IMPORTANT NOTICE: NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS ("QIBs") AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") THAT ARE ALSO QUALIFIED PURCHASERS ("QPs") WITHIN THE MEANING OF SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 (THE "INVESTMENT COMPANY ACT") OR OTHERWISE TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED

IMPORTANT: You must read the following before continuing. The following applies to the prospectus following this page (the "**Prospectus**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. If you have gained access to this transmission contrary to any of the following restrictions, you are not authorised and will not be able to purchase any of the securities described herein (the "**Securities**"). You acknowledge that this electronic transmission and the delivery of the attached Prospectus is intended for you only and you agree you will not forward this electronic transmission or the attached Prospectus to any other person. Any forwarding, distribution or reproduction of this document in whole or in part is unauthorised. Failure to comply with the following directives may result in a violation of the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or the applicable laws of other jurisdictions.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, PLEDGED, SOLD OR OTHERWISE TRANSFERRED, EXCEPT (1) WITHIN THE UNITED STATES TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QIB WITHIN THE MEANING OF RULE 144A THAT IS ALSO A QP WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT THAT (A) WAS NOT FORMED FOR THE PURPOSES OF INVESTING IN THE NOTES AND (B) IS ACQUIRING THE NOTES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QP, IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A, OR ANOTHER EXEMPTION THEREFROM, OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") BY PRE-ARRANGEMENT OR OTHERWISE, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the Securities, an investor must be (i) a person that is outside the United States (within the meaning of Regulation S under the Securities Act) or (ii) QIBs that are also QPs that are acquiring the securities for their own account or the account of another QIB that is also a QP.

This Prospectus is being sent at your request and by accepting this e-mail and accessing the Prospectus, you shall be deemed to have represented to us that you and any customer you represent, and the electronic email address you have given to us and to which this email has been delivered, is outside the United States or that you are a QIB that is also a QP acquiring the securities referred to herein for your own account and/or for another QIB that is also a QP; and that you consent to delivery of such Prospectus by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and the Joint Lead Managers (as defined in the Prospectus) or any affiliate of the Joint Lead Managers is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of Polyus Gold International Limited in such jurisdiction.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Notes (as defined in the Prospectus) in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Prospectus who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the Prospectus. This Prospectus may only be communicated or caused to be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 (the "**FSMA**") does not apply and may be distributed in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "**Order**"), or (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Order (all such persons together being referred to as "**Relevant Persons**"). In the United Kingdom, the Prospectus is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which the Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

The Securities are not eligible for placement and circulation in the Russian Federation, unless, and to the extent, otherwise permitted by Russian law.

The information contained in this Prospectus is not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any Securities in the Russian Federation or to or for the benefit of any Russian person or entity.

The Prospectus and information contained herein does not constitute an advertisement or an offer of any securities in the Russian Federation. It is not intended to be, and must not be, distributed or circulated in the Russian Federation unless and to the extent otherwise permitted under Russian law.

The Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and the underwriters or any affiliate of the underwriters is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the issuer of the Securities in such jurisdiction.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently none of Polyus Gold International Limited, Joint-Stock Company Gold-Mining Company Polyus or the Joint Lead Managers or any person who controls them, nor any director, officer, employee or agent of any of them or affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Polyus Gold International Limited

(incorporated with limited liability under the laws of Jersey with the registered company number 91264)

as issuer of

US$500,000,000 4.699 per cent Guaranteed Notes due 2022

unconditionally and irrevocably guaranteed by

Joint-Stock Company Gold-Mining Company Polyus

(a joint-stock company incorporated under the Laws of the Russian Federation)

Issue price of Notes: 100 per cent

Polyus Gold International Limited (the "**Issuer**" or the "**Company**"), incorporated with limited liability under the laws of Jersey with registered company number 91264, is issuing US$500,000,000 aggregate principal amount of 4.699 per cent guaranteed notes due 2022 (the "**Notes**"). The Notes shall be unconditionally and irrevocably guaranteed (the "**Guarantee**") by Joint-Stock Company Gold-Mining Company Polyus (the "**Guarantor**" or "**JSC Polyus**").

Interest on the Notes will accrue from 26 October 2016 at a rate of 4.699 per cent per annum of their outstanding principal amount payable semi-annually in arrears on 28 March and 28 September of each year, commencing on 28 March 2017 (the "**First Interest Payment Date**"). There will be a short first coupon payable on the First Interest Payment Date. Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 28 March 2022. The Notes will be subject to, and have the benefit of, a trust deed between BNY Mellon Corporate Trustee Services Limited as trustee for the holders of the Notes (the "**Trustee**"), the Issuer and the Guarantor to be dated 26 October 2016 (the "**Trust Deed**").

The Notes will be unsecured and unsubordinated obligations of the Issuer and will rank equally in right of payment with the Issuer's existing and future unsecured and unsubordinated obligations. The Guarantee will be an unsecured and unsubordinated debt obligation of the Guarantor and will rank equally in right of payment with all existing and future unsecured and unsubordinated obligations of the Guarantor.

The Notes may be redeemed by the Issuer in whole but not in part at 100 per cent of their principal amount, plus accrued and unpaid interest and additional amounts (if any), if the Issuer or the Guarantor becomes obliged to pay certain additional amounts as a result of certain changes affecting taxation in any Relevant Jurisdiction as described under "*Terms and Conditions of the Notes — Redemption and Purchase — Redemption for tax reasons*". Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 28 March 2022.

An investment in the Notes involves a high degree of risk. Prospective Investors should have regard to the factors described under the section headed "Risk Factors" beginning on page 11.

Neither this Prospectus nor the information contained herein is an offer, or an invitation to make offers, to sell, exchange or otherwise transfer securities in the Russian Federation to or for the benefit of any Russian person or entity, and it does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. Information contained in this Prospectus is not intended for any persons in the Russian Federation who are not "qualified investors" within the meaning of Article 51.2 of the Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended (the "**Russian QIs**"), and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Notes have not been and will not be registered in Russia and are not intended for "placement" or "circulation" in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

Application has been made to the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's regulated market.

References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC.

The Notes and the Guarantee (the "**Securities**") have not been and will not be registered under the United States Securities Act of 1933 (the "**Securities Act**") or any state securities laws. The Securities are being offered and sold by Bank GPB International S.A., J.P. Morgan Securities plc, Renaissance Securities (Cyprus) Limited, SIB (Cyprus) Limited and VTB Capital plc (the "**Joint Lead Managers**") within the United States only to "qualified institutional buyers", in reliance on Rule 144A under the Securities Act ("**Rule 144A**"), that are also qualified purchasers ("**QPs**"), as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940 (the "**Investment Company Act**"), and outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). The Issuer has not been and will not be registered under the Investment Company Act. **You are hereby notified that the sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A**. The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Securities or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States. For a description of these and certain further restrictions, see "*Subscription and Sale*" and "*Transfer Restrictions*".

