PJSC Polyus

Management Report

31 December 2017

15 February 2018

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Cautionary statement

15 February 2018 – PJSC Polyus (the "Company" or "Polyus") issues this Annual Management Report ("AMR") to summarise recent operational activities and to provide trading guidance in respect of the consolidated financial statements for the year ended 31 December 2017.

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

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

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

Responsibility statement

Directors of the Company and the Group are responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2017, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards (the "IFRS").

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

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

Directors are also responsible for:

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

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

By order of the Board of Directors,

Chief Executive Officer and Director

Pavel Grachev

Management Discussion and Analysis

4Q 2017 and FY 2017 key metrics overview

$ million (if not mentioned otherwise)	4Q 2017	3Q 2017	Q-o-Q	2017	2016	Y-o-Y
Operating highlights						
Gold production (koz)[1]	580	642	(10%)	2,160	1,968	10%
Gold sold (koz)	597	578	3%	2,158	1,915	13%
Realised prices						
Average realised refined gold price (excluding effect of SPPP) ($/oz)[2]	1,275	1,279	(0%)	1,260	1,250	1%
Average realised refined gold price (including effect of SPPP) ($/oz)	1,275	1,279	(0%)	1,271	1,287	(1%)
Financial performance						
Total revenue	743	744	(0%)	2,721	2,458	11%
Operating profit	391	410	(5%)	1,455	1,361	7%
Operating profit margin	53%	55%	(2) ppts	53%	55%	(2) ppts
Profit for the period	267	371	(28%)	1,241	1,445	(14%)
Earnings per share – basic (US Dollar)	2.05	2.74	(25%)	9.64	10.09	(4%)
Earnings per share – diluted (US Dollar)	2.05	2.73	(25%)	9.61	10.09	(5%)
Adjusted net profit[3]	242	298	(19%)	1,015	952	7%
Adjusted net profit margin	33%	40%	(7) ppts	37%	39%	(2) ppts
Adjusted EBITDA[4]	465	475	(2%)	1,702	1,536	11%
Adjusted EBITDA margin	63%	64%	(1) ppts	63%	62%	1 ppts
Net cash inflow from operations	344	398	(14%)	1,292	1,178	10%
Capital expenditure[5]	279	224	25%	804	466	73%
Cash costs						
Total cash cost (TCC) per ounce sold ($/oz)[6]	324	380	(15%)	364	389	(6%)
All-in sustaining cash cost (AISC) per ounce sold ($/oz)[7]	662	599	11%	621	572	9%
Financial position						
Cash and cash equivalents	1,204	1,121	7%	1,204	1,740	(31%)
Net debt[8]	3,077	3,151	(2%)	3,077	3,241	(5%)
Net debt/adjusted EBITDA (x)[9]	1.8	1.9	(5%)	1.8	2.1	(14%)

[1] - Gold production is comprised of 552 thousand ounces of refined gold and 28 thousand ounces of gold in flotation concentrate in 4Q 2017 and 1,990 thousand ounces of refined gold and 170 thousand ounces of gold in flotation concentrate in 2017 respectively.

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

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

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

[5] - Capital expenditure figures are presented on an accrual basis (here presented net of the Sukhoi Log deposit license acquisition cost) and net of Omchak power grid construction cost. For details see reconciliation on page 26.

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

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

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

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

Key highlights

1. The Company sold a total of 597 thousand ounces of gold in 4Q 2017, up 3% compared to 3Q 2017. Total gold sales include 82 thousand ounces of gold contained in concentrate from Olimpiada. In 2017, the Company sold a total of 2,158 thousand ounces of gold, up 13% compared to the prior-year reflecting higher gold production. Total gold sales include 170 thousand ounces of gold contained in concentrate from Olimpiada.
2. In 4Q 2017, revenue totaled $743 million and remained almost flat compared to $744 million in 3Q 2017. In 2017, revenue totaled $2,721 million, compared to $2,458 million in 2016, driven by increased sales volumes (including flotation concentrate).
3. The Group's TCC decreased 15% to $324 per ounce in 4Q 2017 from $380 per ounce in 3Q 2017, while AISC increased to $662 per ounce, up 11% compared to 3Q 2017. In 2017, the Group's TCC decreased to $364 per ounce from $389 per ounce in the prior-year, as 13% rouble appreciation was offset by strong operational results and efficiency improvement initiatives. AISC increased to $621 per ounce, up 9% compared to the prior-year reflecting mainly higher sustaining capital expenditure and stripping expenses.
4. In 4Q 2017, adjusted EBITDA amounted to $465 million, a 2% decrease from 3Q 2017. In 2017, adjusted EBITDA amounted to $1,702 million, a 11% increase from the prior-year, driven by higher gold sales volumes and lower TCC.
5. In 4Q 2017, adjusted EBITDA margin stood slightly lower at 63%, compared to 64% in 3Q 2017. For the year 2017 the adjusted EBITDA margin increased to 63%, compared to 62% in 2016.
6. In 4Q 2017, profit for the period decreased to $267 million partly reflecting the decrease in operating profit and impact of non-cash items in the period. Profit for the year decreased $1,241 million partially reflecting the impact of a foreign exchange gain in the previous year, as well as finance costs.
7. In 4Q 2017, adjusted net profit amounted to $242 million, a 19% decrease from the previous quarter. In 2017, adjusted net profit amounted to $1,015 million, a 7% increase from the prior-year.
8. Net cash inflow from operations amounted to $344 million in 4Q 2017. In 2017, net cash inflow from operations amounted to $1,292 million driven by strong EBITDA.
9. In 4Q 2017, capex increased to $279 million compared to the previous quarter, primarily reflecting increased spending on the brownfield development projects and the ongoing construction works at Natalka. In 2017, Capex was $804 million, primarily due to the ramp-up of construction activity at Natalka. The asset has successfully completed the hot commissioning stage and the Company currently anticipates production to be fully ramped up in the second half of 2018.
10. Cash and cash equivalents as at 31 December 2017 amounted to $1,204 million, compared to $1,740 million as at 31 December 2016, following the early prepayment of credit facilities and dividend payments for 2H 2016 and 1H 2017. Following the Secondary Public Offering ("SPO") conducted on the London Stock Exchange and the Moscow Exchange, the Company used most of the primary proceeds (in a total amount of $400 million) to make early prepayments of several bank credit facilities.
11. Net debt decreased to $3,077 million at the end of 4Q 2017 compared to $3,151 million as at the end of 3Q 2017 ($3,241 million as at the end of 4Q 2016).

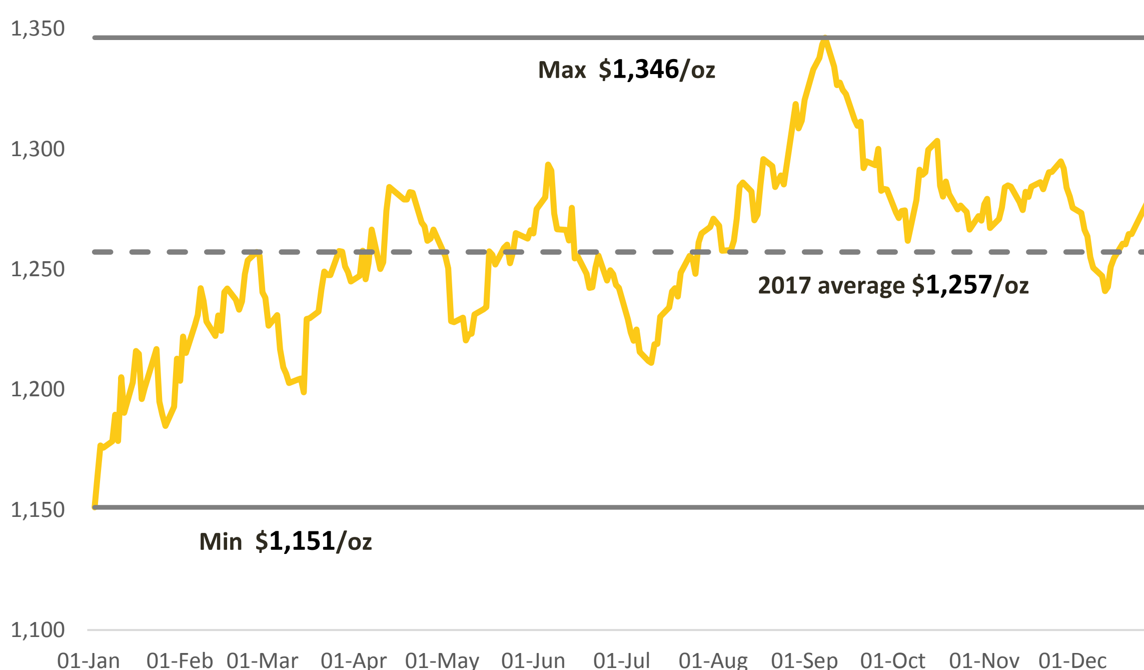
12. Net debt/adjusted EBITDA ratio decreased to the level of 1.8x as at the end of 2017 compared to 2.1x as at the end of 2016 with the higher adjusted EBITDA figure and gradual decline in Net debt during the period.
13. In 2018, Polyus plans to invest approximately $850 million across the business, including $250 million of maintenance capex. Net of $150 million of capitalised operating expenses related to the Natalka operations, the capex programme for 2018 is expected to stand at $700 million.

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

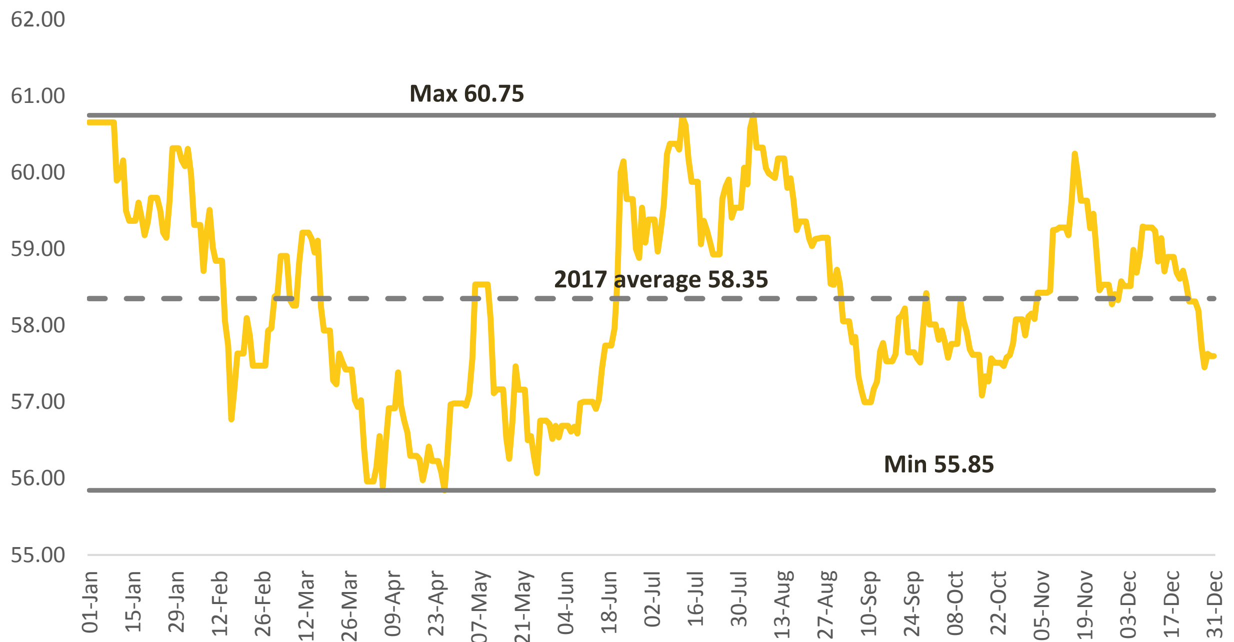
The market price of gold is a significant factor that influences the Group's profitability and operating cash flow generation. In 4Q 2017, the average London Bullion Market Association (LBMA) gold price was $1,275 per ounce, almost flat to the 3Q 2017 average of $1,278 per ounce. In 2017, the average LBMA gold price was $1,257 per ounce, 0.5% above the 2016 average of $1,251 per ounce.



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 4Q 2017, the average USD/RUB exchange rate was 58.41, only 1% appreciation from 59.02 in 3Q 2017. In 2017, the average USD/RUB exchange rate was 58.35, a 13% appreciation from 67.03 in 2016. As shown in the following section, the RUB appreciation negatively impacted the Group's operating margins in the course of 2017, due to the majority of its costs being RUB-denominated.



Source: The Central Bank of the Russian Federation

Inflationary trends

The rouble-based annualised CPI, calculated by the Federal State Statistics Service, was 2.5% in 2017, compared to 5.4% in 2016. By increasing production costs, inflation has a negative impact on the profitability of mining operations.

Financial review

Statement of profit or loss review

REVENUE ANALYSIS

	4Q 2017	3Q 2017	Q-o-Q	2017	2016	Y-o-Y
Gold sales (koz)	597	578	3%	2,158	1,915	13%
Average realised refined gold price (excluding effect of SPPP) ($/oz)	1,275	1,279	(0%)	1,260	1,250	1%
Average realised refined gold price (including effect of SPPP) ($/oz)	1,275	1,279	(0%)	1,271	1,287	(1%)
Average afternoon gold LBMA price fixing ($/oz)	1,275	1,278	(0%)	1,257	1,251	0%
Premium of average selling price (including effect of SPPP) over average LBMA price fixing ($/oz)	-	1	N.A.	14	36	N.A.
Gold sales ($ million)	734	733	0%	2,684	2,429	10%
Other sales ($ million)	9	11	(27%)	37	29	28%
Total revenue ($ million)	**743**	**744**	**(0%)**	**2,721**	**2,458**	**11%**

In 4Q 2017, the Group's revenue from gold sales remained flat compared to 3Q 2017 and amounted to $734 million, a marginal increase as the lower average realised price was fully offset by higher sales volumes during the period. The average realised refined gold price was slightly lower compared to 3Q 2017 and amounted to $1,275 per ounce, whilst gold sales totaled 597 thousand ounce, a 3% increase quarter-on-quarter.

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

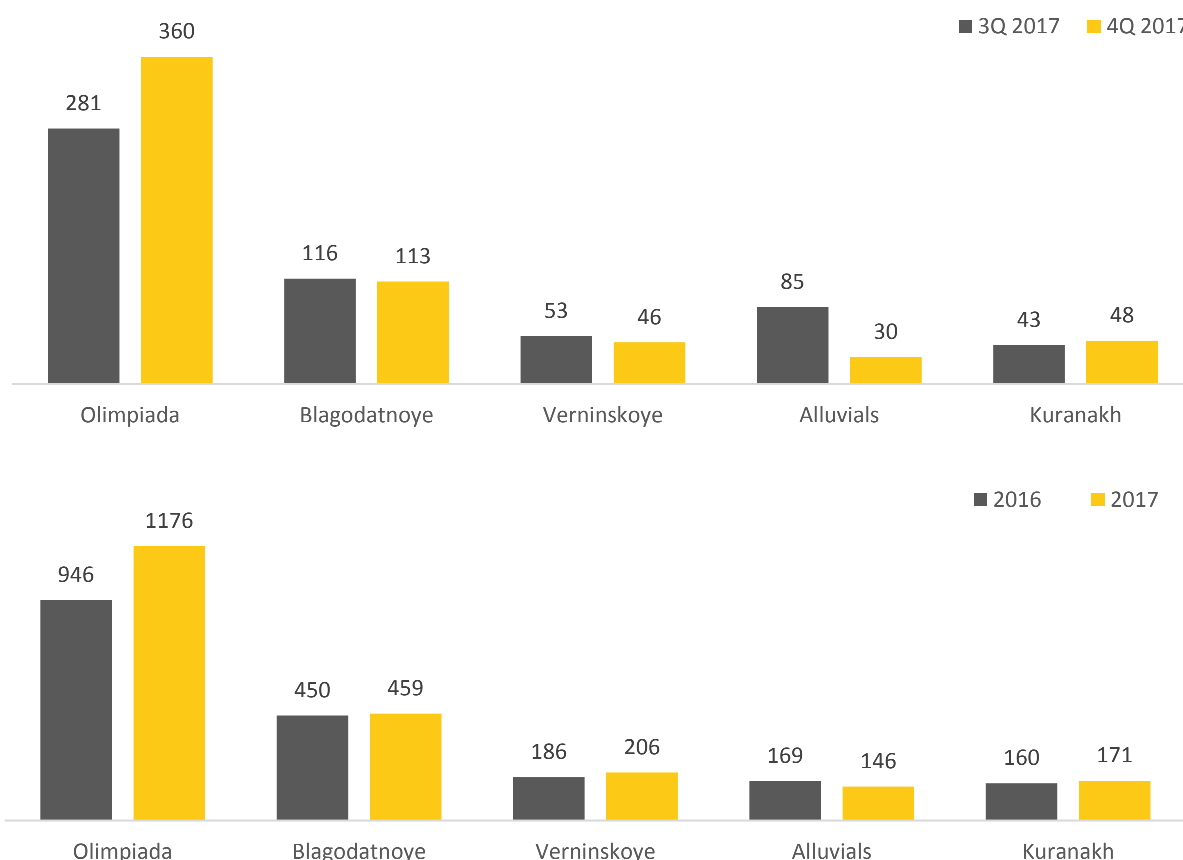
Revenue breakdown by business unit, 4Q 2017 vs. 3Q 2017

Assets	4Q 2017 ($ million)			3Q 2017 ($ million)		
	Gold sales	Other sales	Total sales	Gold sales	Other sales	Total sales
Olimpiada	433	4	**437**	352	4	**356**
Blagodatnoye	145	-	**145**	148	-	**148**
Verninskoye	58	-	**58**	68	-	**68**
Alluvials	38	1	**39**	109	1	**110**
Kuranakh	60	1	**61**	56	-	**56**
Other	-	3	**3**	-	6	**6**
Total	**734**	**9**	**743**	**733**	**11**	**744**

Revenue breakdown by business unit, 2017 vs. 2016

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

Gold sold by mine, koz [12]



CASH COSTS ANALYSIS

In 4Q 2017, the Group's cost of gold sales decreased 5% compared to 3Q 2017 and amounted to $250 million, primarily driven by a completion of the washing season at Alluvials. At the same time, cash operating costs decreased 9% compared to the prior period, to $211 million.

