate swaps	2	1
<b>Total non-current derivative financial liabilities</b>	<b>469</b>	<b>448</b>

#### **Revenue stabiliser**

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

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The allocation of volumes between years under the revenue stabiliser agreements (thousand ounces) is presented below:

	Year ended 31 December										Total
	2014	2015	2016	2017		2018		2019		2020	
	1-3 years	1-3 years	1-3 years	1-3 years	4th year	1-3 years	4th year	1-3 years	4th year	4th year	
<b>Tranche 1 (covering the period 1 April 2014 - 30 March 2018)</b>											
Total as per options agreements	225	300	300	75	315	-	105	-	-	-	1,320
Exercised and / or expired	(225)	(300)	(300)	(75)	(315)	-	(105)	-	-	-	(1,320)
<b>Outstanding as of 31 March 2018</b>	-	-	-	-	-	-	-	-	-	-	-
<b>Tranche 2 (covering the period 1 July 2014 – 29 June 2018)</b>											
Total as per options agreements	60	120	120	60	180	-	180	-	-	-	720
Exercised and / or expired	(60)	(120)	(120)	(60)	(180)	-	-	-	-	-	(540)
<b>Outstanding as of 31 March 2018</b>	-	-	-	-	-	-	180	-	-	-	180
<b>Tranche 3 (covering the period 1 January 2016 – 31 December 2019)</b>											
Total as per options agreements	-	-	280	280	-	280	-	-	840	-	1,680
Exercised and / or expired	-	-	(280)	(280)	-	-	-	-	-	-	(560)
<b>Outstanding as of 31 March 2018</b>	-	-	-	-	-	280	-	-	840	-	1,120
<b>Tranche 4 (covering the period 1 April 2016 – 31 December 2020)</b>											
Total as per options agreements	-	-	75	100	-	100	-	25	225	75	600
Exercised and / or expired	-	-	(75)	(100)	-	-	-	-	-	-	(175)
<b>Outstanding as of 31 March 2018</b>	-	-	-	-	-	100	-	25	225	75	425
<b>Total outstanding as of 31 March 2018</b>	-	-	-	-	-	380	180	25	1,065	75	1,725

The allocation of strikes and barriers (USD per ounce) between years under the revenue stabiliser agreements is presented below:

	Year ended 31 December									
	2014	2015	2016	2017		2018		2019		2020
	1-3 years	1-3 years	1-3 years	1-3 years	4th year	1-3 years	4th year	1-3 years	4th year	4th year
<b>Tranche 1</b>										
<b>Put</b>										
Strike	1,383	1,383	1,383	1,383	1,107	-	1,107	-	-	-
Knock-out barrier	950	950	921	911	900	-	900	-	-	-
<b>Call</b>										
Strike	1,518	1,518	1,518	1,518	1,551	-	1,551	-	-	-
Knock-in barrier	1,662	1,655	1,634	1,634	1,750	-	1,750	-	-	-
<b>Tranche 2</b>										
<b>Put</b>										
Strike	1,359	1,359	1,359	1,359	1,100	-	1,100	-	-	-
Knock-out barrier	950	950	950	950	900	-	900	-	-	-
<b>Call</b>										
Strike	1,425	1,425	1,425	1,425	1,500	-	1,500	-	-	-
Knock-in barrier	1,525	1,525	1,525	1,525	1,650	-	1,650	-	-	-
<b>Tranche 3</b>										
<b>Put</b>										
Strike	-	-	1,232	1,232	-	1,232	-	-	971	-
Knock-out barrier	-	-	900	900	-	900	-	-	921	-
<b>Call</b>										
Strike	-	-	1,350	1,350	-	1,350	-	-	1,391	-
Knock-in barrier	-	-	1,450	1,450	-	1,450	-	-	1,591	-
<b>Tranche 4</b>										
<b>Put</b>										
Strike	-	-	1,271	1,271	-	1,271	-	1,271	1,000	1,000
Knock-out barrier	-	-	900	900	-	900	-	900	950	950
<b>Call</b>										
Strike	-	-	1,300	1,300	-	1,350	-	1,350	1,350	1,420
Knock-in barrier	-	-	1,433	1,450	-	1,450	-	1,450	1,450	1,620

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As a result of Tranche 1 of the revenue stabiliser, the Group ensured a minimum average price of USD 1,383 per ounce for 300 thousand ounces of gold output annually during the first three years of the Programme, provided the gold price did not fall below USD 911 per ounce. During the first three years the Group benefited from price increases until the gold price reaches USD 1,634 per ounce, in which case the average price was capped at USD 1,518 per ounce. In the fourth year of the Programme, the Group ensured a minimum average price of USD 1,107 per ounce for the price-protected amount of 420 thousand ounces, provided the gold price does not fall below USD 900 per ounce. Additionally, in the fourth year of the Programme, the Group had an obligation to sell 420 thousand ounces of gold at USD 1,551 per ounce should the gold price exceed USD 1,750 per ounce.