The Regulation S Notes will initially be represented by interests in a global note certificate in registered form (the "**Regulation S Global Note Certificate**"), without interest coupons, which will be deposited with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"), and registered in the name of a nominee, on or about 26 October 2016 (the "**Issue Date**"). The Rule 144A Notes will initially be represented by interests in a global note certification in registered form (the "**Rule 144A Global Note Certificate**" and, together with the Regulation S Global Note Certificate, the "**Global Note Certificates**"), which will be registered in the name of Cede & Co., as nominee of, and deposited with a custodian for, The Depository Trust Company ("**DTC**") on or about the Issue Date. Beneficial interests in the Global Note Certificates will be shown on, and transfers thereof will be effected only through records maintained by, DTC, Euroclear or Clearstream, Luxembourg (as the case may be) and their respective participants. Individual note certificates in registered form will only be available in certain limited circumstances as described herein.

A copy of this Prospectus has been delivered to the Jersey Registrar of Companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and the Jersey Registrar of Companies has given, and has not withdrawn, consent to its circulation. The Jersey Financial Services Commission has given, and has not withdrawn, its consent under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue of Notes by the Company. The Jersey Financial Services Commission has also given, and has not withdrawn, its consent under Article 8 of the Control of Borrowing (Jersey) Order 1958 to the circulation of this Prospectus in Jersey by the Guarantor. It must be distinctly understood that, in giving these consents, neither the Registrar of Companies nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of the Company or the Guarantor or for the correctness of any statements made, or opinions expressed, with regard to either of them. The Jersey Financial Services Commission is protected by the Control of Borrowing (Jersey) Law 1947, as amended, against any liability arising from the discharge of its functions under that law.

Nothing in this document or otherwise communicated to the holders or potential holders of Notes by or on behalf of the Company or the Guarantor is intended to constitute, or should be construed as, advice on the merits of the subscription for or purchase of Notes or the exercise of any rights attached thereto for the purposes of the Financial Services (Jersey) Law 1998.

Joint Lead Managers

BANK GPB INTERNATIONAL S.A.	**J.P. MORGAN**	**RENAISSANCE CAPITAL**	**SBERBANK CIB**	**VTB CAPITAL**

Prospectus dated 24 October 2016

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IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This Prospectus comprises a prospectus for the purposes of the Directive 2003/71/EC (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Issuer and its direct and indirect subsidiaries and affiliates (including the Guarantor) taken as a whole (the "**Group**") and the Securities, which, according to the particular nature of the Issuer, the Guarantor, the Group and the Securities, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer, the Guarantor and the Group, and the rights attaching to the Securities. The Issuer and the Guarantor each accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and the Guarantor (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is true and accurate in all material respects and is in accordance with the facts, and does not omit anything likely to affect the import of such information or which would make misleading any statement in this prospectus, whether of fact or opinion.

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor, the Trustee or the Joint Lead Managers. The information contained in the Prospectus is current as of the date hereof. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the Condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Prospectus.

No representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Joint Lead Managers or the Trustee as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Securities. Each person receiving this Prospectus acknowledges that such person has not relied on the Joint Lead Managers or the Trustee in connection with its investigation of the accuracy of such information or its investment decision and each person must rely on its own examination of the Issuer, the Guarantor and the Group and the merits and risks involved in investing in the Securities. To the fullest extent permitted by law, the Joint Lead Managers do not accept any responsibility whatsoever for the contents of this prospectus or for any other statement made or purported to be made by them, or on their behalf, in connection with the Issuer, the Guarantor, the Group or the Securities. The Joint Lead Managers accordingly disclaim all and any liability, whether arising in tort, contract or otherwise, which they might otherwise have in respect of this Prospectus or any such statement.

We reserve the right to withdraw this offering of Securities at any time, and we and the Joint Lead Managers reserve the right to reject any commitment to subscribe for the Securities in the whole or in part and to allot you less than the full amount subscribed by you.

For a more complete description of restrictions on offers, sales and transfers, see "*Subscription and Sale*" and "*Transfer Restrictions*".

This Prospectus does not constitute an offer to sell or an invitation to subscribe for or purchase, by or on behalf of the Issuer, the Guarantor, the Joint Lead Managers or any other person, any of the Securities in any jurisdiction in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this Prospectus and the offer and sale of the Securities in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus or any of the Securities are delivered are required to inform themselves about and to observe any such restrictions. Each prospective purchaser of the Securities must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Securities or possesses or distributes this Prospectus. In addition, each prospective purchaser must obtain any consent, approval or permission required under the regulations in force in any jurisdiction to which it is subject or in which it purchases, offers or sells the Securities. Neither the Issuer nor the Guarantor shall have any responsibility for obtaining such consent, approval or permission. In particular there are restrictions on the distribution of this Prospectus and the offer or sale of Securities in the United States and the United Kingdom. For a description of these further restrictions on offers and sales of the Securities and distribution of this Prospectus, see "*Subscription and Sale*".

The contents of the Issuer's and the Guarantor's websites do not form any part of this Prospectus.

Stabilisation

In connection with the issue of the Notes, J.P. Morgan Securities plc (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.

Ratings

The Notes are expected to be rated "BB-" (outlook positive) by Fitch Ratings Ltd. ("**Fitch**"), "Ba1" (outlook negative) by Moody's Investors Service Limited ("**Moody's**") and "BB-" (stable) by Standard & Poor's Credit Market Services Europe Limited ("Standard & Poor's" and, together with Fitch the "**Rating Agencies**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Fitch Ratings Ltd is established in the European Union ("**EU**") and is registered under the Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**"). As such, Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation. Standard and Poor's is established in the European Union and is registered under the CRA Regulation. As such, Standard and Poor's is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation.

AVAILABLE INFORMATION

Each of the Issuer and the Guarantor have agreed that, so long as any Securities are "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act, the Issuer and the Guarantor will, during any period in which it.is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of any such restricted securities, or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

This Prospectus is being furnished by the Issuer and the Guarantor in connection with an offering exempt from the registration requirements of the Securities Act solely for the purpose of enabling a prospective investor to consider the acquisition of the Securities described herein. The information contained in this Prospectus has been provided by the Issuer, the Guarantor and other sources identified herein. Any reproduction or distribution of this Prospectus, in whole or in part, in the United States and any disclosure of its contents or use of any information herein in the United States for any purpose, other than considering an investment by the recipient in the Securities offered hereby, is prohibited. Each potential investor in the Securities, by accepting delivery of this Prospectus, agrees to the foregoing.

NOTICE TO U.S. INVESTORS

THE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER REGULATORY AUTHORITY IN THE UNITED STATES, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE SECURITIES OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, AND SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES. THE SECURITIES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND BY THE JOINT LEAD MANAGERS THROUGH THEIR RESPECTIVE REGISTERED BROKER-DEALER AFFILIATES INSIDE THE UNITED STATES TO "QIBs" THAT ARE ALSO "QPs" FOR INFORMATIONAL USE SOLELY IN CONNECTION WITH THEIR CONSIDERATION OF THE PURCHASE OF THE NOTES IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (SEE "*SUBSCRIPTION AND SALE*"). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF ANY RULE 144A NOTE MAY BE RELYING UPON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.