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

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

Cost of sales breakdown

$ million	4Q 2017	3Q 2017	Q-o-Q	2017	2016	Y-o-Y
Cash operating costs[13]	**211**	**232**	**(9%)**	**811**	**763**	**6%**
Depreciation and amortisation (D&A) of operating assets	47	49	(4%)	181	154	18%
Total cost of production	**258**	**281**	**(8%)**	**992**	**917**	**8%**
Increase in stockpiles, gold-in-process and refined gold inventories	(8)	(17)	(53%)	(23)	(26)	(12%)
Cost of gold sales	**250**	**264**	**(5%)**	**969**	**891**	**9%**

Cash operating costs – breakdown by item

$ million	4Q 2017	3Q 2017	Q-o-Q	2017	2016	Y-o-Y
Consumables and spares	60	61	(2%)	223	242	(8%)
Labour	58	81	(28%)	264	227	16%
MET	42	40	5%	148	134	10%
Fuel	18	24	(25%)	74	72	3%
Power	10	4	150%	31	22	41%
Outsourced mining services	-	5	N.A.	6	8	(25%)
Other	23	17	35%	65	58	12%
Total	**211**	**232**	**(9%)**	**811**	**763**	**6%**

In 4Q 2017 consumables and spares expenses remained largely unchanged compared to 3Q 2017, accounting for 28% of cash operating costs. In 2017, consumables and spares expenses decreased by 8% compared to the previous year, accounting for 27% of cash operating costs. This primarily reflects a decline in ore input costs at Olimpiada, where the Company has ceased higher cost Veduga ore processing, which fully offset an impact of greater processing volumes across the majority of operations.

Labour expenses decreased by 28% in 4Q 2017 compared to the previous quarter and accounted for 27% of total cash operating costs, mainly reflecting a seasonal downscale of mining activity at the Alluvials operations. In 2017, labour expenses increased by 16% compared to the prior year and accounted for 33% of total cash operating costs. The growth was partially attributable to local currency appreciation as all of the Group's labour costs are rouble denominated. Annual salary indexation as well as planned increase in headcount at the Olimpiada, Blagodatnoye, Verninskoye and Kuranakh operations weighed additional pressure.

MET expenses (20% of cash operating costs) remained largely unchanged compared to 3Q 2017. In 2017, MET expenses (18% of cash operating costs) increased 10% following the 10% growth in production volumes compared to the prior-year and the increase in average realised refined gold price.

[13] 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.

Fuel costs decreased by 25% compared to 3Q 2017 following the completion of the washing season at Alluvials. In 2017, fuel costs increased by 3% compared to 2016 due to the increase in haulage volumes and acceleration of mining activity at all of Polyus' hard rock deposits.

A quarterly two-fold increase in the Group's power costs was mainly due to a low base effect, reflecting the sharp power tariff decrease at Kuranakh following the downward adjustment of the Far Eastern Federal District's power tariff in the previous quarter, combined with seasonal growth in energy consumption in 4Q 2017. In 2017 the Group's power costs increased by 41% compared to the prior-year mainly due to local currency strengthening and higher energy consumption. This was partially offset by the aforementioned decrease in energy costs at Kuranakh.

Cash operating costs – breakdown by key business units[14], 4Q 2017 vs. 3Q 2017

$ million	Olimpiada		Blagodatnoye		Verninskoye		Alluvials		Kuranakh	
	4Q 2017	3Q 2017	4Q 2017	3Q 2017	4Q 2017	3Q 2017	4Q 2017	3Q 2017	4Q 2017	3Q 2017
Consumables and spares	31	27	10	11	8	7	3	9	6	6
Labour	15	21	8	9	9	9	10	24	10	9
MET	27	21	11	9	-	-	1	7	4	3
Fuel	5	4	4	4	2	1	2	9	4	3
Power	6	5	2	1	1	1	1	3	1	(1)
Outsourced mining services	-	-	-	-	-	-	1	3	-	-
Other	16	16	7	7	5	3	2	8	4	3
Total	**100**	**94**	**42**	**41**	**25**	**21**	**20**	**63**	**29**	**23**

Cash operating costs – breakdown by key business units, 2017 vs. 2016

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

TOTAL CASH COSTS

TCC calculation

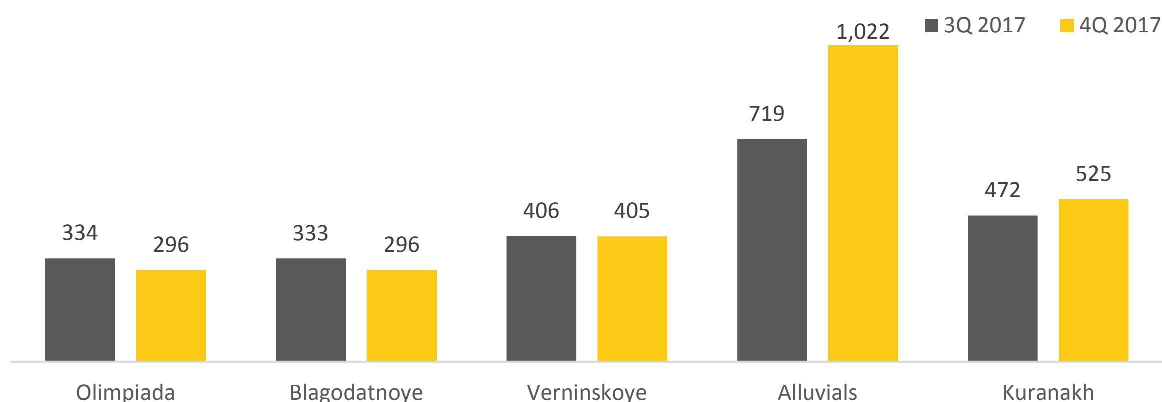
$ million	4Q 2017	3Q 2017	Q-o-Q	2017	2016	Y-o-Y
Cost of gold sales	250	264	(5%)	969	891	9%
property, plant and equipment depreciation	(47)	(49)	(4%)	(181)	(154)	18%
provision for annual vacation payment	-	-	N.A.	(5)	-	N.A.
employee benefit obligations cost	(6)	-	N.A.	(5)	(1)	N.A

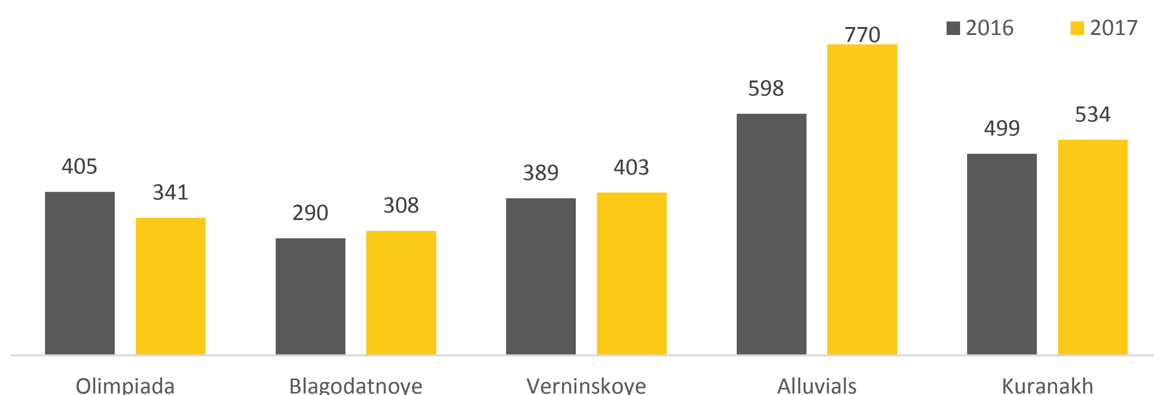
[14] Calculated on standalone basis and do not include other non-producing business units and consolidation adjustments.
[15] The Group defines Krasnoyarsk business unit as the aggregation of the Olimpiada and Blagodatnoye business segments. The Group uses geographical aggregation for additional analysis of Krasnoyarsk, as it is the region where the main assets of the Group are located. This aggregation has limitations as an analytical tool. The aggregation of business segments into the Krasnoyarsk business unit is not currently how the chief operating decision maker analyses the Group and the performance of the Krasnoyarsk business unit may not be indicative of the individual performance of each separate business segment due to different technology being applied in the Olimpiada and Blagodatnoye operations. The Group changed it's segment presentation in 2017 to split Krasnoyarsk into Olimpiada and Blagodatnoye, but cannot recast 2016 into these same segments due to excessive cost.

change in allowance for obsolescence of inventory	(4)	-	N.A.	(4)	(3)	N.A.
non-monetary changes in inventories	1	4	(75%)	12	12	-
TCC	**194**	**219**	**(11%)**	**786**	**745**	**6%**
Gold sold (koz)	597	578	3%	2,158	1,915	13%
TCC per ounce sold ($/oz)	**324**	**380**	**(15%)**	**364**	**389**	**(6%)**

In 4Q 2017, group TCC decreased 15% to $324 per ounce compared to the previous quarter, mainly supported by improved performance at Polyus' flagship assets, Olimpiada and Blagodatnoye. In 2017, group TCC decreased 6% to $364 per ounce, despite the local currency strengthening by 13% compared to the prior year. The ruble appreciation was fully offset by strong operational results during the period assisted by the contribution from a higher grade in ore processed at Olimpiada, the cessation of higher-cost Veduga ore processing, a lower power tariff in the Far Eastern Federal District, as well as other initiatives.

TCC performance by mine, $/oz





In 4Q 2017, TCC at Olimpiada declined to $296 per ounce, posting an 11% decrease from 3Q 2017. This decline was mainly attributable to an increased share of lower cost flotation concentrate as part of the total gold sold during the quarter as well as an adjustment of annual remuneration reserve and lower transportation costs.

In 2017, TCC at Olimpiada declined to $341 per ounce, posting a 16% decrease from the previous year. This reduction was mainly attributable to higher average grades in ore processed (3.8 grams per tonne in 2017 compared to 3.3 grams per tonne in 2016), the cessation of higher cost Veduga ore processing, the improved performance of Mill-1 (following its reconfiguration) and Mill-3 as well as lower repair levels

compared to 2016. This was partially offset by an increased consumption of reagents (sulfuric acid) reflecting variations in the ore mineral composition.

At Blagodatnoye, TCC amounted to $296 per ounce, down 11% compared to 3Q 2017, primarily due to higher average grades in ore processed (2.1 grams per tonne in 4Q 2017 compared to 1.9 grams per tonne in 3Q 2017) and an increase in hourly throughput. In 2017 TCC amounted to $308 per ounce, up 6% compared to the previous year, primarily due to the local currency appreciation and negative impact of lower grades in ore processed (following the intensification of mining activity at lower-grade sites). Notably, in rouble terms TCC decreased following the ongoing debottlenecking of throughput capacities and decline in cost per tonne of ore mined envisaged by mining plan for the respective years.

TCC at Verninskoye remained flat at $405 per ounce compared to 3Q 2017. In 2017, TCC at Verninskoye amounted to to $403 per ounce, up 4% in comparison with the prior year. However, in rouble terms, TCC remained almost flat as the increase in labour costs, and the higher cost of consumables and fuel were offset by operational improvements, including a gradual increase in hourly throughput and recoveries following improvements at the flotation, carbon-in leach (CIL) and cyanidation circuits.

At Kuranakh, TCC increased to $525 per ounce, posting an 11% increase compared to 3Q 2017, as a result of seasonal increase in fuel consumption and normalization of power expenses following the downward adjustment of the tariff for 9M 2017. In 2017, TCC increased to $534 per ounce, posting a 7% increase compared to the prior-year. Importantly, in rouble terms TCC decreased as a result of initiatives to expand the Mill's throughput capacity, with the improved productivity of the grinding equipment. Moreover, there was a sharp decline in power expenses due to enactment of the federal decree on the power tariff in the Far Eastern Federal District.

TCC at Alluvials increased to $1,022 per ounce, compared to $719 per ounce in 3Q 2017, reflecting the conclusion of the washing season. In 2017, TCC at Alluvials increased to $770 per ounce, compared to $598 per ounce in 2016, primarily due to local currency appreciation and a decline in alluvial gold grade (0.54 grams per cubic metre in 2017 compared to 0.61 grams per cubic metre in 2016).

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

The Group's selling, general, and administrative (SG&A) expenses increased to $71 million compared to $48 million in 3Q 2017 driven by a provision of reserves related to annual remuneration and recognition of expenses under LTIP. In 2017, the Group's SG&A expenses amounted to $211, a 40% increase from the prior-year period, mainly due to rouble appreciation, an increase in labour costs with the recognition of expenses under LTIP and salary indexation. Additional impact came on the back of higher distribution expenses related to gold-bearing products. Specifically, distribution expenses reflect the launch of crossboarder sales of flotation concentrate in the beginning of 2017.

SG&A breakdown by item

$ million	4Q 2017	3Q 2017	Q-o-Q	2017	2016	Y-o-Y
Salaries	50	32	56%	143	105	36%
Distribution expenses related to gold-bearing products	5	1	N.A.	12	-	N.A.
Taxes other than mining and income taxes	2	3	(33%)	11	12	(8%)
Professional services	3	5	(40%)	14	10	40%
Amortisation and depreciation	2	2	-	7	5	40%
Other	9	5	80%	24	19	26%
Total	**71**	**48**	**48%**	**211**	**151**	**40%**

ALL-IN SUSTAINING COSTS (AISC)

In 4Q 2017, the Group's AISC per ounce increased to $662 per ounce, up 11% compared to 3Q 2017 trending in line with TCC and supported by higher sustaining capital expenditures. In 2017, the Group's AISC per ounce increased to $621 per ounce, up 9% compared to the prior-year period. This growth was primarily driven by higher stripping expenses.

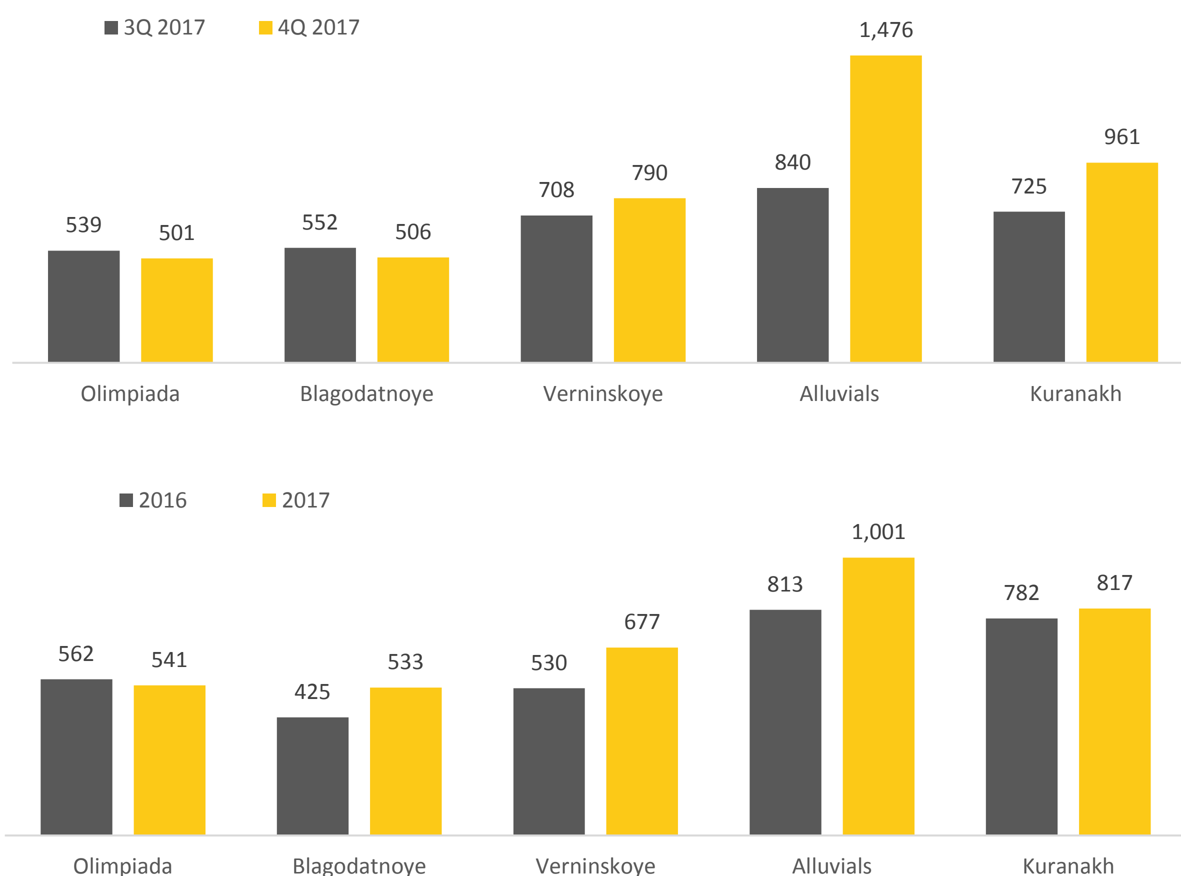
All-in sustaining costs calculation

$ million	4Q 2017	3Q 2017	Q-o-Q	2017	2016	Y-o-Y
Total TCC	194	219	(11%)	786	745	6%
selling, general and administrative expenses	71	48	48%	211	151	40%
amortisation and depreciation related to SG&A	(2)	(2)	-	(7)	(5)	40%
research expenses and other sustaining expenses	-	-	N.A.	-	1	(100%)
stripping activity asset additions	38	38	-	149	55	171%
sustaining capital expenditures[16]	84	42	98%	186	141	32%
unwinding of discounts on decommissioning liabilities	1	-	N.A.	3	3	-
adding back expenses excluded from cost of gold sales						
provision for annual vacation payment	-	-	N.A.	5	-	N.A.
employee benefit obligations cost	6	-	N.A.	5	1	N.A.
change in allowance for obsolescence of inventory	4	-	N.A.	4	3	33%
Total all-in sustaining costs	**396**	**345**	**15%**	**1,342**	**1,095**	**23%**
Gold sold (koz)	597	578	3%	2,158	1,915	13%
All-in-sustaining cost ($/oz)	**662**	**599**	**11%**	**621**	**572**	**9%**

In 4Q 2017 AISC at Olimpiada decreased to $501 per ounce while at Blagodatnoye AISC decreased to $506 per ounce both driven by lower TCC for the period. In 4Q 2017 AISC at Verninskoye increased to $790 per ounce while at Kuranakh, AISC increased to $961 per ounce both driven by higher sustaining capital expenditures for the period.

In 2017, AISC at Olimpiada remained almost flat compared to prior year as lower TCC were offset by an increase in sustaining capital expenditure and stripping expenses. At Blagodatnoye AISC increased to $533 per ounce as a result of a planned increase in stripping activity (rock moved volumes rose 55% during the year). Verninskoye posted a 28% increase in AISC from the previous year due to higher stripping expenses and sustained capital expenditure. At Kuranakh, AISC increased to $817 per ounce driven by higher TCC for the period.