As a result of Tranche 2 of the revenue stabiliser, the Group ensured a minimum average price of USD 1,359 per ounce for 120 thousand ounces of gold annually output during the first three years of the Programme, provided the gold price did not fall below USD 950 per ounce. During the first three years the Group benefited from price increases until the gold price reaches USD 1,525 per ounce, in which case the average price is capped at USD 1,425 per ounce. In the fourth year of the Programme, the Group ensures a minimum average price of USD 1,100 per ounce for the price-protected amount of 360 thousand ounces, provided the gold price does not fall below USD 900 per ounce. Additionally, in the fourth year of the Programme, the Group has an obligation to sell 360 thousand ounces of gold at USD 1,500 per ounce should the gold price exceed USD 1,650 per ounce.

As a result of Tranche 3 of the revenue stabiliser, the Group ensures a minimum average price of USD 1,232 per ounce for 280 thousand ounces of gold annually output during the first three years of the Programme, provided the gold price does not fall below USD 900 per ounce. During the first three years the Group benefits from price increases until the gold price reaches USD 1,450 per ounce, in which case the average price is capped at USD 1,350 per ounce. In the fourth year of the Programme, the Group ensures a minimum average price of USD 971 per ounce for the price-protected amount of 840 thousand ounces, provided the gold price does not fall below USD 921 per ounce. Additionally, in the fourth year of the Programme, the Group has an obligation to sell 840 thousand ounces of gold at USD 1,391 per ounce should the gold price exceed USD 1,591 per ounce.

As a result of Tranche 4 of the revenue stabiliser, the Group ensures a minimum average price of USD 1,271 per ounce for 270 thousand ounces of gold output during the first three years of the Programme, provided the gold price does not fall below USD 900 per ounce. During the first three years the Group benefits from price increases until the average gold price reaches USD 1,450 per ounce for 175 thousand ounces, in which case the average price is capped at USD 1,350 per ounce. Thereafter (period from 1 April 2019 to 31 December 2020 of the Programme), the Group ensures a minimum average price of USD 1,000 per ounce for the price-protection amount of 300 thousand ounces, provided the gold price does not fall below USD 950 per ounce. Additionally, the Group has an obligation to sell 375 thousand ounces of gold at the average gold price USD 1,406 per ounce should the average gold price exceed USD 1,586 per ounce.

The revenue stabiliser options are exercised quarterly and accounted at fair value through profit and loss. The change in their fair value for the three months ended 31 March 2018 is presented within the note 9 within the line *Revaluation loss on revenue stabiliser*.

Previously, until 30 June 2017 Tranches 1 and 2 of the revenue stabiliser arrangements were designated as a cash flow hedge and any change in the intrinsic value of the collars was recognised in the *revaluation of cash flow hedge reserve on revenue stabiliser* within the condensed consolidated interim statement of comprehensive income and accumulated within the condensed consolidated interim statement of profit or loss (note 9) and following the sale of the hedged volume of gold and the exercise of certain options amounts were subsequently recorded to *Gold sales* within the condensed consolidated interim statement of profit or loss.

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

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#### **Cross currency swaps**

##### ***RUB denominated credit facilities with fixed interest rate***

During the year ended 31 December 2014, the Group entered into cross currency swaps with leading Russian banks to economically hedge interest payments and principal amounts nominated in RUB. According to the cross currency swap agreements dated to 2014 the Group quarterly paid to the banks LIBOR + Margin 2.47% in USD and received from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group has to exchange principal amounts paying USD 1,023 million and receiving RUB 35,999 million.

Following certain amendments to the previous cross currency contracts and new fixed rate swaps, offsetting the floating swaps, that took place in 2016, the following terms were in place as of 31 March 2018:

- the Group quarterly pays to the banks 3.94% in USD and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group exchanges principal amounts paying USD 808 million and receiving RUB 28,443 million (amended terms of cross currency swap agreements with the same banks dated to 2014);
- the Group quarterly pays to the banks 3.98% in USD and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group exchanges principal amounts paying USD 215 million and receiving RUB 7,556 million. These terms were achieved by keeping unchanged previous cross currency contracts and entering into new fixed rate swaps.