NOTICE TO UNITED KINGDOM RESIDENTS

This Prospectus is only being distributed to and is only directed at (1) persons who are outside the United Kingdom, (2) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (3) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**Relevant Persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this document or any of its contents.

NOTICE TO RUSSIAN INVESTORS

This Prospectus or information contained therein is not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any securities in the Russian Federation to or for the benefit of any Russian person or entity, and does not constitute an advertisement or offering of any securities in the Russian Federation within the meaning of Russian securities laws. Information contained in this Prospectus is not intended for any persons in the Russian Federation who are not "qualified investors" within the meaning of Article 51.2 of the Federal Law no. 39-FZ "On the Securities Market" dated 22 April 1996, as amended ("**Russian QIs**") and must not be distributed or circulated into the Russian Federation or made available in the Russian Federation to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are forward-looking statements. Forward-looking statements appear in various locations, including, without limitation, under the headings "*Overview*", "*Risk Factors*", "*Operating and Financial Review*" and "*Business*". The Company may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include statements concerning the Group's plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, its competitive strengths and weaknesses, its business strategy and the trends the Company anticipates in the industries and the political and legal environment in which it operates and other information that is not historical information.

Words such as "believes", "anticipates", "estimates", "expects", "intends", "predicts", "projects", "could", "may", "will", "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "*Risk Factors*", as well as those included elsewhere in this Prospectus. Each prospective investor should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but not limited to:

- changes in the prices of gold;
- changes in the Group's ability to maintain or obtain the licences necessary for its businesses;
- changes in the Group's operating costs, including the costs of energy, transportation and labor;
- changes in the Group's ability to successfully implement any of its business, development plans or financing strategies;
- changes in the Group's ability to fund its future operations and capital needs through borrowings or otherwise;
- developments in, or changes to, the laws, regulations and governmental policies governing the Group's businesses, including changes impacting environmental liabilities;
- inflation, interest rate and exchange rate fluctuations;
- changes in the political, social, legal or economic conditions in Russia;
- the effects of international political events;
- the effects of the restrictive covenants in the Group's financing documentation; and
- the Group's success in identifying other risks to its businesses and managing the risks of the aforementioned factors.

This list of factors is not exhaustive. Some of these factors are discussed in greater detail in this Prospectus, in particular, but not limited to, discussion in "*Risk Factors*". When relying on forward-looking statements, each prospective investor should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, unless required to do so by applicable law. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

Important Notice about this Prospectus

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in the Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of the relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

This Prospectus contains:

- the audited consolidated financial statements of the Group as of and for the year ended 31 December 2015 (the "**2015 Financial Statements**");
- the audited consolidated financial statements of the Group as of and for the year ended 31 December 2014 (the "**2014 Financial Statements**", and together with the 2015 Financial Statements, the "**Annual Financial Statements**");
- the unaudited reviewed condensed consolidated interim financial statements of the Group as of and for the six months ended 30 June 2016 (the "Interim Financial Statements" and together with the Annual Financial Statements, the "**Financial Statements**"), which include as comparative financial information the unaudited condensed consolidated interim financial information of the Group as of and for the six months ended 30 June 2015.

Certain references included in the independent auditors' reports for the years ended 31 December 2015 and 2014 refer to sections of the Group's annual reports for the fiscal years ended 31 December 2015 and 2014, respectively. These annual reports are neither included nor incorporated by reference herein. They can be accessed through the Company's website via http://pgil.polyusgold.com/investors/reports/annual_reports.

The Annual Financial Statements were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union and as issued by the International Accounting Standards Board ("**IASB**"), as set out in note 2 to the 2015 Financial Statements.

The Interim Financial Statements were prepared in accordance with International Accounting Standards ("**IAS**") 34 Interim Financial Reporting, as adopted by the European Union, as set out in note 2 to the Interim Financial Statements.

The underlying financial information stated in local currency has been translated into U.S. dollars on the basis set out in "*Currencies and Exchange Rates*" below.

Alternative Performance Measures

The Group presents Adjusted EBITDA, Adjusted EBITDA margin, total cash costs ("**TCC**"), TCC per ounce sold, all-in sustaining costs ("**AISC**"), AISC per ounce sold, cash operating costs, total cash position, net debt, and net debt to Adjusted EBITDA, which are non-GAAP, alternative performance measures. These measures are used by management of the Group to assess the financial performance of the Group. Such measures as presented in this Prospectus may not be comparable to similarly titled measures of performance presented by other companies, and they should not be considered as substitutes for the information contained in the Financial Statements included in this Prospectus.

Adjusted EBITDA

The Group calculates Adjusted EBITDA as profit for the year before income tax, depreciation and amortisation, income/loss from investments and derivative financial instruments, finance costs, interest income on bank deposits, foreign exchange gain/loss, gain/loss on disposal of property, plant and equipment, impairment or reversal of impairment of property, plant and equipment, expenses associated with a long-term incentive plan ("**LTIP**"), and any one-off items (*e.g.*, delisting expenses) as required to ensure calculation of the EBITDA is comparable with the prior period.

Adjusted EBITDA presented by the Group has been calculated by management based on information derived from the Financial Statements. Adjusted EBITDA is presented in this Prospectus because the Group considers it to be an important supplemental measure of the Group's financial performance. Additionally, the Group believes this measure is frequently used by investors, securities analysts and other interested parties to evaluate the efficiency of a group's operations and its ability to employ its earnings toward repayment of debt, capital expenditures and working capital requirements. Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for the Group's operating results as reported under IFRS. Some of these limitations are as follows:

- Adjusted EBITDA does not reflect the impact of significant interest expense or the cash requirements necessary to service interest or principal payments in respect of any borrowings, which could further increase if the Group incurs more debt.
- Adjusted EBITDA does not reflect the impact of income tax expense on the Group's operating performance.
- Adjusted EBITDA does not reflect the impact of depreciation and amortisation of assets on the Group's performance. The assets of the Group's business which are being depreciated and amortised will have to be replaced in the future, and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from Adjusted EBITDA, Adjusted EBITDA does not reflect the Group's future cash requirements for these replacements.
- Adjusted EBITDA does not reflect the Group's cash expenditures or future requirements for capital expenditure or contractual commitments.
- Adjusted EBITDA does not reflect changes in or cash requirements for the Group's working capital needs.
- Adjusted EBITDA does not reflect the impact of a number of other significant non-cash items, specifically: foreign exchange gain/loss; loss from disposal of property; plant and equipment; impairment of exploration and evaluation assets; impairment of capital construction in progress; impairment of property; plant and equipment; and change in fair value of derivatives.
- Adjusted EBITDA does not reflect the expenses associated with a LTIP.
- Other companies in the Group's industry may calculate Adjusted EBITDA differently or may use them for different purposes than the Group does, limiting their usefulness as a comparative measure.

The Group compensates for these limitations by relying on its IFRS results and using Adjusted EBITDA only as a supplemental measure.