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



ADJUSTED EBITDA

In 4Q 2017, the Group's adjusted EBITDA decreased by 2% compared to 3Q 2017. In 2017, increased production driven by higher ore processing volumes at the majority of the Group's hard rock mining assets as well as higher average grades in ore processed at Olimpiada were the key contributing factors to the 11% increase in the Group's adjusted EBITDA compared to the prior-year. The upward trend was primarily achieved due to a robust operating performance and cost control as TCC decreased on a per ounce basis in 2017 compared to the prior-year despite 13% local currency appreciation.

Adjusted EBITDA growth was predominantly driven by Olimpiada, which achieved a double digit growth in gold sales volumes (including sales of flotation concentrate). Olimpiada represents 64% of the Group's adjusted EBITDA for the 4Q 2017 and 56% of the Group's adjusted EBITDA for the full year.

The adjusted EBITDA margin stood at 63% in 4Q 2017 and 63% for the full year, remaining one of the highest among mining companies globally.

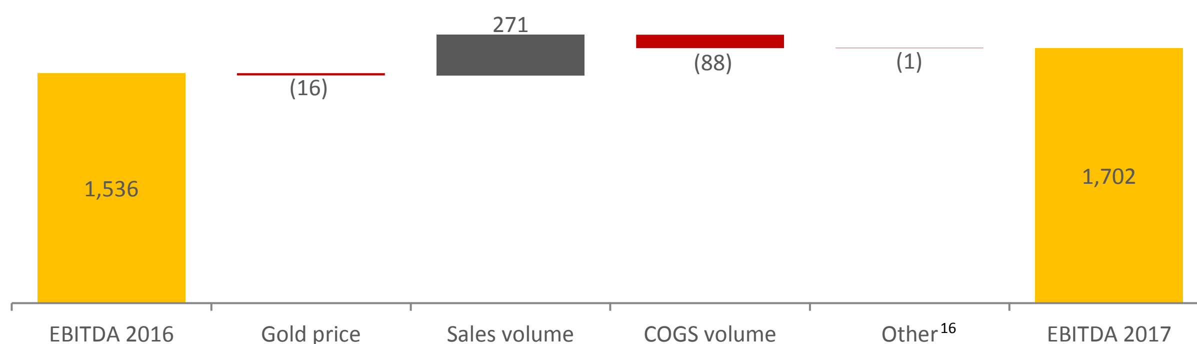
The Company's EBITDA is adjusted for special charitable contributions, which reflect the Company's charitable activity as part of its social responsibility obligations.

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

Adjusted EBITDA calculation

$ million	4Q 2017	3Q 2017	Q-o-Q	2017	2016	Y-o-Y
Profit for the period	**267**	**371**	**(28%)**	**1,241**	**1,445**	**(14%)**
Income tax expense	118	75	57%	290	326	(11%)
Depreciation and amortisation	49	47	4%	178	148	20%
Loss / (gain) on derivative financial instruments and investments, net	(20)	(30)	(33%)	(118)	(119)	(1%)
Finance costs, net	49	43	14%	200	145	38%
Equity-settled share-based payment plans	12	6	100%	25	19	32%
Foreign exchange gain, net	(18)	(43)	(56%)	(130)	(396)	(67%)
Interest income	(5)	(6)	(17%)	(28)	(40)	(30%)
Impairment/(reversal of impairment)	13	-	N.A.	19	(4)	N.A.
Special charitable contributions	10	11	(9%)	39	-	N.A.
(Gain) / loss on property, plant and equipment disposal	(10)	1	N.A.	(14)	12	N.A.
Adjusted EBITDA	**465**	**475**	**(2%)**	**1,702**	**1,536**	**11%**
Total revenue	743	744	(0%)	2,721	2,458	11%
Adjusted EBITDA margin (%)	**63%**	**64%**	**(1)** ppts	**63%**	**62%**	**1 ppts**

Adjusted EBITDA bridge, $ million



Adjusted EBITDA breakdown by business unit, $ million

$ million	4Q 2017	3Q 2017	Q-o-Q	2017	2016	Y-o-Y
Olimpiada	299	244	23%	953	717	33%
Blagodatnoye	103	104	(1%)	414	417	(1%)
Titimukhta	-	-	-	-	36	N.A.
Verninskoye	29	42	(31%)	149	146	2%
Alluvials	2	43	(95%)	54	90	(40%)
Kuranakh	30	30	-	109	107	2%
Other [17]	2	12	N.A.	23	23	-
Total	**465**	**475**	**(2%)**	**1,702**	**1,536**	**11%**

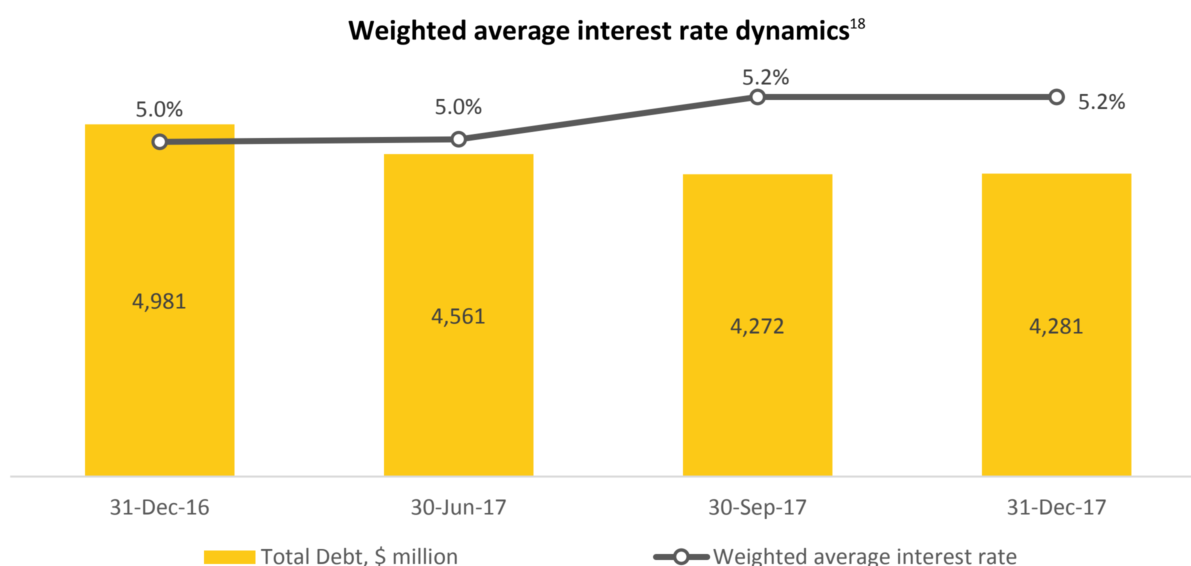
FINANCE COST ANALYSIS

$ million	4Q 2017	3Q 2017	Q-o-Q	2017	2016	Y-o-Y
Interest on borrowings	76	76	-	317	281	13%
Write-off of unamortised debt costs due to early extinguishment of debt and bank commissions	-	6	N.A.	17	-	N.A.
Unwinding of discounts	3	3	-	11	3	N.A.
Gain on exchange of interest payments under cross currency swap and interest rate swap	(12)	(13)	(8%)	(42)	(44)	(5%)
Other	-	-	N.A.	-	2	(100%)
Sub-total finance cost, net	**67**	**72**	**(7%)**	**303**	**242**	**25%**
Interest included in the cost of qualifying assets	(18)	(29)	(38%)	(103)	(97)	6%
Total finance cost expensed	**49**	**43**	**14%**	**200**	**145**	**38%**

The Group's total finance costs in 4Q 2017 amounted to $49 million, compared to $43 million in 3Q 2017. In 2017 the Group's total finance costs amounted to $200 million, compared to $145 million in 2016. Interest capitalisation relating to the Natalka development project, where construction works are ongoing, continued. Capitalised interest primarily relating to Natalka and Razdolinskaya-Taiga grid amounted to $103 million, compared to $97 million in 2016.

Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps), totaled $64 million in 4Q 2017. In 2017, interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps), totaled $275 million. An increase in the amount of interest on borrowings was primarily driven by floating interest rate increase during the year. This was partially offset by the Company's pro-active approach in debt portfolio management. Specifically, the share of floating interest rate debt instruments within the debt portfolio structure declined to 31% as at 31 December 2017 (compared to 52% as at 31 December 2016) accompanied by a reduction in total debt during the same period.

[16] Includes operating efficiency and FX effects.
[17] 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.



Foreign exchange gain and derivatives

The Group's foreign exchange gain in 4Q 2017 amounted to $18 million, compared to a $43 million gain in 3Q 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.

In 2017, the Group's FX gain amounted to $130 million, compared to a $396 million gain in 2016, 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 December 2017 and for year ended 31 December 2017

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

Revenue stabiliser[19]

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

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

Cross-currency and interest rate swaps[19]

In 4Q 2017, the overall positive effect from cross-currency and interest rate swaps on finance cost amounted to $12 million. In 2017, the overall positive effect from cross-currency and interest rate swaps on finance cost amounted to $42 million. This was recorded within the net gain/loss on investments and revaluation of derivative financial instruments. For more details see note 12 of the consolidated financial statement.

PROFIT BEFORE TAX & INCOME TAXES

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

NET PROFIT

In 4Q 2017, net profit totaled $267 million, compared to $371 million in 3Q 2017. The net profit decline is trending in line with change in operating profit and partially reflects the impact of non-cash items. In 2017, net profit totaled $1,241 million, compared to $1,445 million in 2016. Whilst the Company delivered an increase in operating profit, the net profit decline partially reflects the impact of non-cash items on both profit before tax and income tax expenses as described above. Specifically, in 2017 the gain on derivative financial instruments, which is not subject to tax, was lower than in the prior-year period. Adjusting for these items (see the reconciliation below) and given the higher interest expense, the Group's adjusted net profit for 2017 amounted to $1,015 million, a 7% increase from the prior-year.

Adjusted net profit calculation

$ million	4Q 2017	3Q 2017	Q-o-Q	2017	2016	Y-o-Y
Net profit for the period	267	371	(28%)	1,241	1,445	(14%)
impairment/(reversal of impairment)	13	-	N.A.	19	(4)	N.A.
gain on derivative financial instruments and investments, net	(20)	(30)	(33%)	(118)	(119)	(1%)
foreign exchange gain, net	(18)	(43)	(58%)	(130)	(396)	(67%)
deferred income tax related to derivatives	-	-	N.A.	3	26	(88%)
Adjusted net profit	**242**	**298**	**(19%)**	**1,015**	**952**	**7%**
Total revenue	743	744	(0%)	2,721	2,458	11%
Adjusted net profit margin	**33%**	**40%**	**(7) ppts**	**37%**	**39%**	**(2) ppts**

Statement of financial position review

DEBT

As at 31 December 2017, the Group's gross debt amounted to $4,281 million, down 14% compared to $4,981 million as at 31 December 2016. The Company demonstrated a pro-active approach in debt portfolio management and continued to shift from floating to fixed interest rate, increasing the overall share of fixed-rate liabilities to 69% (compared to 48% as of the end of 4Q 2016).

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

As previously disclosed, Polyus priced a Secondary Public Offering ("SPO") on the London Stock Exchange and the Moscow Exchange to the value of $858 million including the greenshoe on 30 June 2017. The primary component amounted to $400 million. The Company used most of those proceeds to make an early prepayment of several bank credit facilities.

The remaining portion of the offering proceeds was utilized for further debt repayments during 4Q 2017.

Debt breakdown by type

$ million	31 December 2017	30 September 2017	31 December 2016
Eurobonds	2,033	2,032	1,237
Bank loans	1,970	1,963	3,466
RUB bonds	265	263	253
Deferred payments under letters of credit	-	-	19
Finance lease	13	14	6
Total	**4,281**	**4,272**	**4,981**

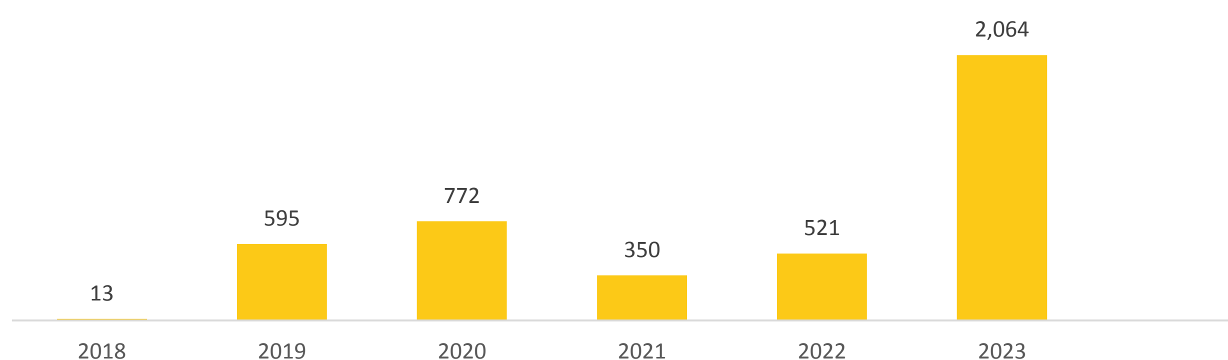
With regard to currency, the Group's debt portfolio remains dominated by USD denominated instruments.

Debt breakdown by currency

	31 December 2017		30 September 2017		31 December 2016	
	$ million	% of total	$ million	% of total	$ million	% of total
USD	3,353	78%	3,353	78%	4,099	82%
RUB	928	22%	919	22%	876	18%
EUR	-	-	-	–	6	0%
Total	**4,281**	**100%**	**4,272**	**100%**	**4,981**	**100%**

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

Debt maturity schedule[20], $ million



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

CASH AND CASH EQUIVALENTS AND BANK DEPOSITS

The Group's cash and cash equivalents and bank deposits totaled $1,204 million, up 7% compared with the end of 3Q 2017 and down 31% compared with the end of 2016. The decrease in cash and cash equivalents year-on-year was due to a repayment of credit facilities in the amount of $1,577 million and dividend payments for 2H 2016 and 1H 2017 in the amount of $574 million. The majority of the SPO proceeds were used to repay several bank credit facilities.

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

Cash, cash equivalents, and bank deposits breakdown by currency

$ million	31 December 2017	30 September 2017	31 December 2016
RUB	154	111	238
USD	1,050	1,010	1,502
Total	**1,204**	**1,121**	**1,740**

NET DEBT

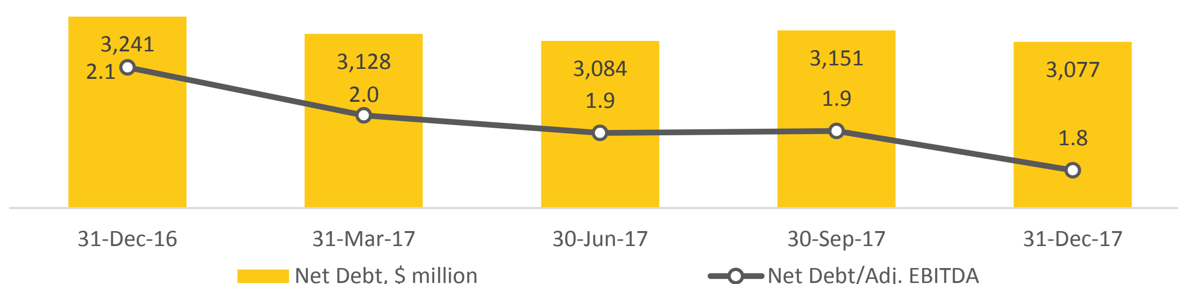
At the end of 2017, the Group's net debt stood at $3,077 million, down 5% from $3,241 million as at 31 December 2016.

Net debt calculation

$ million	31 December 2017	30 September 2017	31 December 2016
Non-current borrowings	4,269	4,262	4,698
+ Current borrowings	12	10	283
– Cash and cash equivalents	(1,204)	(1,121)	(1,740)
Net debt	**3,077**	**3,151**	**3,241**

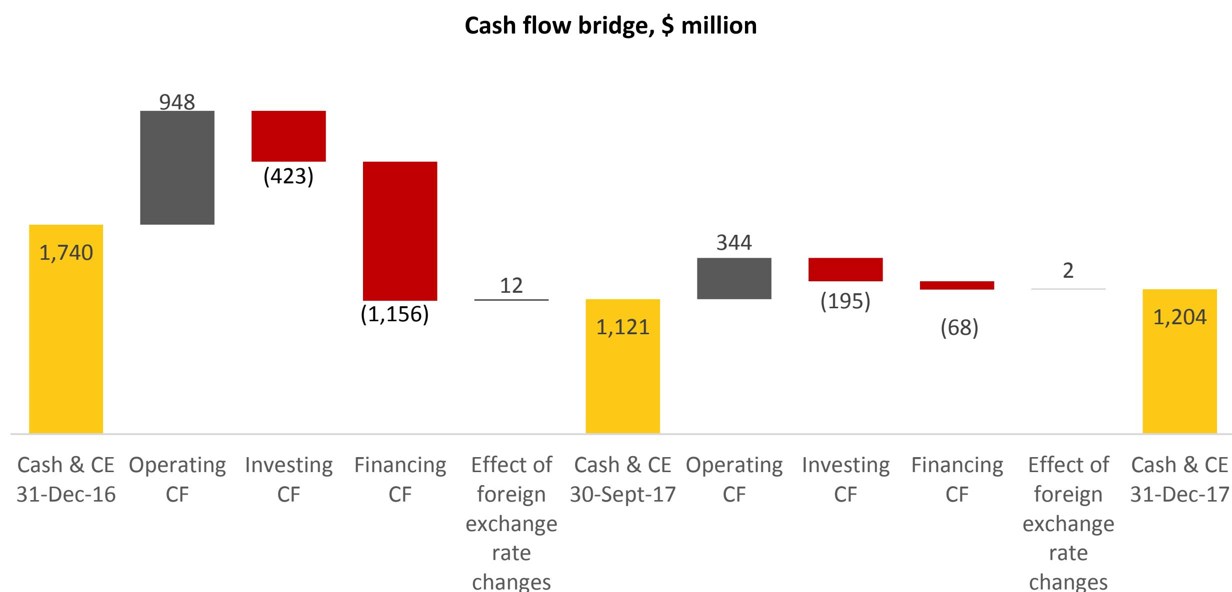
The net debt/adjusted EBITDA ratio as at 31 December 2017 decreased to the level of 1.8x compared to the end of 2016, reflecting a decrease in the net debt position and adjusted EBITDA expansion for the last 12 months.

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



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

Statement of cash flows review



In 4Q 2017, cash flow from operations decreased to $344 million, compared to $398 million in 3Q 2017. Due to higher capex spending in 4Q 2017, cash outflow on investing activities reached $195 million. Net financing cash outflow totaled $68 million, reflecting both interest and the remaining part of dividends paid, partly offset by positive net proceeds on interest and cross-currency rate swaps.