#### **Rusbonds**

In 2015, the Group entered into cross currency swaps with leading Russian banks for a total amount of RUB 15.3 billion to economically hedge interest payments and principal amounts for Rusbonds. According to the cross currency swap agreements the Group will semi-annually pay to the banks LIBOR + Margin 4.45% for RUB 10 billion and 5.9% for RUB 5.3 billion in USD and receive from the banks 12.1% in RUB; and at maturity (July 2021) the Group will exchange principal amounts paying USD 255 million and receiving RUB 15.3 billion.

The swaps were not eligible to be designated as cash flow or fair value hedges and the Group elected not to designate the swaps as a cash flow or fair value hedge under IFRS 9. The Group accounted for these derivative financial instruments at fair value through profit or loss which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps are recognised within the *Gain / (loss) on investments and revaluation on derivative financial instruments* of the 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 based on inputs (spot currency exchange rates and forward USD LIBOR and RUB rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

#### **Interest rate swaps**

In 2014, the Group entered into interest rate swap agreements with leading Russian banks, according to which the Group pays semi-annually and 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 purpose of this swap was to decrease the effective interest rate for the USD 750 million Eurobonds.

In 2016, the Group signed new offsetting interest rate swap agreements, according to which the Group pays semi-annually and 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.

In 2016, certain of the new interest rate swap agreements were concluded with the same counterparties and will settle on a net basis. Those swaps are presented on a net basis.

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The swaps were not eligible to be designated as either a cash flow or fair value hedge and the Group elected not to designate the swaps as a cash flow or fair value hedge under IFRS 9. The Group accounts for it at fair value through profit or loss which was determined using a discounted cash flow valuation technique.

Changes in the fair value of the interest rate swaps are recognised within the *Gain / (loss) on investments and revaluation on derivative financial instruments* of the 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* (note 8).

The fair value measurement is based on inputs (forward USD LIBOR rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value. The fair value of derivative financial instruments includes an adjustment for credit risk in accordance with IFRS 13. The adjustment is calculated based on the expected exposure. For positive expected exposures, credit risk is based on the observed credit default swap spreads for each particular counterparty or, if they are unavailable, for equivalent peers of the counterparty. For negative expected exposures, the credit risk is based on the observed credit default swap spread of the Group's peer adjusted for a differential in z-spreads of quoted bonds of the Group and the peer in question to correctly reflect the Group's credit risk.

#### 12. INVENTORIES

	<u>31 Mar. 2018</u>	<u>31 Dec. 2017</u>
<b>Inventories expected to be used after 12 months</b>		
Stockpiles	252	287
Gold-in-process	14	13
<b>Sub-total</b>	<u>266</u>	<u>300</u>
<b>Inventories expected to be used in the next 12 months</b>		
Stockpiles	110	70
Gold-in-process	84	54
Antimony in gold-antimony flotation concentrate	10	-
Refined gold and gold in flotation concentrate	12	22
Stores and materials	330	304
Less: obsolescence provision for stores and materials	(14)	(15)
<b>Sub-total</b>	<u>532</u>	<u>435</u>
<b>Total</b>	<u>798</u>	<u>735</u>

#### 13. TRADE AND OTHER RECEIVABLES

	<u>31 Mar. 2018</u>	<u>31 Dec. 2017</u>
Trade receivables for gold-bearing products at FVTPL (Level 2)	8	51
Other receivables	53	56
Less: allowance for other receivables	(5)	(6)
<b>Total</b>	<u>56</u>	<u>101</u>

## PJSC “POLYUS”

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#### 14. TAXES RECEIVABLE

	<u>31 Mar. 2018</u>	<u>31 Dec. 2017</u>
Reimbursable value added tax	97	105
Income tax prepaid	18	7
Other prepaid taxes	2	2
<b>Total</b>	<b><u>117</u></b>	<b><u>114</u></b>

#### 15. CASH AND CASH EQUIVALENTS

	<u>31 Mar. 2018</u>	<u>31 Dec. 2017</u>
Bank deposits		
- USD	768	914
- RUB	4	30
Current bank accounts		
- USD	198	136
- RUB	73	55
Cash in the Federal Treasury (note 18)	52	69
<b>Total</b>	<b><u>1,095</u></b>	<b><u>1,204</u></b>