Adjusted EBITDA is a measure of the Group's operating performance that is not required by, or presented in accordance with, IFRS. Adjusted EBITDA is not a measurement of the Group's operating performance under IFRS and should not be considered as an alternative to profit for the year or any other performance measures derived in accordance with IFRS. For the calculation of the Group's Adjusted EBITDA and the reconciliation of Adjusted EBITDA to profit for the six months ended 30 June 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013, see "*Selected Consolidated Financial and Other Information*".

Adjusted EBITDA margin

The Group calculates Adjusted EBITDA margin as Adjusted EBITDA divided by total revenue.

Total cash costs ("TCC") and TCC per ounce sold

TCC is defined by the Group as the cost of gold sales reduced by amortisation and depreciation of operating assets, provision for accrued annual leave, employee benefits obligation cost, change in allowance for obsolescence of inventory and adjusted by non-monetary changes in inventories. TCC per ounce sold is the cost of producing and selling an ounce of gold, which includes mining, processing, transportation and refining costs, as well as general costs from both mine and alluvial operations. 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. For the calculation of the Group's TCC and TCC per ounce sold for the six months ended 30 June 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013, see "*Selected Consolidated Financial and Other Information*".

The financial items, TCC and TCC per ounce sold presented by the Group have been calculated by management based on information derived from the Financial Statements. These items are discussed throughout this Prospectus, because the Group believes they provide a measure for comparing the Group's operational performance against that of its peer group. In addition, the Group uses these measurements to compare the performance of the Group's operations period-to-period, to monitor costs and to evaluate operating efficiency. TCC is not defined by IFRS and should not be considered in isolation or as an alternative to operating expenses or cost of sales. Although the presentation of TCC and TCC per ounce sold is common industry practice, the Group's calculations of these items may vary from other gold mining companies' calculations, and by themselves do not necessarily provide a basis for comparison with other gold mining companies.

All-in sustaining costs ("AISC") and AISC per ounce

AISC is defined by the Group as TCC plus selling, general and administrative expenses, stripping activity asset additions, sustaining capital expenditures, unwinding of discounts on decommissioning liabilities, provision for annual vacation payment, employee benefit obligations cost, and change in allowance for obsolescence of inventory less amortisation and depreciation included in selling, general and administrative expenses. AISC 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. These items are not IFRS measures. For the calculation of the Group's AISC and AISC per ounce sold for the six months ended 30 June 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013, see "*Selected Consolidated Financial and Other Information*".

These items are discussed throughout this Prospectus, because the Group believes they provide a measure for comparing the Group's sustainable operational performance against that of its peer group. In addition, the Group uses these measurements to compare the performance of the Group's operations period-to-period, to monitor costs and to evaluate operating efficiency and sustainability of the operations. AISC is not defined by IFRS and should not be considered in isolation or as an alternative to operating expenses, cost of sales, or selling, general and administrative expenses. Although the presentation of AISC and AISC per ounce sold is common industry practice, the Group's calculations of these items may vary from other gold mining companies' calculations, and by themselves do not necessarily provide a basis for comparison with other gold mining companies.

Cash operating costs

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, and Other costs. This item is not an IFRS measure. For the calculation of the Group's cash operating costs for the six months ended 30 June 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013, see "*Operating and Financial Review*".

The financial item cash operating costs presented by the Group has been calculated by management based on information derived from the Financial Statements. The item is discussed throughout this Prospectus, because the Group believes it provides a measure for comparing the Group's operational performance against that of its peer group. In addition, the Group uses this measurement to compare the performance of the Group's operations period-to-period, to monitor costs and to evaluate operating efficiency of the operations. Cash operating costs is not defined by IFRS and should not be considered in isolation or as an alternative to operating expenses or cost of sales. Although the presentation of cash operating costs is common industry practice, the Group's calculations of these items may vary from other gold mining companies' calculations, and by themselves do not necessarily provide a basis for comparison with other gold mining companies.

Total cash position

The Group calculates total cash position as the sum of bank deposits and cash and cash equivalents. This item is not an IFRS measure. For the calculation of the Group's total cash position as of 30 June 2016 and 2015 and 31 December 2015, 2014 and 2013, see "*Operating and Financial Review*".

The financial item total cash position presented by the Group has been calculated by management based on information derived from the Financial Statements. The item is discussed throughout this Prospectus, because the Group believes it provides a measure for analyzing the Company's most liquid assets. Total cash position is not defined by IFRS and should not be considered in isolation or as an alternative to cash and cash equivalents.

Net debt

The Group calculates net debt as total borrowings less total cash position. This item is not an IFRS measure. For the calculation of the Group's Net debt as of 30 June 2016 and 2015 and 31 December 2015, 2014 and 2013, see "*Selected Consolidated Financial and Other Information*".

Net debt presented by the Group has been calculated by management based on information derived from the Financial Statements. The item is discussed throughout this Prospectus, because the Group believes it provides a measure for analyzing the Group's liquidity. Net debt is not defined by IFRS and should not be considered in isolation or as an alternative to total borrowings.

Net debt to Adjusted EBITDA

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

Presentation of Ore Reserves and Mineral Resources

The resource and reserve estimates presented in this Prospectus have been prepared in accordance with the 2004 and 2012 editions of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "**JORC Code**").

Any and all references in this Prospectus to ounces of gold whether mined, produced, milled or extracted or whether references to ounces of gold of the Group's reserves and resources, or any reference to TCC or AISC per ounce sold, are references to troy ounces of gold.

General Information

In this Prospectus, references to: the "**Company**" or the "**Issuer**" are to Polyus Gold International Limited; the "**Group**" are to the Company together with its consolidated subsidiaries; "**PJSC Polyus**" are to Public Joint Stock Company Polyus; "**Guarantor**" or "**JSC Polyus**" are to Joint-Stock Company Gold-Mining Company Polyus.; and "**Jenington**" are to Jenington International Inc.

In this Prospectus, all references to "**Russia**" are to the Russian Federation. References to "**U.S.**" or the "**United States**" are to the United States of America. References to "**UK**" or the "**United Kingdom**" are to the United Kingdom of Great Britain and Northern Ireland. References to the "**EU**" or the "**European Union**" are to the union formed following ratification of the Maastricht Treaty and currently comprising 28 states, and references to "**Europe**" are to the geographical region of Europe, including those states which are members of the European Union.

Definitions of certain terminology associated with the Group's business are set forth under "*Glossary of Terms*".

Currencies and Exchange Rates

In this Prospectus, references to "**U.S. dollars**" or "**US$**" are to the lawful currency of the United States, references to "**roubles**" or "**RUB**" are to the lawful currency of the Russian Federation and references to "**euro**" or "**EUR**" are to the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended.

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in U.S. dollars. The functional currency of the Russian production companies of the Group's operations is the rouble. The functional currency of the management companies of the Group is the local currency. On consolidation, income statements of subsidiaries for which the U.S. dollar is not the functional currency are translated into U.S. dollars, the presentation currency for the Group, at average rates of exchange. Balance sheet items are translated into U.S. dollars at period end exchange rates. These translations should not be construed as representations that the relevant currency could be converted into U.S. dollars at the rate indicated or at any other rate.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the rouble and the U.S. dollar, based on the official exchange rate quoted by the Central Bank of the Russian Federation (the "**CBR**").