In 2017, cash flow from operations increased to $1,292 million, compared to $1,178 million in 2016. Due to higher capex spending in 2017, cash outflow on investing activities reached $618 million. Net financing cash outflow totaled $1,224 million, reflecting both the inflow of the primary component of the SPO proceeds in the total amount of $400 million, and the repayment of around $1,577 million of credit facilities and $574 million of dividend payments for 2H 2016 and 1H 2017 respectively.

OPERATING CASH FLOW

In 4Q 2017, the Group generated operational cash flow of $344 million. This was negatively impacted by a working capital outflow totaling $29 million reflecting an increase in receivables of flotation concentrate sales at the end of 2017.

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

INVESTING CASH FLOW

In 4Q 2017, capital expenditures increased to $279 from $205 million in 3Q 2017. In the meantime, for the full year 2017 capital expenditures increased to $804 million from $466 million in the previous year. This increase reflects higher maintenance capital expenditures as well as the ongoing construction works at Natalka and brownfield development projects. The capex figure of $804 million is within the guidance of $800-850 million.

Capital expenditures at Natalka, the Group's main development project, decreased 12% in 4Q 2017, to $94 million as the major part of the project's investment program for 2017 was completed in the first three quarters of the year. In 2017, capital expenditures at Natalka increased 77% , to $378 million. Mining

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

Capital expenditures at Olimpiada increased to $84 million in 4Q 2017 mainly due to the procurement of the mining fleet for the Vostochny pit. In 2017, capital expenditures at Olimpiada increased to $177 million due to preparations to connect the mine to the new Razdolinskaya-Taiga grid, procurement of a new mining fleet and the construction of the Bio Oxidation circuit ("BIO-4") at the Mills-1, 2, 3 complex. The first four reactors of the BIO-4 project were installed in 2017 whereas the remaining four reactors are scheduled for 1H 2018.

At Blagodatnoye, capital expenditures increased to $19 million and $49 million in 4Q 2017 and 2017, respectively, primarily due to optimisation works at the Blagodatnoye Mill following the completion of the processing capacity expansion project.

At Verninskoye, capital expenditures increased to $16 million and increased to $39 million in 4Q 2017 and 2017, respectively, mainly due to further implementation of the Verninskoye Mill expansion project.

Capital expenditures at Kuranakh increased to $26 million in 4Q 2017 due to the postponement of the procurement of certain fixed asset components related to the Mill expansion project from 3Q 2017 to 4Q 2017. In 2017, capital expenditures at Kuranakh increased to $65 million in 2017 due to further progress with the heap leach project and the launch of the second stage of the Kuranakh Mill processing capacity expansion to 5.0 mtpa. The heap-leaching operations being launched in September 2017 should intensify in the first half of 2018 with the launch of leaching season.

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

Capex breakdown[22]

$ million	4Q 2017	3Q 2017	Q-o-Q	2017	2016	Y-o-Y
Natalka, including						
Purchase of equipment	54	69	(22%)	226	109	107%
Capitalisation of borrowing costs	16	23	(30%)	93	80	16%
Operating costs	24	15	60%	59	24	146%
Net proceeds from selling gold produced during the ramp-up period	-	-	N.A.	-	-	N.A.
Natalka, total	94	107	(12%)	378	213	77%
Olimpiada	84	41	105%	177	80	121%
Blagodatnoye	19	17	12%	49	20	145%
Verninskoye	16	11	45%	39	24	63%
Alluvials	9	5	80%	26	16	63%
Kuranakh	26	17	53%	65	33	97%
Other[23]	31	7	N.A.	70	80	(13%)
CAPEX	**279**	**205**	**36%**	**804**	**466**	**73%**
Omchak electricity transmitting line	48	19	N.A.	69	2	N.A.
Items capitalised[24], net	13	12	8%	25	-42	N.A.
Change in working capital for purchase property, plant and equipment	(19)	(13)	(46%)	(67)	(21)	N.A.
Purchase of PP&E[25]	**321**	**223**	**44%**	**831**	**405**	**105%**

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

Specifically, $53 million of government grants were received for the construction of the power grid in 4Q 2017. This amount is the second part of RUB 8.8 billion (ca. $148 million) government subsidy, which was granted in September 2016. The first transche in an amount of $76 million was received in 4Q 2016. The construction is expected to be completed in 2019, allowing for electricity cost reduction at Natalka. For more details please refer to Note 19 of the consolidated financial statements.

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

Moreover, in July 2017 JSC Polyus Krasnoyarsk entered into a number of option agreements with RT to acquire an additional 25.1% participation interest in SL Gold. Total consideration for the additional 25.1% participation interest is fixed at $145.9 million and will be payable in Polyus' shares within the next five

[22] The capex above presents the capital construction-in-progress unit as allocated to other business units, whilst in the consolidated financial statements capital construction-in-progress is presented as a separate business unit.
[23] Reflects expenses related to exploration business unit, construction of Razdolinskaya-Taiga, Peleduy-Mamakan grid lines and Sukhoi Log expenses, net of the deposit license acquisition cost and payments to RT.
[24] Including capitalised stripping costs net of capitalised interest on loans and capitalised within capital construction-in-progress. For more details see Note 11 of the consolidated financial statement.
[25] Presented net of the Sukhoi Log deposit license acquisition cost and payments to RT.

years in five tranches, with Polyus having the right to accelerate. Subsequently, JSC Polyus Krasnoyarsk exercised the first option agreement in a total amount of $22 million and increased its stake in SL Gold by 3.8%.

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

In 2017, the Group received $100 million from the sale of Polyus' 82.34% stake in a joint venture entity with Polymetal holding 100% of JSC South-Verkhoyansk Mining Company ("SVMC"), which holds the mining and exploration license for the Nezhdaninskoye gold deposit in Russia's Yakutia region.

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

FINANCING CASH FLOW

In 4Q 2017, net financing cash outflow totaled $68 million compared to $543 million of cash outflow in the prior period as most repayments of the credit facilities scheduled for the second half of the year were completed in 3Q 2017. In 2017, net financing cash outflow totaled $1,224 million compared to $1,015 million of cash outflow in 2016. In 2017, Polyus completed a repayment of approximately $1,577 million of credit facilities with share placement cash proceeds utilised for this purpose and made $574 million of dividend payments for 2H 2016 and 1H 2017.

Outlook

Production guidance

Based on the performance in 2017, the Group increased its production guidance for 2018 from the range of 2.35-2.40 million ounces to 2.375–2.425 million ounces.

With the majority of brownfield development projects completed in 2017 and Natalka anticipated to be fully ramped-up in the second half of 2018, the Group expects total gold output to increase further to 2.8 million ounces in 2019.

Capex guidance

In 2018, Polyus plans to invest approximately $850 million across the business, including $250 million of maintenance capex. The figure also includes approximately $150 million of capitalised operating expenses related to the Natalka operations.

Debottlenecking and operating capacity increases will be the key focus for 2018 which includes both increases in mining and processing rates.

Separately, Polyus plans to launch an ERP-based transformation program and upgrade its IT infrastructure. This should lead to the reengineering and streamlining of business processes.

In line with international IFRS practices, the Company will be capitalising operating expenses and interest expenses related to the Natalka operations offset by gold revenue. This will continue until the asset reaches its commercial production in the manner intended by management as several consecutive months of operations at 60-70% of designed throughput and recovery parameters.

Net of those amounts, capex programme for 2018 is expected to stand at $700 million.

RECENT CORPORATE DEVELOPMENTS

Amendment to the Dividend Policy

On 17 January 2018, the Company's Board of Directors (the "Board") approved an amendment to the Company's dividend policy setting the minimum dividend payout in respect of each of the years 2017 and 2018 in the amount of $550 million. As a result, the dividend payment will comprise the higher of 30% of the EBITDA of Polyus stipulated by the policy or $550 million for the respective reporting period. The provision on the minimum dividends will apply exclusively for the dividends for 2017 and 2018 — starting from the dividends in respect of the year 2019 and onwards the Company will adhere to the initial payout basis of 30% of EBITDA.

All other provisions of the Company's dividend policy remain unchanged. The Company pays dividends on a semi-annual basis. Payment will be calculated on the basis of the consolidated financial statements of the Company in accordance with IFRS requirements, provided that the net debt/adjusted EBITDA (last 12 months) ratio based on the consolidated financial statements of Polyus is lower than 2.5x.

Should the net debt/adjusted EBITDA (for the last 12 months) ratio increase to higher than 2.5x, the Board will exercise discretion on dividends, considering the Company's financial position, free cash flow, outlook and macro environment.

Convertible Bonds Placement

On 19 January 2018, Polyus announced the placing of $250 million Senior Unsecured Guaranteed Convertible Bonds due 2021 with a coupon of 1% payable on a semi-annual basis issued by Polyus Finance PLC, an indirect wholly-owned finance subsidiary of the Company incorporated under the laws of England and Wales, and guaranteed jointly and severally by PJSC Polyus and Joint Stock Company Polyus Krasnoyarsk. The initial conversion price has been set at $50.0427 per GDR, representing a conversion premium of 30 per cent above the reference price of $38.4944 (being the volume weighted average price of a GDR between launch and the close of bookbuilding of the Bonds on 19 January 2018). The conversion price of the Bonds will be subject to standard convertible market anti-dilution adjustments.

USD 500 million Eurobonds Placement

On 24 January 2018, Polyus Finance PLC priced $500 million notes due 29 January 2024 with a coupon of 4.70% per annum (the «Notes»). The Notes are guaranteed by Joint-Stock Company Polyus Krasnoyarsk, a subsidiary of the Company.

Going concern

The financial position of the Group, its cash flows, liquidity position, and borrowing facilities are set out in this MD&A on pages 21 to 23. As of 31 December 2017 the Group held $1,204 million in cash and cash equivalents and bank deposits and had a net debt of $3,077 million, with $694 million of undrawn but committed credit facilities, subject to covenant compliance. Details on borrowings and credit facilities are disclosed in note 18 to the consolidated financial statements. In assessing its going-concern status, the directors have considered the uncertainties affecting future cash flows and have taken into account the Group's financial position, anticipated future trading performance, borrowings, and other available credit facilities, as well as its forecast compliance with the covenants on those borrowings and its capital expenditure commitments and plans. In the event of certain reasonably possible adverse pricing and forex scenarios and the risks and uncertainties below, management has within its control the option of deferring uncommitted capital expenditure, or managing the dividend payment profile to maintain the Group's funding position.

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

Risks and uncertainties

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

The Group's financial results depend largely on gold prices. The gold market follows cyclical patterns and is sensitive to general macroeconomic trends. The Group constantly monitors the 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 2016. Detailed explanation of the risks summarized below, together with the Group's risk mitigation plans, can be found on pages 159 to 163 of the 2016 Annual Report which is available at http://www.polyus.com/upload/iblock/6ba/polyus_96dpi-_1_.pdf

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

Commodity price risk

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

Foreign exchange risk

As stated on page 8, the Group's revenue is linked to the USD, as the gold price is quoted in this currency. Thus the Group's strategy is to have mostly USD-denominated debt and to keep its cash and deposits in USD. As of 31 December 2017, USD 1,050 million of the cash and cash equivalents and bank deposits of the Group were in USD – see page 22 of this MD&A for a detailed description. As part of this strategy, the Group entered into a number of cross-currency swaps with leading Russian banks economically to hedge interest payments and the exchange of the principal amounts – see page 20.

Interest rate risk

The Group is exposed to interest rate risk, as 31% 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 in view of higher finance cost expectations.

Inflation risk

As stated on page 9, the Group's earnings are exposed to inflationary trends in Russia, and inflation negatively impacts the Group's earnings, increasing future operating costs. To mitigate rouble inflation risk, the Group estimates possible inflation levels and incorporates them into its cost planning; it has implemented cost reduction initiatives at its operations, and its treasury team is responsible for ensuring that the majority of cash and cash equivalents are held in USD.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of Public Joint Stock Company "Polyus" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Recognition and valuation of Exploration and evaluation ("E&E") assets (Note 4, 11) The carrying value of the Group's E&E assets within mineral rights amounted to $560 million as at 31 December 2017 (31 December 2016: $263 million). During the year ended 31 December 2017, the Group acquired Sukhoi Log mining license resulting in substantial increase in the carrying value of E&E assets. The cost of Sukhoi Log asset includes the auction price paid for the license, fair value of the put options to acquire remaining 49% interest in the entity holding the license and other capitalised costs. Accounting treatment, the moment of recognition and valuation of the put options requires significant management judgment. Given the substantial expenditures related to commissioning of Natalka and exploration works on Sukhoi log deposit, management can reconsider prioritisation for development of other E&E assets. The assessment of each asset's future prospectivity also requires significant judgment. There is a risk that the amounts are capitalised which no longer meet the recognition criteria of IFRS 6. Because of significance of this issue we believe it to be a key audit matter.	We completed the following procedures in respect of recognition and valuation of E&E assets: • Assessed the appropriateness of the accounting treatment of the put options and compliance with IFRS; • Challenged input data used for valuation of the put options comparing them with observable market data and reviewing the validity of key assumptions; • Held discussions with key operational and finance staff to understand the exploration and evaluation activities; • Reviewed and evaluated management assessment of the existence of impairment indicators in the portfolio of E&E assets by assessing the appropriateness of management assumptions and estimates; • Reviewed the exploration license conditions for any potential breaches; and • Reviewed approved exploration budgets for 2018 in order to check that exploration projects were ongoing and committed.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Valuation and hedge accounting for financial instruments (Note 12) The Group entered into a number of different derivative contracts to mitigate exposure to gold price, currency fluctuations and reduce interest rate exposure. The valuation of these contracts is based on management's judgements and estimates, which could significantly affect the amounts recognised in the consolidated financial statements. The most complex of these instruments is a commodity hedge known as the "Revenue Stabiliser" to hedge the gold price. The Group used hedge accounting for certain tranches of these instruments before 30 June 2017. The key assumptions underlying their valuations are around the credit risk calculation of the Group and its counterparties, i.e. probability of default and recovery rate. In addition, as at 31 December 2017 the Group has a number of derivative financial instruments for which no hedge accounting was applied, including the cross currency swaps with the carrying amount of $383 million (31 December 2016: $434 million). The valuation of these derivatives, which includes debit valuation adjustments in respect of own credit risk required by the relevant accounting standards, is subject to significant estimation uncertainty. Based on the above we determined these issues to be a key audit matter.	We completed the following procedures in respect of derivative financial instruments: • Got the understanding of the process of identification and measurement of derivatives and application of hedge accounting; • Involved financial instruments specialists to perform an independent valuation on a sample of these derivatives, using the key assumptions, including the gold price and exchange rate based on the available market information; • Reviewed management's methodology for assessment of major inputs in the valuation models, including credit risk adjustment against the requirements set out in IFRS 13; • Assessed the appropriateness of applying hedge accounting to the Revenue Stabiliser before 30 June 2017 on a sample basis; • Assessed the allocation of changes in fair values of derivatives between other comprehensive income and profit or loss, as appropriate; and • Reviewed the reasonableness and completeness of disclosures required by IFRS 7 in the Group accounts.

Other Information

Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor’s report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Directors.
- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Olga Tabakova,
Engagement partner

14 February 2018

The Entity: Public Joint Stock Company "Polyus"

Primary State Registration Number: 1068400002990

Certificate of registration in the Unified State Register № 84 000060259 of 17.03.2006, issued by Interdistrict Inspectorate of the Federal Tax Authorities № 2 of Krasnoyarsk territory, Taimyr (Dolgan-Nenets) 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”

Consolidated financial statements
for the year ended 31 December 2017

PJSC “POLYUS”

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER
(in millions of US Dollars, except for earnings per share data)

	Notes	2017	2016
Gold sales	5	2,684	2,429
Other sales		37	29
Total revenue		**2,721**	**2,458**
Cost of gold sales	6	(969)	(891)
Cost of other sales		(31)	(28)
Gross profit		**1,721**	**1,539**
Selling, general and administrative expenses	7	(211)	(151)
Other expenses, net		(55)	(27)
Operating profit		**1,455**	**1,361**
Finance costs, net	8	(200)	(145)
Interest income		28	40
Gain on investments and revaluation of derivative financial instruments, net	9	118	119
Foreign exchange gain, net		130	396
Profit before income tax		**1,531**	**1,771**
Income tax expense	10	(290)	(326)
Profit for the year		**1,241**	**1,445**
Profit for the year attributable to:			
Shareholders of the Company		1,240	1,420
Non-controlling interests		1	25
		1,241	**1,445**
Weighted average number of ordinary shares’000			
- for basic earnings per share	17	128,622	140,765
- for dilutive earnings per share	17	129,723	140,774
Earnings per share (US Dollar)			
- basic		9.64	10.09
- dilutive		9.61	10.09

PJSC "POLYUS"

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

		2017	2016
Profit for the year		**1,241**	**1,445**
Other comprehensive income / (loss) for the year			
Items that may be subsequently reclassified to profit or loss:			-
Decrease in other reserves		(2)	
Increase / (decrease) in revaluation of cash flow hedge reserve on revenue stabiliser	12	4	(65)
Decrease in revaluation of cash flow hedge reserve on gold forward	12	-	(12)
Deferred tax relating to change in revaluation of cash flow hedge reserve		(1)	15
		1	**(62)**
Items that will not be subsequently reclassified through profit or loss:			
Effect of translation to presentation currency		1	(80)
Items that have been reclassified through profit or loss:			
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser	12	(19)	(53)
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward	12	-	(8)
Deferred tax relating to cash flow hedge reserve reclassified to consolidated statement of profit or loss		4	12
		(15)	**(49)**
Other comprehensive loss for the year		**(13)**	**(191)**
Total comprehensive income for the year		**1,228**	**1,254**
Total comprehensive income for the year attributable to:			
Shareholders of the Company		1,223	1,215
Non-controlling interests		5	39
		1,228	**1,254**

PJSC "POLYUS"