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

##### Interest rates on bank deposits denominated in:

- USD	1.2-2.6%	1.2-2.6%
- RUB	6.0-6.5%	4.0-7.8%

#### 16. SHARE CAPITAL

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

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

In 2016, the Board of Directors of PJSC Polyus approved a long term incentive plan (LTIP) according to which the members of top management of the Group are entitled to a conditional award in the form of PJSC Polyus' ordinary shares which vest upon achievement of financial and non-financial performance targets. The LTIP stipulates three rolling performance periods: 2016-2017, 2016-2018 and 2017-2019. The total number of shares that may be distributed under the LTIP is up to 1.43% of the total share capital of the Company, which can be granted from newly issued ordinary shares or from treasury shares, if any.

Total expense for the reporting period arising from LTIP including related taxes of USD 1 million was immediately recognised in the consolidated statement of profit or loss within the line *Salaries* included within *Selling, general and administrative expenses* in the amount of USD 3 million (three months ended 31 March 2017: USD 7 million).

During three months ended 31 March 2018 the first tranche of the long-term incentive plan vested and the Group issued 415 thousand shares from the treasury stock of USD 22 million.

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#### Weighted average number of ordinary shares

The weighted average number of ordinary shares (presented in thousands in the table below) for the three months ended 31 March 2018 and 2017 used in the calculation of basic and diluted earnings (“EPS”) per share is presented below:

	Three months ended 31 March	
	2018	2017
<b>Ordinary shares in issue at the beginning of the period</b>	<b>131,924</b>	<b>125,632</b>
Treasury shares issued for LTIP (note 16)	415	-
Repurchase of treasury shares	-	(14)
<b>Ordinary shares in issue at the end of the period</b>	<b>132,339</b>	<b>125,618</b>
<b>Weighted average number of ordinary shares – basic EPS</b>	<b>131,984</b>	<b>125,628</b>
Convertible bonds (note 17)	2,498	-
Potential Shares to be issued upon increase in SL Gold ownership interest (note 19)	1,036	-
LTIP	263	115
<b>Weighted average number of ordinary shares – dilutive EPS</b>	<b>135,781</b>	<b>125,743</b>
Profit after tax attributable to the shareholders of the Company (million USD)	247	504
Effect of potential dilution (million USD)	(2)	-
<b>Profit after tax attributable to the shareholders of the Company for diluted EPS calculation (million USD)</b>	<b>245</b>	<b>504</b>

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#### 17. BORROWINGS

	<u>Nominal rate %</u>	<u>31 Mar. 2018</u>	<u>31 Dec. 2017</u>
USD 750 million Eurobonds with fixed interest rate due in 2020	5.625%	746	745
USD 500 million Eurobonds with fixed interest rate due in 2022	4.699%	495	495
USD 800 million Eurobonds with fixed interest rate due in 2023	5.250%	793	793
USD 500 million Eurobonds with fixed interest rate due in 2024	4.7%	496	-
USD 250 million convertible bonds with fixed interest rate due in 2021	1%	228	-
Credit facilities with financial institutions nominated in USD with variable interest rates	USD LIBOR + 4.50%	-	1,240
Credit facilities with financial institutions nominated in RUB with fixed interest rates	10.35%	582	577
Credit facilities with financial institutions nominated in USD with fixed interest rates	4.1% - 5.7%	471	67
Notes due in 2025 (Rusbonds) with noteholders' early repayment option in 2021	12.1%	266	265
Credit facilities with financial institutions nominated in RUB with variable interest rates	Central bank rate + 2.3%	84	86
Lease liabilities with fixed interest rates nominated in USD	5.1% - 8.5%	13	13
<b>Sub-total</b>		<b>4,174</b>	<b>4,281</b>
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(11)	(12)
<b>Long-term borrowings</b>		<b>4,163</b>	<b>4,269</b>

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

#### USD 500 million Eurobonds

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

#### USD 250 million convertible bonds

In January 2018, the Group issued USD 250 million 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% per cent of the principal amount of the bonds.

As at 31 March 2018, the fair value of conversion option of USD 16 million was determined with the reference to quoted market price (level 2 of the fair value hierarchy) as disclosed in note 11 under the heading of *Conversion option on convertible bonds*. The result of change in the fair value of the

## PJSC “POLYUS”

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2018

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conversion option for the period is disclosed in note 9 under heading of *Revaluation gain / (loss) on conversion option*.