	Roubles per U.S. dollar			
For the period	***High***	***Low***	***Average***[(1)]	***Period end***
Year ended 31 December 2012	*34.04*	28.95	31.07	30.37
Year ended 31 December 2013	33.47	29.93	31.91	32.73
Year ended 31 December 2014	67.79	32.66	38.60	56.26
Year ended 31 December 2015	72.88	49.18	61.32	72.88
January 2016	83.59	72.93	77.93	75.17
February 2016	79.49	75.09	77.33	75.09
March 2016	75.90	67.60	70.42	67.60
April 2016	68.89	64.33	66.68	64.33
May 2016	67.05	64.51	65.84	66.08

For the period	Roubles per U.S. dollar High	Low	Average[(1)]	Period end
June 2016	66.85	63.72	65.22	64.26
July 2016	67.05	62.99	64.34	67.05
August 2016	66.88	63.55	64.94	64.91
September 2016	65.87	63.16	64.56	63.16
Up to and including 19 October 2016	63.40	62.19	62.70	62.89

Note:

1. The average of the exchange rate for the relevant period, based on the rates in such period for each day in the relevant period for which the CBR published the exchange rate. It should be noted that the methodology for calculating average rates for a period for the purposes of the Annual Financial Statements is different than the methodology used in this table.

The exchange rate between the rouble and the U.S. dollar on 19 October 2016 was 62.89 roubles per US$1.00.

No representation is made that amounts presented in a particular currency in this Prospectus could have been converted into such currency at any particular rate or at all. A market exists for the conversion of roubles into other currencies, but the limited availability of other currencies may tend to inflate their values relative to the rouble. Fluctuations in the exchange rate between the rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of certain information in this Prospectus. Solely for the convenience of the reader, certain amounts included in "*Business*" and elsewhere in this Prospectus have been, unless otherwise indicated, translated from roubles into U.S. dollars at the rate of RUB 64.26 per US$1.00, the official exchange rate as published by the CBR on 30 June 2016.

Rounding

Certain amounts that appear in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Reproduction of Information

This Prospectus includes (i) in "*Industry Overview*", market data that the Company has obtained from, and attributed to, the World Gold Council, Russian Union of Gold Miners or such other sources as are indicated therein, and (ii) Russian macroeconomic data obtained from information published by the CBR. The Company accepts responsibility for having correctly reproduced such information, and, as far as the Company is aware and has been able to ascertain from information published by those industry publications or public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Other market share information and other statements in this Prospectus regarding the industry in which the Group operates and the position of the Group relative to its competitors are not based on published statistical data or information obtained from independent third parties. Rather, such information and statements reflect the reasonable estimates of the Company based upon information obtained from trade and business organisations and associations, other contacts within the precious metals industry and from annual reports and information published by other gold mining companies. This information from the internal estimates and surveys of the Group has not been verified by any independent sources.

ENFORCEABILITY OF JUDGMENTS

The Company is a public limited company incorporated under the laws of Jersey. The Company is managed and controlled in the UK and is currently treated as UK resident for UK tax purposes. The Guarantor is a private limited company incorporated under the laws of the Russian Federation. Substantially all of the Company's and the Guarantor's assets are located outside the United Kingdom or the United States, and may be located outside other jurisdictions in which investors may be located. In addition, although all of the Directors of the Company are nationals or residents of the United Kingdom, all Directors of the Guarantor and members of senior management of the Group and the Guarantor are nationals or residents of jurisdictions other than the United Kingdom or the United States, and may not be nationals or residents of other jurisdictions in which investors may be located, and all or a substantial portion of their assets are located outside the United Kingdom or the United States, and may be located outside other jurisdictions in which investors may be located. In particular, all of the Guarantor's operating assets are located in the Russian Federation, and most members of senior management of the Group and most of the Directors and senior management of the Guarantor are nationals or residents of the Russian Federation and all or a substantial portion of their assets are located in the Russian Federation.

It may be difficult for the Noteholders or the Trustee to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon English laws. Courts in the Russian Federation will generally recognise judgments rendered by a court in any jurisdiction outside the Russian Federation only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the jurisdiction where the judgment is rendered or a federal law is adopted in the Russian Federation providing for the recognition and enforcement of foreign court judgments. No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain other jurisdictions, including the United Kingdom, and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation. As a result, new proceedings may have to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against the Company or its officers or directors or the Guarantor or its officers or directors. These limitations, as well as the general procedural grounds set out in Russian legislation for the refusal to recognise and enforce foreign court judgments in the Russian Federation, may significantly delay the enforcement of such judgments or deprive the Company, the Guarantor and/or the Noteholders of effective legal recourse for claims related to the investment in the Notes.

In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognised by a Russian court on the basis of reciprocity, if courts of the jurisdiction where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. In a number of recent instances, Russian courts have recognised and enforced a foreign court judgment (including English court judgments) on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which the Russian Federation and certain other jurisdictions, including the United Kingdom, are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant foreign court judgment in the Russian Federation. In the absence of established court practice, however, no assurances can be given that a Russian court would be inclined in any particular instance to recognise and enforce a foreign court judgment on these or similar grounds. The existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court.

Accordingly, it may be difficult or impossible for investors to:

- effect service of process within the United Kingdom, the United States or other jurisdictions in which investors may be located, on certain members of senior management of the Group or certain Directors or members of senior management the Guarantor;
- enforce judgments obtained in courts in the United Kingdom, the United States or other jurisdictions in which investors may be located, against the Company's or the Guarantor's assets, against certain members of senior management of the Group or certain Directors or members of senior management the Guarantor; or
- enforce, in original actions brought in courts in the Russian Federation, liabilities predicated upon the civil liability provisions of the laws of the United Kingdom, the United States or the laws of other jurisdictions in which investors may be located.

The above limitations may deprive investors of effective legal recourse for claims related to an investment in the Notes.

Prospective investors should read the entire document and, in particular, the section headed "*Risk Factors*" when considering an investment in the Notes.

OVERVIEW

This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Prospectus, including the more detailed information regarding the Group's business and the financial statements and related notes included elsewhere in this Prospectus. Prospective purchasers of the Notes should also carefully consider the information set forth under the heading "Risk Factors". Certain statements in this Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements".

OVERVIEW OF THE GROUP

The Group is the largest gold mining group in Russia based on ounces of gold produced, according to the Russian Union of Gold Miners, and with 64.3 million ounces of gold in JORC proven and probable reserves, has the fourth largest gold reserves in the world based on the most recent publicly available reports of other gold mining companies. The Group develops and mines hardrock gold and alluvial gold deposits, with its principal deposits in the Krasnoyarsk, Irkutsk, Magadan and Republic of Sakha (Yakutia) regions of Russia. The Group's total gold production in 2015 was 1,763 thousand ounces.