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

	Notes	2017	2016
Assets			
Non-current assets			
Property, plant and equipment	11	4,005	2,938
Derivative financial instruments and investments	12	38	57
Inventories	13	300	264
Deferred tax assets	21	60	75
Other receivables	11	97	-
Other non-current assets		58	37
		4,558	**3,371**
Current assets			
Derivative financial instruments and investments	12	-	10
Inventories	13	435	369
Deferred expenditure		14	10
Trade and other receivables	14	101	58
Advances paid to suppliers and prepaid expenses		21	19
Taxes receivable	15	114	89
Cash and cash equivalents	16	1,204	1,740
		1,889	**2,295**
Total assets		**6,447**	**5,666**
Equity and liabilities			
Capital and reserves			
Share capital		5	7
Additional paid-in capital		1,948	2,288
Treasury shares		(89)	(3,712)
Other reserves		(2)	-
Cash flow hedge revaluation reserve	12	-	12
Translation reserve		(2,723)	(2,720)
Retained earnings		1,425	3,617
Equity attributable to shareholders of the Company		**564**	**(508)**
Non-controlling interests		92	94
		656	**(414)**
Non-current liabilities			
Site restoration, decommissioning and environmental obligations		47	38
Borrowings	18	4,269	4,698
Derivative financial instruments	12	448	456
Deferred revenue	19	132	76
Deferred consideration	20	216	-
Deferred tax liabilities	21	217	182
Other non-current liabilities		45	32
		5,374	**5,482**
Current liabilities			
Borrowings	18	12	283
Trade and other payables	22	318	222
Taxes payable	23	87	93
		417	**598**
Total liabilities		**5,791**	**6,080**
Total equity and liabilities		**6,447**	**5,666**

PJSC "POLYUS"

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER
(in millions of US Dollars)

	Notes	Number of outstanding shares'000	Equity attributable to shareholders of the Company								Non-controlling interests	Total
			Share capital	Additional paid-in capital	Treasury shares	Other reserves	Cash flow hedge revaluation reserve	Translation reserve	Retained earnings	Total		
Balance at 31 December 2015		**190,628**	**7**	**2,273**	**-**	**-**	**123**	**(2,623)**	**2,196**	**1,976**	**71**	**2,047**
Profit for the year		-	-	-	-	-	-	-	1,420	**1,420**	25	**1,445**
Increase in cash flow hedge revaluation reserve		-	-	-	-	-	(111)	-	-	**(111)**	-	**(111)**
Effect of translation to presentation currency		-	-	-	-	-	-	(94)	-	**(94)**	14	**(80)**
Total comprehensive income / (loss)			**-**	**-**	**-**	**-**	**(111)**	**(94)**	**1,420**	**1,215**	**39**	**1,254**
Equity-settled share-based payment plans (LTIP)		-	-	15	-	-	-	-	-	**15**	-	**15**
Increase of ownership in subsidiaries		-	-	-	-	-	-	-	(2)	**(2)**	(1)	**(3)**
Buy-back of treasury shares		(60,519)	-	-	(3,443)	-	-	-	-	**(3,443)**	-	**(3,443)**
Settlement of issued loans by own shares		(4,477)	-	-	(269)	-	-	-	-	**(269)**	-	**(269)**
Release of translation reserve due to disposal of subsidiary		-	-	-	-	-	-	(3)	3	**-**	-	**-**
Declared dividends to shareholders of non-controlling interests		-	-	-	-	-	-	-	-	**-**	(15)	**(15)**
Balance at 31 December 2016		**125,632**	**7**	**2,288**	**(3,712)**	**-**	**12**	**(2,720)**	**3,617**	**(508)**	**94**	**(414)**
Profit for the year		-	-	-	-	-	-	-	1,240	**1,240**	1	**1,241**
Decrease in other reserves		-	-	-	-	(2)	-	-	-	**(2)**	-	**(2)**
Decrease in cash flow hedge revaluation reserve		-	-	-	-	-	(12)	-	-	**(12)**	-	**(12)**
Effect of translation to presentation currency		-	-	-	-	-	-	(3)	-	**(3)**	4	**1**
Total comprehensive (loss) / income			**-**	**-**	**-**	**(2)**	**(12)**	**(3)**	**1,240**	**1,223**	**5**	**1,228**
Equity-settled share-based payment plans (LTIP), net of tax	17	-	-	18	-	-	-	-	-	**18**	-	**18**
Buy-back of treasury shares	17	(14)	-	-	(1)	-	-	-	-	**(1)**	-	**(1)**
Cancellation of treasury shares	17	-	(2)	(749)	3,604	-	-	-	(2,853)	**-**	-	**-**
Issuance of shares	17	6,016	-	389	-	-	-	-	-	**389**	-	**389**
Purchase of additional ownership in SL Gold through issuance of treasury shares	17	290	-	2	20	-	-	-	-	**22**	-	**22**
Declared dividends	17	-	-	-	-	-	-	-	(579)	**(579)**	-	**(579)**
Dividends declared to shareholders of non-controlling interests		-	-	-	-	-	-	-	-	**-**	(7)	**(7)**
Balance at 31 December 2017		**131,924**	**5**	**1,948**	**(89)**	**(2)**	**-**	**(2,723)**	**1,425**	**564**	**92**	**656**

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

	Notes	2017	2016
Operating activities			
Profit before income tax		**1,531**	**1,771**
Adjustments for:			
Finance costs, net	8	200	145
Interest income		(28)	(40)
Gain on investments and revaluation of derivative financial instruments, net	9	(118)	(119)
Depreciation and amortisation		178	148
Foreign exchange gain, net		(130)	(396)
Other		23	22
		1,656	**1,531**
Movements in working capital			
Inventories		(64)	(42)
Deferred expenditure		(4)	(1)
Trade and other receivables		(28)	(47)
Advances paid to suppliers and prepaid expenses		(7)	(10)
Taxes receivable		(18)	(27)
Trade and other payables and accrued expenses		6	13
Taxes payable		17	23
Other		(2)	(1)
Cash flows from operations		**1,556**	**1,439**
Income tax paid		(264)	(261)
Net cash generated from operating activities		**1,292**	**1,178**
Investing activities[1]			
Purchase of property, plant and equipment (excluding payments for the Sukhoi Log deposit)[2]		(831)	(405)
Payments for the Sukhoi Log deposit	11	(36)	(138)
Proceeds from government grants[2]	19	53	76
Interest received		33	50
Proceeds from repayment of loans issued		-	124
Proceeds from disposal of joint venture	9	100	-
Proceeds from disposal of subsidiary, net of cash disposed		-	10
Proceeds from disposal of electricity transmission grids	11	63	-
Other		-	3
Net cash utilised in investing activities		**(618)**	**(280)**
Financing activities[1]			
Interest paid		(291)	(245)
Commissions on borrowings paid		(11)	(51)
Proceeds from sales and leaseback transactions		11	2
Repayments of principal under finance lease		(5)	(1)
Net proceeds on exchange of interest payments under interest and cross currency rate swaps	8	42	44
Payment for buy-back of shares	17	(1)	(3,443)
Proceeds from issuance of shares		400	-
Direct expenses associated with issuance of the Company’s shares		(11)	-
Proceeds from borrowings		800	3,432
Repayment of borrowings		(1,577)	(734)
Dividends paid to shareholders of the Company		(574)	-
Dividends paid to non-controlling interests		(7)	(16)
Cash paid to increase ownership in subsidiaries		-	(3)
Net cash utilised in financing activities		**(1,224)**	**(1,015)**
Net decrease in cash and cash equivalents		**(550)**	**(117)**
Cash and cash equivalents at beginning of the year	16	**1,740**	**1,825**
Effect of foreign exchange rate changes on cash and cash equivalents		14	32
Cash and cash equivalents at end of the year	16	**1,204**	**1,740**

[1] Significant non-cash transactions relating to investing and financing activities are disclosed in notes 18 and 21 to these consolidated financial statements.
[2] Proceeds from government grants are presented including amounts received to compensate for Value Added Tax (VAT) incurred on purchase of qualifying assets. Purchase of property, plant and equipment are presented exclusive of VAT; related VAT paid is included in cash flows from operations (note 19).

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 development works being primarily at the Natalka licence area located in the Magadan region of the Russian Federation. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 27.

The shares of the Company are “level one” listed on the Moscow Exchange. On 5 July 2017, global depositary shares representing Polyus’ shares (with two global depositary shares representing interest in one Polyus share) were admitted to the official list maintained by the United Kingdom Financial Conduct Authority and to trading on the main market for listed securities of the London Stock Exchange plc (“LSE”). The controlling shareholder of the Company is Polyus Gold International Limited (“PGIL”), a public limited company registered in Jersey. The most senior parent of the Company is Wandle Holding Limited, a company registered in Cyprus. As at 31 December 2017 and 2016, the ultimate controlling party of the Company was Mr. Said Kerimov.

2. BASIS OF PREPARATION AND PRESENTATION

Going concern

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

Compliance with the International Financial Reporting Standards

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

Basis of presentation

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

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

IFRS standards update

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

Title	Subject	Effect on the consolidated financial statements
Amendments to IAS 7	Statement of cash flows.	Reconciliation of liabilities arising from financing activities added to note 18
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses.	No effect.
Amendments to IFRS 12	Disclosure of interests in other entities.	No effect.

With the exception of specific items mentioned above, the adoption of these new and revised standards and interpretations had no effect on the amounts reported as well as the presentation and disclosure of information in the consolidated financial statements of the Group.

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

Title	Subject	Effective for annual periods beginning on or after	Expected effect on the consolidated financial statements
Amendments to IAS 40	Investment Property	1 January 2018	Not applicable
Amendments to IFRS 1	First-time Adoption of International Financial Reporting Standards	1 January 2018	Not applicable
Amendments to IFRS 2	Share-based payment	1 January 2018	No effect
IFRS 9	Financial instruments	1 January 2018	No significant changes are anticipated, see below for further discussion.
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	Date will be determined later	No effect
IFRS 15	Revenue from contracts with customers	1 January 2018	No significant changes are anticipated, see below for further discussion.
IFRS 16	Leases	1 January 2019	For changes, see below
Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019	Under review
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	No effect
IFRIC 23	Uncertainty over Income Tax Treatment	1 January 2019	Under review

IFRS 15 Revenue from Contracts with Customers

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

The Group has undertaken an analysis of how IFRS 15 should be implemented. Based on this analysis, management expects that adoption of IFRS 15 will not have a significant impact on the timing or the amount of recognition of revenue on refined gold sales. One of the key aspects of IFRS 15 for the 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 will require revenue to be recognized based on the transfer of control of the refined gold which is largely consistent with the revenue recognition under IAS 18.

The Group plans to adopt IFRS 15 in 2018 using the modified retrospective approach, which requires an adjustment to equity as at 1 January 2017. The comparative 2017 results included in the 2018 financial statements will not be restated. The Group will continue to work to design, implement and refine procedures to apply the new requirements of IFRS 15 and to finalise accounting policy choices and financial statement impact. As the Group finalises this work, it is possible that some changes to the conclusions above may result.

Had the standard been early adopted in the current year *Other sales* would increase and *Gold sales (other gold-bearing products)* would decrease by approximately USD 12 million.

IFRS 9 Financial Instruments

IFRS 9 will change the classification and measurement principles for financial assets, but is not anticipated to have a significant impact on the consolidated financial statements. The key areas of IFRS 9 which will impact the Group relate to the classification of financial assets and the application of the expected loss model.

All recognised financial assets currently within the scope of IAS 39 will be subsequently measured at either amortised costs, fair value through profit or loss (FVTPL), or fair value through other comprehensive income (FVTOCI) under IFRS 9 depending on the contractual cash flows of the instrument and the business model under which it is held.

The impairment model for financial assets under IFRS 9 will reflect expected credit losses and changes in those expected credit losses as opposed to reflecting only for incurred credit losses under IAS 39.

No significant changes are anticipated in classification and measurement of financial instruments, except for classification of trade receivables for gold-bearing products which will be accounted at fair value through profit and loss.

IFRS 16 Leases

As at 31 December 2017, the Group has non-cancellable operating lease commitments of USD 123 million (note 25). IAS 17 does not require the recognition of any right-of-use assets or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 25. A preliminary assessment indicates that these arrangements would meet the definition of a lease under IFRS 16, and hence the 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 consolidated financial statements and directors are currently assessing its full potential effect. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of consolidation

Subsidiaries

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

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

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

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

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

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

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

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

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

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

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

Functional currency

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

3.2. Presentation currency

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

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

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

	31 December	
Russian Rouble/US Dollar	**2017**	**2016**
Year-end rate	57.60	60.66

3.3. Foreign currencies

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

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

3.4. Revenue recognition

Gold sales revenue

Revenue from the sale of refined gold and other gold-bearing products is recognised when:

- The risks and rewards of ownership are transferred to the buyer;
- The Group retains neither a continuing degree of involvement or control over the goods sold;
- The amount of revenue can be measured reliably; and
- It is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from gold sales is recognised at the time when the Group has received acceptance of shipped goods from the third party (title transfer). Revenue from gold-bearing products is recognised when the goods have been delivered to a contractually agreed location. Gold sales are stated at their invoiced value net of value-added tax.

Other revenue

Other revenue comprises mainly sales of electricity, transportation, handling and warehousing services, and other services. Revenue from the sale of electricity is recognised when a contract exists, delivery has taken place, a quantifiable price has been established or can be determined and the receivables are likely to be recovered. Delivery takes place when the risks and benefits associated with ownership are transferred to the buyer. Revenue from service contracts is recognised when the services are rendered.

3.5. Income tax

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

Current tax

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the year

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

3.6. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Costs for operating leases are recognised on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. Contingent rentals are recognised as expenses in the periods in which they are incurred.

3.7. Dividends

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

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

3.8. Property, plant and equipment

Mineral rights

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

Fixed assets

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

Fixed assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of the mines in accordance with the mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives. Depreciation is charged from the date a new mine reaches commercial production quantities and is included in the *Cost of sales*. The estimated remaining useful lives of the Group’s significant mines based on the mine operating plans are as follows:

Blagodatnoye	15 years
Olimpiada	12 years
Verninskoye	11 years
Kuranakh	7 years

Stripping activity asset

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

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

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

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

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

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

Capital construction in progress

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

Capital construction in progress is not depreciated.

Mine under development

Comprises amounts related to new mine development and includes the costs directly related to mine development projects such as acquiring and developing mining properties, pre-production expenditure, construction of processing plant and mine infrastructure, amortisation of equipment used in the development, mineral rights and mining and exploration licences and the present value of future mine closure, rehabilitation and decommissioning costs.

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

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

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

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

3.10. Impairment of long-lived tangible assets

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

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

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

Impairment of exploration and evaluation assets

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

- Acquisition of rights to explore potentially mineralised areas;
- Topographical, geological, geochemical and geophysical studies;
- Exploratory drilling;
- Trenching;
- Sampling; and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting gold resource.

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

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

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

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

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

3.11. Financial instruments

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

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

Financial assets

Financial assets are recognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for financial assets classified at FVTPL, which are initially measured at fair value.

The Group's financial assets are classified into the following categories:

- Financial assets at FVTPL; and
- Loans and receivables.

The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as a FVTPL where the financial asset is designated as a FVTPL.

A financial asset may be designated as a FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any dividend or interest earned on the financial asset and is included in the *Gain/(loss) on derivative financial instruments and investments, net* line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 12.

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

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

Loans and receivables

Loans and receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

De-recognition of financial assets

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

On de-recognition of a financial asset in its entirety, the difference between the assets' carrying amount and the sum of consideration received or receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Effective interest method

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

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

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is designated as at FVTPL.

A financial liability may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any interest paid on the financial liability and is included in the *Gain/(loss) on derivative financial instruments and investments, net* line item in the consolidated statement of profit or loss. Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis within finance cost.

De-recognition of financial liabilities

The 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.

Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in the consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivative financial instruments are presented as current assets or current liabilities.

The Group may designate certain derivative financial instruments as cash flow hedges. Since 1 July 2017, no derivative financial instrument has been accounted as a cash flow hedge (note 12).

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

3.12. Cash flow hedges

The Group uses derivative financial instruments for hedge accounting as determined in accordance with IAS 39. The Group applies hedge accounting for cash flow hedges against the risk of decline of the gold prices. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective.

At the inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Also, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on a quarterly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the consolidated statement of profit or loss.

Where the hedging instrument represents an option based instrument the Group applies hedge accounting only if such option is considered as a purchased option.

Where the above option based financial instruments are used as a cash flow hedging instrument the Group designates and recognises only their intrinsic value for hedging purposes. All changes in intrinsic value are recognised in equity through the consolidated statement of comprehensive income, whereas, all changes in time value are recognised directly in the consolidated statement of profit or loss. The amount recognised in equity is reclassified into the consolidated statement of profit or loss in the same period as the hedged cash flows affect the consolidated statement of profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects the consolidated statement of profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in the consolidated statement of profit or loss.

3.13. Inventories

Refined gold, ore stockpiles and gold-in-process

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

Stores and materials

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

3.14. Deferred expenditure

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

3.15. Cash and cash equivalents

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

3.16. Provisions

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

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

3.17. Site restoration, decommissioning and environmental obligations

Site restoration, decommissioning and environmental obligations include mine closure, rehabilitation and decommissioning costs. Future decommissioning and land restoration costs, discounted to net present value, are added to the respective assets and the corresponding obligations raised as soon as the constructive or legal obligation to incur such costs arises and the future cost can be reliably estimated. The respective assets are amortised on a straight-line basis over the life-of-mine. The unwinding of the obligation is included in the consolidated statement of profit or loss as finance costs. Obligations are periodically reviewed in light of current laws and regulations and adjustments made as necessary to the corresponding item of property, plant and equipment.

On-going restoration costs are expensed when incurred.

3.18. Government grants

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

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

3.19. Share-based payment transactions of the Company

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

4.1. Critical judgements in applying accounting policies

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

- Justification of the economic useful lives of property, plant and equipment;
- Depreciation method for property, plant and equipment;
- Borrowing costs capitalisation;
- Mine commissioning period;
- Determination of functional currency; and
- Initial recognition of share options.

4.1.1. Economic useful lives of property, plant and equipment

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

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

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

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

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

4.1.2. Depreciation method for property, plant and equipment

Fixed assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of the mines in accordance with the mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Amortisation is charged from the date a new mine reaches commercial production quantities and is included in the *Cost of gold sales*. Determination of this date requires judgement.

Depreciation is calculated based on straight line method which management monitors to ensure it does not deviate significantly from the depreciation charge calculated based on units of production method. This consistent result reflects that production facilities operate at near full capacity to the end of the licence period.

4.1.3. Borrowing costs capitalisation

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation commences when the Group undertakes activities that are necessary to prepare the asset for its intended use or sale and it ceases once the asset is complete and available for use. Interest is then charged to the consolidated statement of profit or loss as a depreciation expense over the life of the relevant asset. However, capitalisation is suspended for the extended periods of inactivity. Determination of the time period for which the borrowing costs need to be capitalised may require significant judgement. In particular, throughout the reporting year the Group continued to capitalise borrowing costs relating to development of Natalka mine. See note 5 for an amount of borrowing costs capitalised related to the Magadan business unit. See also 4.1.4 for a discussion of judgement to determine timing of completion of the development stage for Natalka.

According to IAS 23 borrowing costs are capitalised as part of the cost of the qualifying asset when it is probable that they will result in the entity obtaining future economic benefits. Exploration and evaluation assets are reclassified to *Mine under development* only when the technical feasibility and commercial viability of extracting a gold resource are demonstrable and a decision has been made to develop the mine. Starting from this moment, it becomes probable that the entity will obtain future economic benefits, and accordingly, capitalisation of borrowing costs commences.