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

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

In March 2018, the Group obtained several new credit facilities in total amount of USD 225 million maturing in 2023.

#### Repayment of debt

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

#### Unused credit facilities

In 2014, one of the Group’s subsidiaries entered into a five year RUB 40,000 million credit line with a bank to fund its general corporate purposes. As of 31 March 2018, the amount of unused credit facilities was RUB 40,000 million (USD 699 million).

#### Pledge

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

#### Other matters

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

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

#### Fair value measurements

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

	31 Mar. 2018		31 Dec. 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Eurobonds (Level 1)	2,530	2,580	2,033	2,140
Borrowings (Level 2)	1,150	1,208	1,983	1,977
Rusbonds (Level 1)	266	301	265	298
Convertible bonds (Level 2)	228	244	-	-
<b>Total</b>	<b>4,174</b>	<b>4,333</b>	<b>4,281</b>	<b>4,415</b>

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

The fair value measurement of *borrowings* and *convertible bonds* is based on inputs (spot currency exchange rates, forward USD LIBOR and RUB interest rates and the company’s own credit risk, quoted price of the convertible bonds), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

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(in millions of US Dollars)

#### 18. DEFERRED REVENUE

On 13 September 2016, the Ministry for the Development of the Russian Far East (the “Minvostokrazvitiya”) and JSC Polyus Magadan (the “Matrosova Mine”, renamed, previously “JSC Matrosova Mine”), a 100% subsidiary of the Group representing the Magadan business unit, entered into an agreement under which Minvostokrazvitiya was to provide to Matrosova Mine a government grant in the total amount of USD 164 million (including VAT) in 2016-2018.

Under the agreement the grant must be used for the construction of: (i) 220 kW electricity transmission line “Ust’-Omchug – Omchak New”, (ii) 220 kW distribution point and (iii) 220 kW electric power substation “Omchak New” (Omchak high-voltage power grid). The construction is expected to be completed during the second quarter of 2019. Any unutilised balance of the grant will have to be returned to Minvostokrazvitiya. JSC Polyus Krasnoyarsk is a guarantor under the agreement.

In August 2017, following the project documentation update, the overall amount of the grant was decreased to RUB 8,797 million (USD 154 million, including VAT), of which USD 19 million are to be received in 2018.

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

<b>Carrying value as of 31 December 2017</b>	<b>132</b>
Effect of translation to presentation currency	<u>1</u>
<b>Carrying value as of 31 March 2018</b>	<b><u>133</u></b>

#### 19. DEFERRED CONSIDERATION

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

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

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

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

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

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

<b>Balance at 31 December 2017</b>	<b>216</b>
Unwinding of interest on deferred consideration	2
Foreign exchange gain, net	(2)
Effect of translation to presentation currency	2
<b>Balance at 31 March 2018</b>	<b>218</b>

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

#### 20. TRADE AND OTHER PAYABLES

	<b>31 Mar. 2018</b>	<b>31 Dec. 2017</b>
Wages and salaries payable	74	93
Interest payable	52	69
Trade payables to third parties	43	36
Accrued annual leave	32	27
Dividends payable to non-controlling interests	2	2
Other accounts payable and accrued expenses	93	91
<b>Total</b>	<b>296</b>	<b>318</b>

The average credit period for trade payables at 31 March 2018 was 36 days (31 December 2017: 32 days). No interest was charged on the outstanding payables balance during the credit period.

#### 21. TAXES PAYABLE

	<b>31 Mar. 2018</b>	<b>31 Dec. 2017</b>
Value added tax	13	45
Tax on mining	12	15
Social taxes	10	8
Property tax	7	2
Income tax payable	1	13
Other taxes	3	4
<b>Total</b>	<b>46</b>	<b>87</b>

#### 22. RELATED PARTIES

Related parties include the ultimate controlling party of the Company, entities that are able to exercise control over the Company directly or indirectly, entities under common ownership and control with the Company and members of key management personnel.