For the six months ended 30 June 2016, the Group had total gold sales of US$1,069 million, total revenue of US$1,082 million and profit for the period of US$494 million, and, as at 30 June 2016, total assets of US$4,962 million and total equity deficit of US$1,013 million. For the six months ended 30 June 2015, the Group had total gold sales of US$1,005 million, total revenue of US$1,019 million and profit before income tax of US$659 million, and, as at 30 June 2015, total assets of US$4,815 million and total equity of US$2,061 million. The Group's Adjusted EBITDA was US$689 million in the first six months of 2016 and US$589 million in the same period in 2015. Total cash cost was US$377 per ounce in the first six months of 2016, and AISC was US$558 per ounce in the first six months of 2016 and US$617 per ounce in the same period in 2015. The Group had negative net assets of US$1,013 million as at 30 June 2016, which resulted from unrealized currency exchange losses in the amount of US$2,732 million, due to the depreciation of the Russian rouble decreasing the U.S. dollar value of the Russian rouble denominated total consolidated assets of PJSC Polyus and its subsidiaries, and the repurchases of PJSC Polyus's shares by a subsidiary. The Group's negative net assets also resulted from a subsequent repurchase of the Company's shares effected with immediate cancellation of the Company's shares so purchased in the first six months ended 30 June 2016 in the total amount of US$3,237 million.

For the year ended 31 December 2015, the Group had total gold sales of US$2,159 million, total revenue of US$2,189 million, profit for the period of US$1,119 million and, as at 31 December 2015, total assets of US$4,936 million and total equity of US$1,877 million. For the year ended 31 December 2014, the Group had total gold sales of US$2,197 million, total revenue of US$2,239 million and a net loss of US$182 million, and, as at 31 December 2014, total assets of US$4,814 million and total equity of US$1,620 million. The Group's Adjusted EBITDA was US$1,268 million in 2015 and US$1,011 million in 2014. TCC was US$424 per ounce in 2015 and US$585 per ounce in 2014, and AISC was US$610 per ounce in 2015 and US$825 per ounce in 2014.

The Company estimates that the Group's mineral base has a mine life of 36 years.

The table below shows the mineral reserves and resources of the Group according to the JORC Code:

	Ore (million tonnes)	***Grade (g/t)***	***Gold (million ounces)***
Proven and Probable	894.9	2.23	64.3
Measured and Indicated	1,324.9	2.09	88.8
Inferred	580.2	2.06	38.5

The table below shows the gold production figures for the Group's operations.

Production of Gold ('000 ounces)	*Year ended 31 December*			*Six months ended 30 June*	
	2015	***2014***	***2013***	***2016***	***2015***
Krasnoyarsk region					
Olimpiada	743	726	691	332	357
Blagodatnoye	425	394	395	221	186
Titimukhta	102	93	131	40	57
Poputninskoye	2	–	–	4	–
Irkutsk region					
Verninskoye	161	146	89	100	79
Alluvials	168	190	205	33	33
Republic of Sakha (Yakutia) region					
Kuranakh	145	137	138	78	66
Refined gold	1,746	1,686	1,650	808	779
Gold contained in concentrate	17	10	2	31	5
Total gold produced	**1,763**	**1,696**	**1,652**	**839**	**784**

The Group's major gold deposits in Russia are:

- in the Krasnoyarsk region (representing 60 per cent of the Group's total proven and probable reserves and 73 per cent of the Group's total gold production in 2015 (74 per cent in the first six months of 2016)) – the Olimpiada deposit, which is the largest operating gold mine in Russia according to Metals Focus' Quarterly Gold Mine Cost Service report for the second quarter of 2016, the Blagodatnoye, Titimukhta and Poputninskoye deposits;
- in the Irkutsk region (representing 11 per cent of the Group's total proven and probable reserves and 19 per cent of the Group's total gold production in 2015 (16 per cent in the first six months of 2016)) – the Verninskoye deposit and Alluvials;
- in the Republic of Sakha (Yakutia) region (representing four per cent of the Group's total proven and probable reserves and eight per cent of the Group's total gold production in 2015 (nine per cent in the first six months of 2016)) – the Kuranakh mine; and
- in the Magadan region (representing 25 per cent of the Group's proven and probable reserves) – the Natalka deposit.

Competitive Strengths

The Company believes that the Group benefits from the following principal competitive strengths:

A gold mining group with a highly competitive position in Russia and a strong track record of production

With 2015 production of 1,763 thousand ounces, 64.3 million ounces of proven and probable JORC reserves and 127.3 million ounces of measured, indicated and inferred JORC resources, the Group is the largest gold mining group in Russia based on 2015 production volumes and one of the top four gold companies worldwide by proven and probable JORC reserves, based on the latest reserves and resources statements by gold mining companies. The Group's current producing assets operate with minimal reliance on third-party infrastructure, and, as they have been producing for many years and have significant remaining reserves, provide the foundation for the Group's further gold production in the medium term. Because of its strong operations and current foothold in Russia, the Company believes that the Group is well-positioned to capitalise on existing and future opportunities in the region.

An extensive resource base and defined development pipeline, providing a leading production growth profile from large development assets

Given its comfortable liquidity position and track record of commissioning new mines, the Company believes that the Group is well-positioned to convert its reserve base into gold production. Management expects growth to come from both the expansion of production at the existing mines via debottlenecking process and the start-up of new deposits. Approximately 30 per cent of all the Group's proven and probable JORC reserves are within assets that are currently not in the production phase. The majority of such reserves is expected to start being utilised following the planned commissioning of the Natalka operations by the end of 2017.

Superior cost advantage and ability to withstand gold price volatility

The Group's total cash cost per gold ounce sold ("**TCC/oz**") improved substantially during 2013-2015, moving from the fifth decile of the global cash cost curve to the first decile according to Metals Focus' Quarterly Gold Mine Cost Service report for the second quarter of 2016. Both local currency depreciation and ongoing operational efficiency initiatives contributed to the decrease. As a result, the Group's average TCC/oz and average all-in sustaining cost per gold ounce sold ("**AISC/oz**") are in the first decile of the 2015 global cost curves according to Metals Focus' Quarterly Gold Mine Cost Service report for the second quarter of 2016, which is structurally supported by the Group's bulk open-pit high-grade operations. The Group's TCC/oz continued to demonstrate a strong performance in the first six months of 2016, decreasing by 14 per cent as compared to the first six months of 2015 to US$377/oz, while the Group's AISC improved by 10 per cent as compared to the first six months of 2015 to US$558/oz. As a result, the Group's operational leverage (i.e., sensitivity to gold price fluctuation) has further decreased in comparison to the rest of the global gold mining industry.