4.1.4. Mine commissioning period

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

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

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

Thus, while the Group has substantially completed the construction of the processing plant at Natalka deposit, it continues to classify Natalka as a mine under development and capitalise related costs as the initial ramp-up activities are continuing.

4.1.5. Determination of functional currency

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

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

4.1.6. Initial recognition of share options

On 16 December 2016, JSC Polyus Krasnoyarsk, a 100% subsidiary of the Group, entered into a number of put and call option agreements as well as certain other transaction documents (thereafter, the “First set of options”) with LLC RT Business Development (“RT”), a wholly owned subsidiary of Russian state-owned Rostec Corporation (“Rostec”) over the 23.9% interest in the Group’s subsidiary LLC SL Gold (“SL Gold) owned by RT. On 11 July 2017, JSC Polyus Krasnoyarsk entered into a series of additional put and call option agreements over the remaining 25.1% interest in SL Gold (thereafter, the “Second set of options”) with RT (note 20).

Based on standalone contractual rights and obligations the First set of options would be recognised as financial liabilities with a corresponding decrease in equity under IFRS 10.

The management has concluded that the substance of the consideration payable by the Group under the First set of options represents an additional cost element of mineral rights licence for the Sukhoi Log deposit as the options were directly linked to the acquisition of the license and together with the payment for the licence itself represented a single transaction designed to achieve an overall commercial effect.

This conclusion was due mainly to the following reasons identified within IFRS 10:

- The options become exercisable only if the license is received and remains valid;
- The option agreements considered on their own are not economically justified.

Similarly, as the Second set of options represented modification to the original terms of the transaction it has been concluded that a similar accounting treatment is appropriate under the circumstances. Therefore, consistent with the accounting for the First set of options, an additional liability of USD 131 million is recognised in respect of Deferred consideration payable by the Group under the Second set of options with a corresponding debit to the cost of Exploration and evaluation assets within Mineral rights (notes 11 and 20).

4.2. Key sources of estimation uncertainty

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

- Recoverability of the exploration and evaluation assets;
- Impairment of long-lived assets;
- Determination and valuation of the stripping activity asset;
- Carrying value of stockpiles, gold in process and product inventories;
- Estimation of the site restoration, decommissioning and environmental obligations;
- Derivative financial instruments valuation; and
- Interpretation of the tax legislation in accounting for income taxes.

4.2.1. Recoverability of exploration and evaluation assets

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

4.2.2. Impairment of long-lived assets

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

Factors which could impact the underlying cash flows include:

- Commodity prices and exchange rates;
- Timelines of granting of licences and permits;
- Capital and operating expenditure; and
- Available reserves and resources and future production profile.

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

4.2.3. Determination and valuation of the stripping activity asset

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

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

Each discrete stage of mining, identified in the mine plans, is considered as a unit of account. If the mine plan initially identifies several discrete stages of mining which will take place consecutively (one after the another), these stages would be identified as components. These assessments are undertaken for each individual mine. Stripping costs incurred during the production phase should be allocated between inventory produced and the stripping activity asset by using the allocation basis. The Group considers that an allocation basis that compares the expected average life of mine stripping ratio with the actual stripping ratio in the period for the identified component of the ore body to determine if further stripping costs are to be allocated to stripping activity asset or the cost of inventory, to be the most suitable allocation basis.

4.2.4. Carrying value of stockpiles, gold-in-process and product inventories

Costs that are incurred in the production process are accumulated as stockpiles, gold-in-process and gold doré. Stockpiles are measured based on each stockpile’s average cost per tonne; gold-in-process and gold doré are measured based on recoverable ounces of gold. Stockpile quantities are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces based on assay data and the estimated recovery percentage based on the expected processing method. Stockpile tonnages are verified by periodic surveys.

Although the quantities of recoverable gold are reconciled by comparing the grades of ore to the quantities of gold actually recovered (metallurgical balancing), the nature of the process inherently limits the ability to monitor precisely recoverability levels. As a result, the metallurgical balancing process is constantly monitored and engineering estimates are refined based on actual results over time. Variations between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realisable value are accounted for on a prospective basis. The split of stockpiles and gold-in-process between current (expected to be recovered within 12 months) and non-current (expected to be recovered after 12 months) is based on approved mine operating plans.

4.2.5. Estimation of the site restoration, decommissioning and environmental obligations

The Group’s mining and exploration activities are subject to various environmental laws and regulations. The Group estimates site restoration, decommissioning and environmental obligations based on management’s understanding of the current legal requirements in the various jurisdictions, terms of the mining licence agreements and internally generated engineering estimates. A provision is recognised, based on the net present values for decommissioning and land restoration costs, as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life-of-mine estimates and discount rates could affect the carrying amount of this provision.

4.2.6. Derivative financial instruments valuation

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

Fair values of the Derivative financial instruments are determined using valuation models based on inputs, which are observable in the market (Level 2).

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

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

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgements based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward and tax planning strategies. If actual results differ from the estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. See note 10 for further details.

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 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 information for the comparative 2016 period 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[3];
- ***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;
- ***Irkutsk alluvial business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from several alluvial deposits;
- ***Irkutsk ore business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from the Verninskoye mine, research, exploration and development works at the Smezhny and Medvezhy Zapadny deposits;
- ***Yakutia Kuranakh business unit*** (Sakha Republic of the Russian Federation) – mining (including initial processing) and sale of gold from the Kuranakh mines;
- ***Magadan business unit*** (Magadan region of the Russian Federation) – represented by JSC Matrosova Mine which performs development works at the Natalka deposit;
- ***Sukhoi Log business unit*** (Irkutsk region of the Russian Federation) – represented by SL Gold which performs exploration and evaluation works at the Sukhoi Log deposit;
- ***Exploration business unit*** (Krasnoyarsk region, Irkutsk region, Amur region, and others) – research and exploration works in several regions of the Russian Federation;

[3] 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

- ***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[4];
- Adjusted earnings before interest, tax, depreciation and amortisation and other items (Adjusted EBITDA);
- Total cash cost per ounce of gold sold (TCC)[5]; and
- Capital expenditure.

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

	Gold sales	Ounces of gold sold in thousands[4]	Adjusted EBITDA	TCC (USD per ounce)[4]	Capital expenditure
For the year ended 31 December 2017					
Business units					
Olimpiada	1,439	1,176	953	341	177
Blagodatnoye	585	459	414	308	49
Irkutsk alluvial	186	146	54	770	26
Irkutsk ore	259	206	149	403	39
Yakutia Kuranakh	215	171	109	534	65
Exploration	-	-	-	-	5
Magadan	-	-	4	-	378
Capital construction	-	-	(2)	-	14
Unallocated	-	-	21	-	45
Sukhoi Log	-	-	-	-	6
Total	**2,684**	**2,158**	**1,702**	**364**	**804**
For the year ended 31 December 2016					
Business units					
Olimpiada	1,197	946	753	405	80
Blagodatnoye	576	450	417	290	20
Irkutsk alluvial	220	169	90	598	16
Irkutsk ore	232	186	146	389	24
Yakutia Kuranakh	199	160	107	499	33
Exploration	5	4	1	1,010	10
Magadan	-	-	(2)	-	213
Capital construction	-	-	1	-	43
Unallocated	-	-	23	-	27
Total	**2,429**	**1,915**	**1,536**	**389**	**466**

[4] Unaudited.
[5] Unaudited. 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. The Group calculates TCC per ounce sold as TCC divided by total ounces of gold sold for the period. These items are not IFRS measures.

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

	Year ended 31 December	
	2017	**2016**
Capital expenditure	**804**	**466**
Acquisition of the Sukhoi Log mineral rights	267	138
Construction of Omchak electricity transmitting line	69	2
Stripping activity assets additions (note 11)	149	55
Less: other non-current assets additions	(24)	(10)
Property plant and equipment additions (note 11)	**1,265**	**651**

Gold sales reported above represent revenue generated from external customers (note 26). There were no inter-segment gold sales during the years ended 31 December 2017 and 2016. Included within gold sales in 2017 are realised gains on derivatives of USD 22 million (2016: USD 67 million), see Note 12.

Gold sales

	Year ended 31 December	
	2017	**2016**
Refined gold	2,526	2,353
Other gold-bearing products	158	76
Total	**2,684**	**2,429**

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

	Year ended 31 December	
	2017	**2016**
Profit for the year	**1,241**	**1,445**
Income tax expense	290	326
Depreciation and amortisation (note 11)	178	148
Finance costs, net (note 8)	200	145
Equity-settled share-based payment plans (note 17)	25	19
Foreign exchange gain, net	(130)	(396)
Gain on derivative financial instruments and investments, net (note 9)	(118)	(119)
Interest income	(28)	(40)
Special charitable contributions	39	-
Impairment / (Reversal of impairment)	19	(4)
(Gain) / loss on disposal of property, plant and equipment items	(14)	12
Adjusted EBITDA	**1,702**	**1,536**

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

	Year ended 31 December	
	2017	**2016**
Cost of gold sales	**969**	**891**
Adjusted for:		
Depreciation and amortisation (note 11)	(181)	(154)
Other non-cash items in cost of gold sales	(2)	8
TCC[6]	**786**	**745**
Ounces of gold sold, in thousands[6]	2,158	1,915
TCC per ounce of gold sold (USD per ounce)[6]	**364**	**389**

Magadan capital expenditure

	Year ended 31 December	
	2017	**2016**
Purchase of equipment	226	109
Capitalisation of borrowing costs	93	80
Capitalisation of other directly attributable costs including cost of testing during the ramp-up period	59	24
Total	**378**	**213**

Capital expenditure are primarily related to the following projects:

- ***Magadan:*** The entire scope of the mill's equipment was delivered and installed. Commissioning was on-going at year-end, supervised by engineers of the main equipment manufacturers to ensure staged delivery of the facilities. The first stage of hot commissioning of Natalka was officially launched by Russian President Vladimir Putin at the Eastern Economic Forum in Vladivostok at the beginning of September 2017. In December 2017, the Federal Industrial Supervision Service of Russia (Rostechnadzor) performed the final inspection of the facilities constructed, and issued a Compliance Certificate. At this point, completion of some facilities not affecting the main flowsheet is nearly finished. As of 31 December 2017, ramp-up was proceeding in accordance with a scheduled timeline with no change for 2018 plan. The ramp-up period for Natalka's large scale mill may take an extended period of time, similar to other large scale mills in gold mining industry.
- ***Olimpiada:*** completion of construction and preparation for the connection to the Razdolinskaya – Taiga power line, construction of new BIO capacities, procurement of mining fleet and capitalised mining within the 4th stage of the Vostochny pit.
- ***Blagodatnoye:*** ongoing optimisation and expansion of the Blagodatnoye mill.

[6] Unaudited

- ***Yakutia Kuranakh:*** Active works were on-going under the heap leaching project to ensure readiness of the facility for pilot tests. Pilot operation was launched in September, the pile was stacked and a cycle of irrigation was run, first pregnant solutions were obtained. The heap leaching site was temporarily mothballed for winter to resume operation in the next season. As far as the mill Expansion project is concerned, technical refurbishment of the mill within the existing building was actively on-going, namely expansion of the grinding circuit was carried out, three new thickener tailings adsorption columns were installed, a new compressor plant was launched; new mining equipment (excavators and trucks) was procured to increase the amount of ore mined and hauled to the mill.
- ***Irkutsk ore:*** In 2017, expansion of the Verninskoye mill was ongoing. In December 2017, the adsorption circuit was fully commissioned, the 5th unit of the oxygen plant was launched.

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

6. COST OF GOLD SALES

	Year ended 31 December	
	2017	**2016**
Labour	264	227
Consumables and spares	223	242
Depreciation and amortisation of operating assets (note 11)	181	154
Tax on mining	148	134
Fuel	74	72
Power	31	22
Outsourced mining services	6	8
Other	65	58
Total cost of production	**992**	**917**
Increase in stockpiles, gold-in-process and refined gold inventories	(23)	(26)
Total	**969**	**891**

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2017	**2016**
Salaries	143	105
Professional services	14	10
Distribution expenses related to gold-bearing products	12	-
Taxes other than mining and income taxes	11	12
Depreciation and amortisation (note 11)	7	5
Other	24	19
Total	**211**	**151**

8. FINANCE COSTS, NET

	Year ended 31 December	
	2017	**2016**
Interest on borrowings	317	281
Bank commissions and write-off of unamortised debt cost due to early extinguishment of the debt	17	-
Unwinding of discounts	11	3
Gain on exchange of interest payments under cross currency swap (note 12)	(40)	(34)
Gain on exchange of interest payments under interest rate swaps (note 12)	(2)	(10)
Other	-	2
Sub-total finance cost	**303**	**242**
Interest included in the cost of qualifying assets	(103)	(97)
Total	**200**	**145**

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

	Year ended 31 December	
	2017	**2016**
Revaluation loss on ineffective part of the revenue stabiliser under Tranches 1 and 2 during cash flow hedge period (note 12)	(27)	(4)
Revaluation loss on revenue stabiliser	(38)	(58)
Revaluation gain on cross currency swaps (note 12)	94	172
Revaluation loss on interest rate swap (note 12)	(3)	(9)
Gain on disposal of joint venture	92	-
Gain on disposal of subsidiary	-	18
Total	**118**	**119**

Gain on disposal of joint venture

In March 2017, the Group entered into an agreement to sell its 82.34% stake in a joint venture entity with Polymetal which holds the license for Nezhdaninskoe deposit.

The stake was sold for a total consideration of USD 158 million. The consideration consisted of two parts:

- Cash consideration of USD 100 million payable upon completion of the transaction and which was received by the Group in March 2017;
- Contingent cash consideration of USD 58 million which could be adjusted upon achievement by the project of certain operational and financial criteria payable upon commissioning of the deposit and construction of the processing plant.

The difference between the cash consideration received and the carrying value of investment in the joint venture at the date of sale resulted in a gain of USD 92 million recognised in the consolidated statement of profit or loss. The fair value of contingent consideration is linked to the achievement of certain operational and financial parameters, which cannot yet be properly assessed and evaluated given the project stage. The Group will assess the fair value once these operational and financial parameters can be reliably estimated.

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2017	**2016**
Current tax expense	242	297
Deferred tax		
Origination and reversal of temporary differences	39	28
Deferred tax released from other comprehensive income	4	12
Effect of the revision of income tax rate (see below)	5	(11)
	48	**29**
Total	**290**	**326**

According to a recent amendment to the Russian Tax Code the taxpayers in Russia have a right to apply reduced rates on tax on mining and income tax if they implement a regional investment project in certain regions and meeting certain criteria (thereafter "RInvP").

The Tax Code provides for a right of each specified region of the Russian Federation to further reduce the regional component of the income tax rate, to as low as zero percent. Unless the region adopts the rate reduction, the standard rate for regional portion of tax continues to apply: 17% until 2020; and 18% thereafter.

JSC Polyus Verninskoye, a 100% subsidiary of JSC Polyus Krasnoyarsk operating in the Irkutsk region of the Russian Federation, as per initial estimations, met the required criteria and started to apply zero tax rates: (i) from August 2016 on tax on mining and (ii) from January 2017 on income tax.

As a result of a tax audit, which challenged the application of the reduced income tax rate for the regional component, and the complex nature of certain provisions of the relevant tax law, management decided to discontinue the regional element of the RInvP. As a result, JSC Polyus Verninskoye intends to apply the following income tax rates: 17% for 2017-2020; 18% for 2021-2026; and the standard 20% rate thereafter. The additional current income tax charged at a rate of 17% for 2017 amounted to USD 18 million, together with the net adjustment to recognised deferred tax assets and liabilities of USD 9 million, resulted in a net charge to the consolidated statement of profit or loss of USD 27 million.

Additionally, the tax authorities disagreed with the timing of commencement of the RInvP in respect of the tax on mining, which resulted in changing the initial date of applying the zero rate exemption from 1 August 2016 to 1 January 2017. The additional amount of the tax on mining in respect of the period from August to December 2016 paid by the Group during the year ended 31 December 2017 was equal to USD 6 million (RUB 367 million). Nevertheless, the Group intends to defend its position in the court.

The corporate income tax rate in the Russian Federation is 20%. A reconciliation of Russian Federation statutory income tax, the location of the Group's major production entities and operations, to the income tax expense recorded in the consolidated statement of profit or loss is as follows:

	Year ended 31 December	
	2017	**2016**
Profit before income tax	**1,531**	**1,771**
Income tax at statutory rate applicable to principal entities (20%)	306	354
Effect of the revision of income tax due to RInvP	5	(11)
Unrecognised deductible temporary differences on revaluation of derivatives, and deferred tax on cash flow hedges reclassified to consolidated statement of profit or loss	(14)	(15)
Tax effect of non-deductible expenses and other permanent differences	11	(6)
Non-taxable income on disposals of subsidiary	(18)	(4)
Income tax associated with intra-group sales of investments in subsidiary	-	8
Income tax expense	**290**	**326**

11. PROPERTY, PLANT AND EQUIPMENT

	Fixed assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
Cost						
Balance at 31 December 2015	**1,283**	**968**	**243**	**153**	**249**	**2,896**
Additions	-	215	55	227	154	**651**
Change in site restoration, decommissioning and environmental obligations	1	-	-	-	-	**1**
Disposals	(11)	(12)	-	(3)	-	**(26)**
Disposal of subsidiary	-	-	-	-	(105)	**(105)**
Transfers	160	(15)	-	(121)	(15)	**9**
Effect of translation to presentation currency	270	214	55	45	23	**607**
Balance at 31 December 2016	**1,703**	**1,370**	**353**	**301**	**306**	**4,033**
Additions	-	447	149	386	283	**1,265**
Change in site restoration, decommissioning and environmental obligations	10	-	-	-	-	**10**
Disposals	(24)	(3)	-	(3)	(16)	**(46)**
Reclassified as held for sale	(53)	-	-	(97)	-	**(150)**
Transfers	287	(17)	-	(267)	(3)	**-**
Effect of translation to presentation currency	91	79	20	15	22	**227**
Balance at 31 December 2017	**2,014**	**1,876**	**522**	**335**	**592**	**5,339**
Accumulated amortisation, depreciation and impairment						
Balance at 31 December 2015	**(663)**	**(9)**	**(45)**	**(7)**	**(149)**	**(873)**
Charge	(128)	-	(41)	-	-	**(169)**
Disposals	10	-	-	-	-	**10**
Disposed on disposal of subsidiary	-	-	-	-	105	**105**
Transfers	(9)	-	-	-	-	**(9)**
Reversal of impairment	-	3	-	1	-	**4**
Effect of translation to presentation currency	(148)	(1)	(13)	(2)	1	**(163)**
Balance at 31 December 2016	**(938)**	**(7)**	**(99)**	**(8)**	**(43)**	**(1,095)**
Charge	(160)	-	(52)	-	-	**(212)**
Disposals	23	-	-	3	16	**42**
Reclassified as held for sale	5	-	-	-	-	**5**
Impairment	-	(6)	-	(5)	(3)	**(14)**
Effect of translation to presentation currency	(50)	-	(7)	(1)	(2)	**(60)**
Balance at 31 December 2017	**(1,120)**	**(13)**	**(158)**	**(11)**	**(32)**	**(1,334)**
Net book value at						
31 December 2016	**765**	**1,363**	**254**	**293**	**263**	**2,938**
31 December 2017	**894**	**1,863**	**364**	**324**	**560**	**4,005**

Disposal of electricity transmission grids

As of 30 June 2017, the Group reached preliminary agreements to dispose of Peleduy-Mamakan and Razdolinskaya Taiga (previously included within *Fixed assets* and *Capital construction in progress*, respectively) electricity transmission grids. The accumulated cost of the assets was reclassified to assets held for sale.