##### ***Immediate shareholder***

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

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The Group's transactions with its parent entity during the periods and their reported amounts were as follows:

	Three months ended 31 March	
	2018	2017
Interest expense	-	13
Interest capitalised	-	10
Proceeds from borrowings	-	800
Repayment of borrowing and interest accrued	-	9

#### ***Key management personnel***

	Three months ended 31 March	
	2018	2017
Short-term benefits	11	10
Long-term benefits (LTIP)	4	7
<b>Total</b>	<b>15</b>	<b>17</b>

## 23. COMMITMENTS AND CONTINGENCIES

### **Commitments**

#### ***Capital commitments***

The Group's capital expenditure commitments are as follows:

	31 Mar. 2018	31 Dec. 2017
Project Natalka	36	75
Project Omchak high-voltage power grid	50	59
Projects in Krasnoyarsk	101	92
Other capital commitments	17	18
<b>Total</b>	<b>204</b>	<b>244</b>

#### ***Operating leases: Group as a lessee***

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2065. Future minimum lease payments due under non-cancellable operating lease agreements at the end of the year were as follows:

	31 Mar. 2018	31 Dec. 2017
Due within one year	10	10
From one to five years	45	38
Thereafter	76	83
<b>Total</b>	<b>131</b>	<b>131</b>

### **Contingencies**

#### ***Litigations***

In the ordinary course of business, the Group is subject to litigation in a number of jurisdictions, the outcome of which is uncertain and could give rise to adverse outcomes. At the date of issuance of these

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condensed consolidated interim financial statements there were no material claims and litigation applicable to the Group.

#### ***Taxation contingencies in the Russian Federation***

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

#### ***Environmental matters***

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

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

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

#### ***Operating environment***

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

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

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### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2018

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#### 24. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

##### Significant restrictions on the Company’s ability to access or use the assets and settle the liabilities of the Group

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.

##### Information about significant subsidiaries of the Group

Subsidiaries	Nature of business	Effective % held <sup>4</sup> at	
		31 Mar. 2018	31 Dec. 2017
<b>Incorporated in Russian Federation</b>			
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 (development stage)	100	100
LLC Polyus Stroy	Construction	100	100
LLC SL Gold	Exploration and evaluation of Sukhoi Log deposit	58	58

#### 25. EVENTS AFTER THE REPORTING DATE

In mid-April 2018, due to significant market dislocation, the Group proceeded with a buyback of 20% of the outstanding convertible bonds issue in the total nominal amount of USD 50 million. The final buyback price stood at 86.7%, expressed as a percentage of the principal amount of the convertible bonds.

On April 6, 2018, the U.S. Treasury Department’s Office of Foreign Assets Control designated Mr. Suleyman Kerimov, the father of Mr. Said Kerimov, as a Specially Designated National (“SDN”) under U.S. Executive Order 13661 (March 18, 2014). Neither Mr. Said Kerimov, nor any of Polyus Gold International Limited (“PGIL”), PJSC Polyus, or any other entities directly or indirectly owned by Mr. Said Kerimov have been designated as SDNs.

Mr. Suleyman Kerimov previously indirectly held the relevant interest in PGIL and, accordingly, PJSC Polyus. However, in 2013, prior to the first U.S. Ukraine-related sanctions in 2014, and in response to certain changes in domestic Russian laws, Mr. Suleyman Kerimov transferred his indirect beneficial interest in PGIL and, therefore PJSC Polyus to the Suleyman Kerimov Foundation, a Swiss charitable fund (“Foundation”). In 2014, Mr. Said Kerimov was named as a second beneficiary under the trust arrangement. In November 2016, the relevant trust arrangements were amended, such that the Foundation ceased to be a beneficiary and Mr. Said Kerimov remained the sole beneficial owner of PGIL and therefore of the relevant stake in PJSC Polyus. Accordingly, currently Mr. Suleyman Kerimov does not, directly or indirectly, own any of the shares in PGIL or PJSC Polyus and does not have any other ownership interest in PGIL or PJSC Polyus.

Under longstanding guidance from OFAC, any entities directly or indirectly owned 50% or more by one or more SDNs are subject to the same prohibitions that apply to their SDN owner(s). However,

<sup>4</sup> Effective % held by the Company, including holdings by other subsidiaries of the Group.

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these requirements do not extend beyond an SDN’s ownership interests to include the ownership interests of other, non-SDN persons, including those of an SDN’s close relatives. Thus, because Mr. Suleyman Kerimov does not have, directly or indirectly, an ownership interest in his son’s shares in PGIL and/or PJSC Polyus, the U.S. sanctions applicable to Mr. Suleyman Kerimov do not extend to Mr. Said Kerimov, PGIL, PJSC Polyus or any subsidiaries of PJSC Polyus.