Strong expertise in gold mining and project execution in an opportunity-rich mining region

The Group efficiently manages a portfolio of low-cost large-scale open-pit operating mines. Moreover, the Group has a proven track record of project execution, from the initial exploration stage to mining and flowsheet design and development. Specifically, the Group's Blagodatnoye asset is one of the largest Russian exploration projects developed in the last decade, with reserves of 8.2 million ounces at 2.26 g/t. It produced 425 thousand ounces of gold in 2015. Construction of the facility began in 2009 and within two years a gold processing plant was built with a design capacity of 6.0 million tonnes of ore per year on a greenfield site, all the necessary mining and haulage equipment was procured, and roads, warehouses, a camp and a tailings facility were constructed. In addition, the Blagodatnoye Mill-4 has been operating above its nominal throughput capacity since 2011 and an in-depth analysis of the flowsheet revealed the possibility to expand Mill-4 throughput capacity expansion to 8.0 mtpa by upgrading the mill's equipment and debottlenecking the existing flowsheet. The expansion project is currently at the execution stage. Furthermore, the Group is currently executing the Natalka development project, re-launched at the end of 2015 after a thorough revision during 2014-2015. The Group invited international mining and engineering consulting companies to assist with the block-model update and processing flowsheet optimisation during the revision and ongoing control during the project execution. Additionally, the Group has extensive experience of the existing operations debottlenecking. Kuranakh operations underwent a substantial improvement during 2014-2015. Mining activity was improved by optimisation of ore transportation, logistics and blasting works. Simultaneously, blending of ore fed to the mill, consumption of reagents, new equipment purchases and thickening process were either improved or optimised at the processing stage. These measures allowed improvement of both TCC/oz and recoveries substantially. The Company, therefore, believes that the Group is well-positioned to bring its existing development projects into production. The Group is also well-positioned to take advantage of future opportunities in resource-endowed Russia, as its expertise and track record will provide competitive advantage in bidding for licences and assets.

Strategic Price Protection Programme designed to secure free cash flow generation during the capital expenditure intensive cycle

In March 2014, the Group initiated a Strategic Price Protection Programme (the "**SPPP**"). Under the SPPP, during the year ended 31 December 2014, the Group entered into gold forward contracts to sell a total of 310 thousand ounces of gold monthly in equal quantities over a period of two years starting from 1 July 2014 and ending on 30 June 2016 at a fixed price of US$1,321 per ounce. There are no outstanding balances with regards to gold forwards as of 30 June 2016. The Group has also entered into a series of zero cost Asian gold collars ("**revenue stabiliser**"). The revenue stabiliser represents a series of zero cost Asian barrier collar agreements to purchase put options and sell call options with "knock-out" and "knock-in" barriers. The revenue stabiliser options are exercised quarterly in equal amounts. The main purpose of the SPPP is to protect cash flow from operations during the Group's development strategy execution and to enable the Group to self-fund those projects even in case of a material gold price decrease.

Experienced management team and commitment to corporate governance

The Group believes that the experience of its management team, which was strengthened in late 2013-2014, positions the Group well to maximise the value of its existing operations, development projects and resource base. During that period, a new General Director, Pavel Grachev; new Senior Vice President, Operations, Vladimir Polin; and new Senior Vice President, Finance and Strategy, Mikhail Stiskin, joined the Group. In addition, PJSC Polyus, the Company's subsidiary and the parent company of the Guarantor, has an experienced Board of Directors, including three non-executive independent directors and chaired by an independent director, Edward Dowling.

Strategy

According to Metals Focus' Quarterly Gold Mine Cost Service report for the second quarter of 2016, the Group is the lowest cost top-10 gold producer in the world, with a strong growth pipeline and commitment to operational excellence and its social and environmental responsibilities. The Company's current corporate strategy focuses on the following targets:

- ***Strong operational profile***: The Group strives to increase both output and its resource base of profitable ounces in a disciplined manner. The Group maintains its focus on operational excellence at Tier 1 assets, which are long-life, low-cost, high-grade, open-pit properties that have scale.
- ***Focus on organic growth***: The Company aims to deliver a sustainable organic high-quality growth by extracting maximum value out of the identified brownfield growth projects and Natalka with high internal rate of returns ("**IRRs**"), while prioritizing a phased approach and carefully managing risks.
- ***Extensive reserve and resources base***: The Group focuses on the Commonwealth of Independent States ("**CIS**") as a home region, which is rich in undeveloped resources, and where the Company can achieve synergies and realize competitive advantages.

- ***Maintaining cost leadership***: The Group continues to identify further cost-cutting opportunities and to launch multi-faceted initiatives under the TOE programme. The Group intends to retain its status as one of the lowest-cost gold producers globally.
- ***Continued focus on corporate governance***: Following the changes to the Group's corporate structure, PJSC Polyus became the holding company for the assets of the Group. The Group intends to maintain its disclosure and reporting policy, with a view to adhering to high corporate governance and disclosure standards.
- ***Maintaining stringent health and safety standards***: The Group is committed to the best Health, Safety and Environmental ("**HSE**") practices and continuing implementation of a two-year action plan that commenced in 2015 to ensure full compliance with the ICMM Sustainable Development principles. The Group's ultimate goal is to achieve a zero fatality rate.

Strategic Asset Review

In 2014, the Group commenced a comprehensive review of its assets, with a view to monetising its substantial resource base, identifying additional low-risk growth opportunities and optimising its development pipeline. In March 2015, the Company commenced the Strategic Asset Review Programme to develop low-risk, low-cost brownfield projects. The review resulted in a number of medium-scale initiatives at its core assets at the Krasnoyarsk, Irkutsk and Yakutia business units, with the potential to deliver up to 350 thousand ounces per annum (not including the Natalka project) of incremental gold production. The Group expects its total gold production in 2016 to be in the range of 1.87-1.90 million ounces. The Group expects its production levels to further increase in 2017, allowing it to produce more than 2 million ounces and marking another year of production growth. In the mid-term, the Group's annual production target is at least 2.7 million ounces of gold to be achieved by 2020. Achievement of these targets projections depends on many factors, including market conditions, successful implementation of our development and expansion projects, and various operational and other risks described elsewhere in this Prospectus. Under the Strategic Asset Review Programme, the anticipated brownfield projects are expected to include:

- the Krasnoyarsk business unit is to remain the growth platform of the Company, with four major projects identified: reconfiguration of the Mill-1 to process higher-grade ore from Olimpiada deposit; BIOX capacity expansion at the Olimpiada Mill-2/3; expansion of the Blagodatnoye mill; and the introduction of heap leaching at Blagodatnoye;
- at Verninskoye, the Group is planning to increase the capacity of the mill;
- at Kuranakh, the Group is considering commissioning a heap leach operation as well as increasing existing throughput capacity of the Kuranakh Mill.

As of now, the reconfiguration of Mill-1 is largely completed, with the mill being expected to start processing Olimpiada sulphide ore at the end of 2016. The throughput capacity at the Verninskoye Mill has already achieved 2.5 million tonnes annualised run rate and the Group is now implementing initiatives to stabilise the throughput run rate by the end of 2016 in order to proceed with further capacity expansion.

Krasnoyarsk

The Olimpiada, Blagodatnoye and Titimukhta deposits contain approximately 38.6 million ounces of gold in proven and probable reserves under JORC, which makes Krasnoyarsk the largest gold mining operation in Russia by reserves. Given its size, the potential for further discoveries in the area and the established infrastructure, the Group believes that the Krasnoyarsk operations will continue to be its main growth platform along with the Natalka project.