In December 2017, the Group has completed a sale of the Razdolinskaya Taiga electricity transmission grid for a discounted amount of USD 110 million, of which USD 19 million was received in December 2017, USD 15 million (USD 18 million including VAT) is expected to be received by the Group in 2018, and the remaining USD 82 million (or USD 97 million including VAT) in 2019-2026. The carrying amount of the disposed grid (included within Assets classified as held for sale) was USD 97 million, which resulted in a gain on disposal of USD 13 million included within *Other expenses, net*.

In December 2017, the Group has completed a sale of a part of the Peleduy-Mamakan electricity transmission grid for a total cash consideration of USD 44 million. The carrying amount of the disposed grid (included within Assets classified as held for sale), after impairment of USD 4 million, amounted to USD 44 million.

During the year ended 31 December 2017, USD 4 million of borrowings costs were capitalised into the cost of the assets classified as held for sale.

Mineral rights

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

	31 December	
	2017	**2016**
Mineral rights presented within fixed assets	48	49
Mineral rights presented within mine under development	36	34
Mineral rights presented within exploration and evaluation assets	445	159
Total	**529**	**242**

Exploration and evaluation assets

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

	31 December	
	2017	**2016**
Sukhoi Log	430	141
Chertovo Koryto	30	28
Razdolinskoye	28	24
Bamsky	18	18
Panimba	17	16
Smezhny	10	9
Blagodatnoye	8	7
Burgakhchan area	7	7
Olympiada	8	5
Medvezhy Zapadny	2	2
Other	2	6
Total	**560**	**263**

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

Balance at 31 December 2016	**141**
Value of the First set of options on initial recognition (note 20)	121
Value of the Second set of options on initial recognition (note 20)	131
Additional payment in auction for the license	15
Capitalised costs of exploration and evaluation activities	6
Effect of translation to presentation currency	16
Balance at 31 December 2017	**430**

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

	Year ended 31 December	
	2017	**2016**
Cost of gold sales	169	142
Depreciation in change in inventory	12	12
Depreciation and amortisation within cost of production (note 6)	**181**	**154**
Capitalised within property, plant and equipment	27	13
Selling, general and administrative expenses (note 7)	7	5
Cost of other sales	2	1
Total depreciation and amortisation	**217**	**173**
Less: amortisation of other non-current assets	(5)	(4)
Total depreciation of property, plant and equipment	**212**	**169**

Capitalised borrowing costs

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

	Year ended 31 December	
	2017	**2016**
Interest expenses	99	97
Foreign exchange loss / (gain), net	1	(3)
Interest income on bank deposits	(3)	(10)
Total	**97**	**84**

12. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS

	31 December	
	2017	**2016**
Non-current derivative financial assets and investments		
Revenue stabiliser	-	32
Cross currency swaps	32	10
Interest rate swaps	6	7
Investment in joint venture	-	7
Loans issued to related parties	-	1
Total non-current derivative financial assets and investments	**38**	**57**
Current derivative financial assets		
Revenue stabiliser	-	10
Total derivative financial assets and investments	**38**	**67**
Non-current derivative financial liabilities		
Cross currency swaps	383	434
Revenue stabiliser	64	22
Interest rate swaps	1	-
Total non-current derivative financial liabilities	**448**	**456**

Strategic Price Protection Programme

In March 2014, the Group initiated a Strategic Price Protection Programme (the "Programme").

Under the Programme, the Group has entered into a series of price protection arrangements comprised of two components:

- Zero cost Asian gold collars ("revenue stabiliser"); and
- Gold forward contracts (exercised in 2016).

Revenue stabiliser

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

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

		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**
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)											
Total as per options agreements	**1,320**	225	300	300	75	315	-	105	-	-	-
Exercised	**(1,215)**	(225)	(300)	(300)	(75)	(315)	-	-	-	-	-
Outstanding as of 31 December 2017	**105**	**-**	**-**	**-**	**-**	**-**	**-**	**105**	**-**	**-**	**-**
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)											
Total as per options agreements	**720**	60	120	120	60	180	-	180	-	-	-
Exercised	**(540)**	(60)	(120)	(120)	(60)	(180)	-	-	-	-	-
Outstanding as of 31 December 2017	**180**	**-**	**-**	**-**	**-**	**-**	**-**	**180**	**-**	**-**	**-**
Tranche 3 (covering the period 1 January 2016 – 31 December 2019)											
Total as per options agreements	**1,680**	-	-	280	280	-	280	-	-	840	-
Exercised	**(560)**	-	-	(280)	(280)	-	-	-	-	-	-
Outstanding as of 31 December 2017	**1,120**	**-**	**-**	**-**	**-**	**-**	**280**	**-**	**-**	**840**	**-**
Tranche 4 (covering the period 1 April 2016 – 31 December 2020)											
Total as per options agreements	**600**	-	-	75	100	-	100	-	25	225	75
Exercised	**(175)**	-	-	(75)	(100)	-	-	-	-	-	-
Outstanding as of 31 December 2017	**425**	**-**	**-**	**-**	**-**	**-**	**100**	**-**	**25**	**225**	**75**
Total outstanding as of 31 December 2017	**1,830**	**-**	**-**	**-**	**-**	**-**	**380**	**285**	**25**	**1,065**	**75**

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
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)										
Put										
Strike	1,383	1,383	1,383	1,383	1,107	-	1,107	-	-	-
Knock-out barrier	950	950	921	911	900	-	900	-	-	-
Call										
Strike	1,518	1,518	1,518	1,518	1,551	-	1,551	-	-	-
Knock-in barrier	1,662	1,655	1,634	1,634	1,750	-	1,750	-	-	-
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)										
Put										
Strike	1,359	1,359	1,359	1,359	1,100	-	1,100	-	-	-
Knock-out barrier	950	950	950	950	900	-	900	-	-	-
Call										
Strike	1,425	1,425	1,425	1,425	1,500	-	1,500	-	-	-
Knock-in barrier	1,525	1,525	1,525	1,525	1,650	-	1,650	-	-	-
Tranche 3 (covering the period 1 January 2016 – 31 December 2019)										
Put										
Strike	-	-	1,232	1,232	-	1,232	-	-	971	-
Knock-out barrier	-	-	900	900	-	900	-	-	921	-
Call										
Strike	-	-	1,350	1,350	-	1,350	-	-	1,391	-
Knock-in barrier	-	-	1,450	1,450	-	1,450	-	-	1,591	-
Tranche 4 (covering the period 1 April 2016 – 31 December 2020)										
Put										
Strike	-	-	1,271	1,271	-	1,271	-	1,271	1,000	1,000
Knock-out barrier	-	-	900	900	-	900	-	900	950	950
Call										
Strike	-	-	1,300	1,300	-	1,350	-	1,350	1,350	1,420
Knock-in barrier	-	-	1,433	1,450	-	1,450	-	1,450	1,450	1,620

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 ensures 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 will have 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 will have 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 will have 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 will have 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.

On 30 June 2017, following the scheduled release of all amounts previously recognised in the consolidated statement of comprehensive income into the consolidated statement of profit or loss within Gold sales line, the hedges for Tranches 1 and 2 were de-designated and hedge accounting in terms of IAS 39 no longer applies on prospective basis, because strikes on remaining options are out of the forecasted gold price. Since 1 July 2017, remaining outstanding options of the Tranches 1 and 2 are accounted at fair value through profit or loss (note 9).

Because Tranches 1 and 2 of the revenue stabiliser arrangements were designated as a cash flow hedge until 30 June 2017 any change in the intrinsic value of the collars was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity, whilst the remaining change in the fair value was reflected in the consolidated statement of profit or loss (note 9). During the year ended 31 December 2017, under Tranches 1 and 2, a gain of USD 4 million was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity (2016: loss of USD 65 million) and following the sale of the hedged volume of gold and the exercise of certain options USD 19 million was subsequently reclassified to Gold sales within the consolidated statement of profit or loss (2016: USD 53 million).

Tranches 3 and 4 continue to be accounted at fair value through profit or loss. The change in their fair value is presented within the note 9 within the line *Revaluation loss on revenue stabiliser* and following the sale of the hedged volume of gold and the exercise of certain options USD 3 million was subsequently recorded to *Gold sales* within the consolidated statement of profit or loss (2016: USD 6 million).

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

Cross currency swaps

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 swap, offsetting the floating swap, that took place in 2016, the following terms were in place as of 31 December 2017:

- 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.

According to IAS 39, the swaps were not eligible to be designated as cash flow or fair value hedges. 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 consolidated statement of profit or loss (note 9). The gain or loss on the exchange of interest payments is recognised within *Finance cost, net* (note 8).

The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB rates), which are observable in the market and the 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.

According to IAS 39, the swaps were not eligible to be designated as either a cash flow or fair value hedge. 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 consolidated statement of profit or loss (note 9). The gain or loss on the exchange of interest payments is recognised within the *Finance cost* (note 8).

The fair value measurement is based on inputs (forward USD LIBOR rates), which are observable in the market and the 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.

13. INVENTORIES

	31 December	
	2017	**2016**
Inventories expected to be used after 12 months		
Stockpiles	287	253
Gold-in-process	13	11
Sub-total	**300**	**264**
Inventories expected to be used in the next 12 months		
Stores and materials	304	253
Gold-in-process	54	54
Stockpiles	70	51
Refined gold	22	23
Less: obsolescence provision for stores and materials	(15)	(12)
Sub-total	**435**	**369**
Total	**735**	**633**

14. TRADE AND OTHER RECEIVABLES

	31 December	
	2017	**2016**
Trade receivables for gold-bearing products	51	36
Other receivables	56	27
Less: allowance for other receivables	(6)	(5)
Total	**101**	**58**

15. TAXES RECEIVABLE

	31 December	
	2017	**2016**
Reimbursable value added tax	105	73
Income tax prepaid	7	9
Other prepaid taxes	2	7
Total	**114**	**89**

16. CASH AND CASH EQUIVALENTS

	31 December	
	2017	**2016**
Bank deposits		
- USD	914	1,443
- RUB	30	82
Current bank accounts		
- USD	136	41
- RUB	55	82
Cash in the Federal Treasury (note 19)	69	74
Other cash and cash equivalents	-	18
Total	**1,204**	**1,740**

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

Interest rates on bank deposits denominated in:		
- USD	1.2-2.6%	1.1-4.4%
- RUB	4.0-7.8%	8.4-10.2%

17. SHARE CAPITAL

Authorised, issued and fully paid share capital of the Company as of 31 December 2017 comprised 133,561 thousand ordinary shares at par value of RUB 1.

Shares buy-back in 2016

During 2016, the Group completed a buy-back of 60,519 thousand ordinary shares of the Company for a total cash consideration of USD 3,443 million.

Additionally, in 2016, a 100% subsidiary of the Company obtained from PGIL 4,477 thousand of the Company's ordinary shares in exchange for an early settlement of the loans issued by the Group to PGIL and related accrued interest in the total amount of USD 269 million.

Purchase of the Company's shares in 2017

On 22 December 2016, the majority of the Company's shareholders approved the merger of LLC Polyus-Invest, then an indirect 100% subsidiary of the Company, into the Company. At the same time certain shareholders who did not participate in the shareholders meeting or voted against the reorganisation demanded that the Company purchase their shares. On 3 March 2017, as a result of the completion of the above mentioned transactions, the Company purchased 14 thousand ordinary shares (0.01% ownership) at 4,497 RUB per share resulting in a total cash outflow of US 1 million.

Treasury shares

On 7 April 2017, LLC Polyus-Invest merged into PJSC Polyus, then a 100% direct subsidiary of the Company, as a result of which 63,082 thousand of PJSC Polyus treasury shares were cancelled on 10 April 2017, and 1,927 thousand remained as treasury shares. Following the Polyus share transfer under the SL Gold options in July 2017, the number of treasury shares decreased by 290 thousand and comprised 1,637 thousand as at 31 December 2017 (note 20).

Offering of shares and global depositary shares of the Company ("Offering")

The Offering comprised an offering by the Company of newly issued shares of the Company ("New Shares") in the Russian Federation and offering of existing shares ("Shares") and global depositary shares ("GDSs") of the Company by PGIL and Polyus Gold plc both in the Russian Federation and outside of the Russian Federation through the facilities of the LSE. The total size of the Offering amounted to USD 858 million, including 6,016 thousand of New Shares issued by the Company for a total amount of USD 400 million, and Shares and GDSs sold by PGIL, including over-allotment Shares and GDSs, constituting USD 458 million. The issue of New Shares was recognised as an increase in *Additional paid-in capital* of USD 389 million after deducting directly attributable expenses of USD 14 million as adjusted for the income tax effect of USD 3 million.

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

In 2016, the Board of Directors of PJSC Polyus approved a long term incentive plan (LTIP) according to which the members of top management of the 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 7 million was immediately recognised in the consolidated statement of profit or loss within the line *Salaries* included within *Selling, general and administrative expenses* in the amount of USD 25 million (2016: USD 19 million).

Weighted average number of ordinary shares

The weighted average number of ordinary shares (presented in thousands in the table below) for the year ended 31 December 2017 and 2016 used in the calculation of basic and diluted earnings ("EPS") per share is presented below:

	Year ended 31 December	
	2017	**2016**
Ordinary shares in issue at the beginning of the year	**125,632**	**190,628**
Treasury shares	(14)	(49,863)
New Shares issued during the Offering	6,016	-
Purchase of additional ownership in SL Gold through issuance of treasury shares	290	-
Weighted average number of ordinary shares – basic EPS	**128,622**	**140,765**
Potential Shares to be issued upon increase in Gold ownership interest (note 20)	512	-
LTIP	589	9
Weighted average number of ordinary shares – dilutive EPS	**129,723**	**140,774**
Profit after tax attributable to the shareholders of the Company (million USD)	1,240	1,420
Effect of potential dilution (million USD)	6	-
Profit after tax attributable to the shareholders of the Company for diluted EPS calculation (million USD)	**1,246**	**1,420**

Dividends

On 30 June 2017 the Company declared 2016 dividends in the total amount of RUB 20,063 million (USD 340 million) or 152.41 RUB per share (USD 2.58 per share). The dividends were paid in July-August 2017 and were not allocated on treasury shares. USD 16 million related to the New Shares.

On 15 September 2017 the Company declared dividends for the six months ended 30 June 2017 in the total amount of RUB 13,760 million (USD 239 million) or 104.3 RUB per share (USD 1.81 per share). The dividends were paid in September - October 2017 and were not allocated on treasury shares.

18. BORROWINGS

	Nominal rate %	31 Dec. 2017	31 Dec. 2016
Credit facilities with financial institutions nominated in USD with variable interest rates	USD LIBOR + 4.50%	1,240	2,513
USD 750 million Eurobonds with fixed interest rate due in 2020	5.625%	745	-
USD 500 million Eurobonds with fixed interest rate due in 2022	4.699%	495	-
USD 800 million Eurobonds with fixed interest rate due in 2023	5.250%	793	-
PGIL USD-credit facilities with fixed interest rate	4.799% - 5.725%	-	1,237
Credit facilities with financial institutions nominated in RUB with fixed interest rates	10.35%	577	541
Credit facilities with financial institutions nominated in USD with fixed interest rates	4.10%	67	331
Notes due in 2025 (Rusbonds) with noteholders' early repayment option in 2021	12.1%	265	253
Credit facilities with financial institutions nominated in RUB with variable interest rates	Central bank rate + 2.3%	86	81
Letters of credit with deferred payments terms with variable rates	Euribor +1.8%, USD LIBOR + 1.15%	-	19
Lease liabilities with fixed interest rates nominated in USD	5.1% - 8.5%	13	6
Sub-total		**4,281**	**4,981**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(12)	(283)
Long-term borrowings		**4,269**	**4,698**

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.

Eurobonds

On 7 February 2017, PGIL issued USD 800 million Notes due in 2023 that have a coupon of 5.25% per annum and are guaranteed by the Company. On 14 February 2017, the Company borrowed USD 800 million from PGIL, which were used for refinancing of other borrowings.

During April and May 2017, all rights and obligations under the USD 800 million Notes due in 2023, the USD 750 million Notes due in 2020 and the USD 500 million Notes due in 2022 were transferred from PGIL to Polyus Finance Plc, a 100% subsidiary of JSC Polyus Krasnoyarsk. Accordingly, all rights and obligations for the same amount under the loans from PGIL to JSC Polyus Krasnoyarsk were transferred from PGIL to Polyus Finance Plc.

Repayment of debt

During the year ended 31 December 2017 USD 1,563 million of USD credit facilities were repaid in advance of the payment schedule.

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 December 2017, the amount of unused credit facilities was RUB 40,000 million, which is equivalent to USD 694 million at 31 December 2017 exchange rate.

Pledge

As of 31 December 2017 and 2016, 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 December 2017 according to which the respective subsidiaries of the Company and the Company itself are limited in its level of leverage and other financial and non-financial parameters.

The Group tests covenants quarterly and was in compliance with the covenants as of 31 December 2017.

Rusbonds and its reclassifications

On 22 December 2016, the Company's shareholders approved the merger of LLC Polyus-Invest into PJSC Polyus. Pursuant to Article 60 of the Russian Civil Code, immediately thereafter the holders of Rusbonds became entitled to an early redemption of the bonds. As a result, the full outstanding amount of Rusbonds was reclassified to short-term as of 31 December 2016.

The bondholders had to notify the issuer by 24 March 2017 to exercise their right, but such notifications from bondholders were not received and accordingly, the full outstanding amount of Rusbonds was reclassified back to long-term starting from 24 March 2017.

Fair value measurements

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

	31 Dec. 2017		31 Dec. 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Borrowings (Level 2)	1,983	1,977	4,728	4,248
Eurobonds (Level 1)	2,033	2,140	-	-
Rusbonds (Level 1)	265	298	253	272
Total	**4,281**	**4,415**	**4,981**	**4,520**

Whilst accounted for at amortised cost, the fair value measurement of all of the 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 other borrowings is based on inputs (spot currency exchange rates, forward USD LIBOR and RUB interest rates and the company's own credit risk), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

Reconciliation of liabilities arising from financing activities

			Non-cash changes			
	31 Dec. 2016	Cash-flows	Foreign exchange gain / (loss), net	Effect of currency translation	Amorti-sation at effective interest rate	31 Dec. 2017
Borrowings	4,975	(786)	(238)	288	29	4,268
Finance lease	6	6	-	-	1	13
Total liabilities from financing activities	**4,981**	**(780)**	**(238)**	**288**	**30**	**4,281**

19. DEFERRED REVENUE

On 13 September 2016, the Ministry for the Development of the Russian Far East (the "Minvostokrazvitiya") and JSC Matrosova Mine (the "Matrosova Mine"), a 100% subsidiary of the Group representing Magadan business unit, entered into an agreement under which Minvostokrazvitiya was to provide to Matrosova Mine 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". 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 153 million, including VAT), due to a decrease of the 2018 tranche to RUB 1,570 million (USD 27 million). In addition, in the end of December 2017 JSC Matrosova Mine signed the new addendum to the government grant agreement based on which RUB 492 million (USD 8 million) was reallocated from the 2018 to the 2017 tranche.

As of 31 December 2017 (at 31 December 2017 USD/RUR exchange rate)	
For 2016 (fully received RUR 4,619 million)	80
For 2017 (fully received RUR 3,100 million)	54
For 2018 (to be received RUR 1,078 million)	19
Total	**153**

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

	2017
Carrying value at the beginning of the year	76
Received cash	53
Recognised as income amount of VAT attributable to the execution of Investment Program	(2)
Effect of translation to presentation currency	5
Carrying value at the end of the year	**132**

20. DEFERRED CONSIDERATION

On 16 December 2016, JSC Polyus Krasnoyarsk entered into the First set of options with RT, a wholly owned subsidiary of Rostec. Under these option agreements the Group was expected to increase its ownership interest in SL Gold, then a 51% subsidiary of the Group[7], by 23.9% within following five years (with a right to accelerate the exercise of the Group's call options) for an undiscounted consideration of USD 139 million (note 4).

On 26 January 2017, the date when the Group became committed to the First set of option agreements, it recognised a liability for the gross amount payable under the respective put options at USD 121 million (note 11), being the discounted amount of contractual cash flows measured by applying the appropriate discount factors based on observable market data on that date and varying from 3.0% to 4.9% p.a.

In May 2017, the Group exercised the first option of the First set of options paying USD 21 million in cash and increasing its ownership in the share capital of SL Gold by 3.6% to 54.6%.

On 11 July 2017, JSC Polyus Krasnoyarsk entered into the Second set of options with RT. Under these option agreements, the Group is expected to increase its ownership interest in SL Gold by an additional 25.1% taking its total interest to 100% within the following five years (with a right to accelerate the Group's call options) for an undiscounted consideration of USD 146 million (note 3).
The consideration is equal to a fixed US Dollar amount and shall be payable by a variable number of the Company's shares. The Group recognised a liability for the gross amount payable under the respective put options in the Second set of options at USD 131 million (Note 11), being the discounted amount of contractual payments measured by applying the appropriate discount factors based on observable market data and varying from 2.7% to 4.5%.

In July 2017, the Group increased effective ownership in SL Gold (note 27) from 54.6% to 58.4% transferring in exchange 290 thousand of Polyus treasury shares (note 17) valued at USD 22 million.

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

Balance at 31 December 2016	**-**
Value of the First set of options on initial recognition (note 11)	121
Value of the Second set of options on initial recognition (note 11)	131
Unwinding of interest on deferred consideration	6
Settled in cash	(21)
Settled in shares	(22)
Foreign exchange gain, net	(9)
Effect of translation to presentation currency	10
Balance at 31 December 2017	**216**

Timing (with the right to accelerate) and amounts of the option agreements are presented below.

First set of options (payable in cash):

- Approximately 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.

[7] In May and July 2017, the Group increased effective ownership in SL Gold (note 20) from 51.0% to 58.4% for a cash consideration of USD 21 million and Polyus shares transfer valued at USD 22 million.

Second set of options (payable in Polyus shares):

- 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.

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 December 2017, the fair value of the *Deferred consideration* approximately equals to USD 219 million.

21. DEFERRED TAX ASSETS AND LIABILITIES

The movement in the Group's deferred taxation position was as follows:

	Year ended 31 December	
	2017	**2016**
Net deferred tax liability at beginning of the year	**107**	**87**
Recognised in the consolidated statement of profit or loss	48	29
Recognised in other comprehensive income	(3)	(27)
Recognised in equity	(1)	-
Effect of translation to presentation currency	6	18
Net deferred tax liability at end of the year	**157**	**107**

Deferred taxation is attributable to tax losses carried-forward and the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The balances of recognised deferred tax assets and liabilities as at 31 December 2017 were as follows:

	31 December	
	2017	**2016**
Property, plant and equipment	310	205
Tax losses carried-forward	(222)	(160)
Inventory	71	61
Trade and other payables	(12)	(14)
Deferred expenditure	3	3
Borrowings	8	12
Other	(1)	-
Net deferred tax liability	**157**	**107**

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset) as they are presented in the consolidated statement of financial position:

	31 December	
	2017	**2016**
Deferred tax assets	(60)	(75)
Deferred tax liabilities	217	182
Net deferred tax liability	**157**	**107**

Unrecognised deferred tax asset

	31 December	
	2017	**2016**
Unrecognised deferred tax asset resulting from losses on derivative financial instruments	125	123
Unrecognized deferred tax assets resulted from impairments	8	12
Unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit	11	8
Total	**144**	**143**

Unrecognised deferred tax liability

	31 December	
	2017	**2016**
Taxable temporary difference associated with investments in subsidiaries	134	348

Deferred tax liability for the taxable temporary difference associated with investments in subsidiaries is not recognised because the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Due to a change in the Russian legislation in 2016 the usage of tax losses carried forward would no longer be limited by 10 years from the year they are incurred, however the Group continues not to recognise some of its prior tax losses as it is more likely than not that the future taxable profits will not be available to offset them in certain Group entities.

22. TRADE AND OTHER PAYABLES

	31 December	
	2017	**2016**
Wages and salaries payable	93	77
Interest payable	69	58
Trade payables to third parties	36	34
Accrued annual leave	27	21
Dividends payable to non-controlling interests	2	-
Other accounts payable and accrued expenses	91	32
Total	**318**	**222**

The average credit period for trade payables at 31 December 2017 was 32 days (2016: 27 days). No interest was charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

23. TAXES PAYABLE

	31 December	
	2017	**2016**
Income tax payable	13	40
Value added tax	45	30
Tax on mining	15	11
Social taxes	8	6
Property tax	2	3
Other taxes	4	3
Total	**87**	**93**

24. RELATED PARTIES

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

Immediate shareholder

The Group recognised the following balances in respect of transactions with its parent entity as of the year end:

	31 December	
	2017	**2016**
Loans received (note 18)	-	1,237
Interest payable	-	12

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

	Year ended 31 December	
	2017	**2016**
Interest income	-	6
Interest received	-	7
Interest expense	19	4
Interest capitalised	16	45
Transfer of PGIL Notes (note 18)	2,050	-
Proceeds from borrowings	800	500
Repayment of borrowing and interest accrued	46	46
Proceeds from repayment of loans issued	-	124
Buy-back of treasure shares	-	3,423
Settlement of issued loans by own shares (note 17)	-	269
Commission paid	9	13

Key management personnel

	Year ended 31 December	
	2017	**2016**
Short-term benefits	22	19
Long-term benefits (LTIP)	31	19
Total	**53**	**38**

25. COMMITMENTS AND CONTINGENCIES

Commitments

Capital commitments

The Group's capital expenditure commitments are as follows:

	31 December	
	2017	**2016**
Project Natalka	75	53
Project Omchak	59	137
Projects in Krasnoyarsk	92	53
Other capital commitments	18	14
Total	**244**	**257**

Operating leases: 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 December	
	2017	**2016**
Due within one year	10	3
From one to five years	38	9
Thereafter	83	20
Total	**131**	**32**

Contingencies

Litigations

In the ordinary course of business, the Group is subject to litigation in a number of jurisdictions, the outcome of which is uncertain and could give rise to adverse outcomes. At the date of issuance of these consolidated financial statements there were no material claims and litigation applicable to the Group.

Taxation contingencies in the Russian Federation

Laws and regulation affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant. With regards to matters where practice concerning payment of taxes is unclear, management estimates that there were no significant tax exposures as of 31 December 2017 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.

26. FINANCIAL INSTRUMENTS RISK MANAGEMENT ACTIVITIES

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt which is borrowings (note 18) less cash and cash equivalents (note 16), and equity of the Group.

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, derivative financial instruments and account payables. The main purpose of these financial instruments is to finance the Group's operations. The Group has various financial assets such as cash and cash equivalents, trade and other receivables, derivative financial instruments and loans receivable.

	31 December	
	2017	**2016**
Financial assets		
Cash and cash equivalents (Level 1)	1,204	1,740
Trade and other receivables (Level 1 and 2)	198	58
Derivative financial instruments (Level 2)	38	59
Loans receivable (Level 1)	-	1
Total financial assets	**1,440**	**1,858**
Financial liabilities		
Borrowings (Levels 1 and 2)	4,281	4,981
Derivative financial instruments (Level 2)	448	456
Accounts payable (Level 1)	303	201
Deferred consideration (Level 2)	216	-
Total financial liabilities	**5,248**	**5,638**

The carrying value of cash and cash equivalents, current trade and other receivables, loans receivable and accounts payable approximate their fair value given the short-term nature of these instruments. Non-current other receivables are discounted at discount rates derived from observable market input data.

Derivative financial instruments are carried at fair value. The main risks arising from the Group's financial instruments are gold price, interest rate, foreign currency exchange rates, credit and liquidity risks.

Borrowings are carried at amortised cost. The fair value of borrowings and levels of fair value hierarchy is disclosed in note 18.

Gold price risk

The Group is exposed to changes in the gold price due to its significant volatility. According to the approved hedging strategy the Group may hedge up to 1/2 of its annual gold sales. During 2014 and 2016, the Group entered into a number of derivative transactions (revenue stabiliser and gold forward agreements) under a Strategic Price Protection Programme to limit its exposure to future possible fluctuations of gold price (as detailed further in note 12). Under the terms of the revenue stabiliser the Group ensures a minimum selling gold price in the case of declines in the gold price and at the same time may benefit from increases in the gold price until certain barrier prices are reached on the call options, at which point the sale price is capped.

If the gold price was 10% higher / lower during the year ended 31 December 2017 gold sales for the year would have increased / decreased by USD 232 million / USD 172 million, respectively (2016: USD 111 million / USD 107 million), other comprehensive income would not have changed (2016: USD 2 million / USD 5 million).

Interest rate risk

The Group is exposed to interest rate risk as it borrows funds. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk.

If the interest rate was 0.5% higher / lower during the year ended 31 December 2017 interest expense excluding effect of change in fair value of interest rate and cross currency swaps for year ended 31 December 2017 would have increased / decreased by USD 13 million (2016: USD 17 million).

If interest rates used in calculations of fair values of interest rate and cross currency swaps as of 31 December 2017 were 0.5% higher / lower, the gain on revaluation would be USD 3 million lower / higher, respectively (2016: USD 4 million).

0.5% is the sensitivity rate used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible / negative change in interest rates.

Foreign currency exchange rate risk

Currency risk is the risk that the financial results of the Group will be adversely affected by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. Prices for gold are quoted in USD based on international quoted market prices. The majority of the Group's expenditure are denominated in RUB, accordingly, operating profits are adversely impacted by appreciation of the RUB against the USD. In assessing this risk, management takes into consideration changes in the gold price.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than the functional currencies of the individual Group entities were as follows:

	31 December	
	2017	**2016**
Assets		
USD	1,131	1,585
Total	**1,131**	**1,585**
Liabilities		
USD	4,096	4,642
EURO (presented in USD at closing exchange rate)	4	9
Total	**4,100**	**4,651**

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level. The table below details the Group's sensitivity to changes in exchange rates by 25% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in the respective currencies.

If the USD or EURO exchange rate had increased by 25% for the year ended 31 December 2017 and year ended 31 December 2016 compared to RUB as of the end of respective year, the Group would have incurred the following losses:

	Year ended 31 December	
	2017	2016
Loss (USD exchange rate increased compared to RUB)	741	764
Loss (EURO exchange rate increased compared to RUB)	1	2

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. Credit risk arises from cash, cash equivalents and deposits kept with banks, derivative agreements, loans issued, advances paid and other receivables.

In order to mitigate credit risk, the Group conducts its business with creditworthy and reliable counterparties, and minimises advance payments to suppliers. The Group employs a methodology for in-house financial analysis of banks and non-banking counterparties, which enables management to estimate an acceptable level of credit risk with regard to particular counterparties and to set appropriate individual risk limitations.

Within the Group's core companies the procedures for preparing new agreements include analysis and contemplation of credit risk, estimation of the aggregate risk associated with a counterparty (arising both from an agreement under consideration and from previously existing contracts, if any) and verifying compliance with individual credit limits.

Credit risk inherent to the contract was incorporated in the fair value of derivative financial instruments at the reporting date. The credit risk incorporated into valuations is based on the quoted counterparty CDS (credit default swap) for the counterparty risk. The Group's credit risk profile is regularly monitored by management in order to avoid undesirable increases in risk, to limit concentration of credit and to ensure compliance with the above mentioned policies and procedures. Deposits, current bank accounts and derivative financial instruments are held with major Russian and international banks, with reasonable and appropriate diversification, which decreases concentration risk by spreading the credit risk exposure across several top rated banks.

Although the Group sells more than 90% of the total gold sales to several major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore the credit risk related to trade receivables is minimal.

As of 31 December 2017, trade receivables for gold bearing products sales were USD 51 million (31 December 2016: USD 36 million).

Gold sales to the Group's major customers are presented as follows (note 5):

	Year ended 31 December	
	2017	**2016**
VTB Bank	995	906
Otkritie Bank	909	561
Sberbank	520	647
Gazprom Bank	71	6
B&N Bank (formerly MDM Bank)	12	72
Other	177	237
Total	**2,684**	**2,429**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting and cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

For assessing own credit risk, a proxy CDS for the industry is used since Polyus does not have quoted CDS. The Group's cash management procedures include medium-term forecasting (a budget approved each financial year and updated on a quarterly basis), short-term forecasting (monthly cash-flow budgets are established for each business unit and a review of each entity's daily cash position is performed using a two-week rolling basis).

Presented below is the maturity profile of the Group's financial liabilities as of 31 December 2017 based on undiscounted contractual cash payments, including interest payments:

	Borrowings		**Accounts**	
	Principal	**Interest**	**payable**	**Total**
Due in the first year	13	283	235	531
Due in the second year	595	252	28	875
Due in the third year	772	198	28	998
Due in the fourth year	350	175	28	553
Due in the fifth year	521	127	35	683
Due in the period between sixth to eight years	2,064	35	-	2,099
Total	**4,315**	**1,070**	**354**	**5,739**

Presented below is the maturity profile of the Group's financial liabilities as of 31 December 2016 based on undiscounted contractual payments, including interest payments:

	Borrowings		**Accounts**	
	Principal	**Interest**	**payable**	**Total**
Due in the first year	278	303	143	724
Due in the second year	20	285	-	305
Due in the third year	570	255	-	825
Due in the fourth year	776	203	-	979
Due in the fifth year	689	169	-	858
Due in the period between sixth to eight years	2,705	143	-	2,848
Total	**5,038**	**1,358**	**143**	**6,539**

Maturity of the derivative financial instruments and deferred consideration is presented within notes 12 and 20.

27. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

Significant restrictions on the Company's ability to access or use the assets and settle the liabilities of the 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 consolidated financial statements.

Information about significant subsidiaries of the Group

Subsidiaries	Nature of business	Effective % held[8] at 30 Dec. 2017	31 Dec. 2016
Incorporated in Russian Federation			
JSC Polyus Krasnoyarsk (renamed, previously JSC Gold Mining Company Polyus)	Mining (open pit)	100	100
JSC Polyus Aldan (renamed, previously JSC Aldanzoloto GRK)	Mining (open pit)	100	100
JSC Polyus Verninskoye (renamed, previously JSC Pervenets)	Mining (open pit)	100	100
PJSC Lenzoloto	Holding company	64	64
JSC ZDK Lenzoloto	Mining (alluvial)	66	66
JSC Svetliy	Mining (alluvial)	56	56
JSC Matrosova Mine	Mining (development stage)	100	100
LLC Polyus Stroy	Construction	100	100
LLC SL Gold[9]	Exploration and evaluation of Sukhoi Log deposit	58	51

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

	PJSC Lenzoloto 31 December		LLC SL Gold 31 December	
Summarised statements of financial position	**2017**	**2016**	**2017**	**2016**
Current assets	224	222	1	148
Non-current assets	81	60	187	141
Current liabilities	29	14	188	289
Non-current liabilities	22	12	-	-
Equity attributable to the shareholders of the subsidiary	193	188	-	-
Non-controlling interests	61	68	-	-
Summarised statements of profit or loss				
Revenue	191	224	-	-
(Loss) / profit for the year	(8)	43	(1)	-
Profit attributable to non-controlling interests	-	13	-	-
Summarised statements of cash flows				
Net cash inflow from operating activities	3	61	-	1
Net cash outflow from investing activities	(23)	(13)	(16)	(138)
Net cash (outflow) / inflow from financing activities	11	(13)	(131)	286
Dividends paid to non-controlling interests	7	13	-	-

[8] Effective % held by the Company, including holdings by other subsidiaries of the Group.
[9] In May and July 2017, the Group increased effective ownership in SL Gold (note 20) from 51.0% to 58.4% for a cash consideration of USD 21 million and Polyus shares transfer valued at USD 22 million.

28. EVENTS AFTER THE REPORTING DATE

There were no events subsequent to the reporting date that should be disclosed in these consolidated financial statements, except for issues of USD 500 million Eurobonds due 2024 with a fixed coupon of 4.70% payable on a semi-annual basis in arrears and USD 250 million convertible bonds due 2021 with a fixed coupon of 1% payable on a semi-annual basis in arrears. Convertible bonds assumes base number of potentially dilutive shares to be equal to 2,498 thousand shares. Cash received was mainly used for partial early repayment of USD 1 billion of the USD credit facility with fix interest rate.