Four major growth opportunities have been identified at Krasnoyarsk to date:

- reconfiguration of Mill-1 processing plant in order to treat higher-grade ore from Olimpiada combined with an increase in the plant's throughput capacity to 3 million tonnes of ore per year compared to the current 2.4 million tonnes;
- BIOX capacity expansion at the Olimpiada Mill-2/3 as existing BIOX capacities are not sufficient to process the whole amount of flotation concentrate following both the debottlenecking initiatives at Mill-2/3 and reconfiguration of Mill-1;
- implementation of heap leaching at Blagodatnoye to treat stockpiled and in situ low-grade ore; and
- debottlenecking and upgrading of the Blagodatnoye mill, sustainably increasing the throughput from 6 to 8 million tonnes per annum.

At the Titimukhta mill, construction and installation works have been completed, as part of the mill's reconfiguration to process higher grades from Olimpiada. The launch of a new production circuit is planned at the end of 2016. At the Blagodatnoye mill, part of the initiatives was already implemented, the detailed design of expanded grinding and flotation stages was completed and equipment contracting commenced. The Group has engaged engineering consultancy companies to assist in executing a heap leaching pre-feasibility study at Blagodatnoye. The aims of this study are to assess potential processing options and identify optimal operating parameters. A pilot plant installation is in progress at Blagodatnoye.

Verninskoye

Given its current reserves to production ratio of 28, the Verninskoye resource base allows for a significant expansion of its processing capacity. To this end, the Group is evaluating a number of options, which will result in the increase of the annual throughput from the existing 2.2 million tonnes to 3.0 million tonnes per annum and above. In the second quarter of 2016, the Group achieved annualized throughput capacity of 2.5 million tonnes. The Group is now implementing initiatives to stabilize the achieved throughput run in order to proceed with further capacity expansion. In addition, the Group, in cooperation with independent consultants, is evaluating various options of potential for the Irkutsk mining hub, uniting Verninskoye, Chertovo Koryto and Zapadnoye reserve base.

Kuranakh

The Group has developed a comprehensive multi-step program for the Kuranakh operations upgrade and started its implementation. This follows operational efficiency initiatives to lower production costs in mining, processing and electricity supply areas. The contracted equipment delivery is under way, while preparatory construction and installation works have been launched.

In addition to its ore reserves of 2.6 million ounces at an average grade of 1.4 g/t, the Kuranakh deposit contains a significant amount of low-grade ore with an average grade of 0.7-0.8 g/t. The Group is considering the introduction of heap leaching to process over 50 million tonnes of this low-grade material. The Group is planning to expand the throughput capacity from 3.8 to at least 5.0 million tonnes per annum.

Natalka

At Natalka, the Company's largest greenfield project, the Group completed the review of the mineral resource and ore reserve estimates for the deposit, which now amount to 16.2 million ounces of proven and probable reserves and 36.8 million ounces of measured, indicated and inferred mineral resources.

During 2015, the Group worked on an operational review and optimization of the project, which will be completed in 2016. The Group anticipates commissioning of the Natalka project by the end of 2017.

As a result of optimization, the flotation circuit was excluded from the Natalka flowsheet. Results of the pilot plant program and laboratory testing of the core samples variability (performed by SGS) provided the evidence that Natalka ore is highly responsive to gravity technology treatment. The Company's engineering team and its engineering consultant, Hatch, believe that the project's economic indicators will benefit from processing the ore through the gravitation circuit only versus the gravitation-flotation flowsheet, due to the lower processing costs, while leaving floatation circuit installation as a potential longer-term development option, depending on the results of technological mapping of the deeper horizons of Natalka ore body.

Exploration Projects

The Group is evaluating optimal development options for Chertovo Koryto, Bamskoye, Razdolinskoye and Panimba, with a view to minimise capital spending while reducing construction risks. The Group views these assets as both prospective and attractive.

Total Operational Efficiency Programme (TOE Programme)

In 2014, as part of its focus on operational excellence and cost discipline, the Group launched the TOE Programme to streamline the implementation of capital expenditure-light operational improvements across its business. In 2015, the TOE Programme was rolled out across all of the Group's production units, including auxiliary units. A total of 310 initiatives have been launched since 2014. The TOE Programme delivered a US$94 million positive impact on the Group's earnings in 2015. The Group expects further improvements in 2016 and beyond.

Risk Factors

Investment in the Notes involves a high degree of risk. For a detailed discussion of the risks and other factors to be considered when making an investment with respect to the Notes, see "*Risk Factors*" and "*Forward-Looking Statements*". Prospective investors in the Notes should carefully consider the risks and other information contained in this Prospectus prior to making any investment decision with respect to the Notes. Prospective investors should note that risks described in this Prospectus are not the only risks the Group faces. The Company and the Guarantor have described only the risks they consider to be material. However, there may be additional risks that they currently consider immaterial or of which they are currently unaware.

OVERVIEW OF THE OFFERING

*The following is an overview of the terms of the Securities. This overview is derived from, and should be read in conjunction with, the full text of the Terms and Conditions of the Notes (the "***Conditions***") and the Trust Deed constituting the Notes, which prevail to the extent of any inconsistency with the terms set out in this overview. Capitalised terms used herein and not otherwise defined have the respective meanings given to such terms in the relevant Conditions.*

Notes being offered	US$500,000,000 4.699 per cent guaranteed notes due 2022
Issuer	Polyus Gold International Limited
Guarantor	Joint-Stock Company Gold-Mining Company Polyus

Joint Lead Managers	Bank GPB International S.A., J.P. Morgan Securities plc, Renaissance Securities (Cyprus) Limited, SIB (Cyprus) Limited and VTB Capital plc
Issue price	100 per cent
Maturity date	28 March 2022
Interest	The Notes will bear interest at the rate of 4.699 per cent per annum from and including 26 October 2016.
Interest payment dates	Interest on the Notes will be payable semi-annually in arrears on 28 March and 28 September of each year starting on 28 March 2017 (the "**First Interest Payment Date**"). There will be a short first coupon payable on the First Interest Payment Date.
Ranking of the Notes and the Guarantee	The Notes will constitute direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the Issuer and shall at all times rank pari passu and rateably without any preference among themselves. The Guarantee will constitute direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the Guarantor. Each of the Issuer and the Guarantor shall ensure that at all times the claims of the holders of the Notes against them under the Notes and the Guarantee, respectively, rank in right of payment at least pari passu with the claims of all of their other present and future unsecured and unsubordinated creditors, save those whose claims are preferred by any mandatory operation of law. It is currently expected that PJSC Polyus will become a Guarantor within 180 days from the date of issuance of the Notes. In the event that PJSC Polyus does not become a Guarantor, the Noteholders will have a put right at 101 per cent of the value of the Notes in accordance with the Conditions.
Use of proceeds	The Company intends to use the net proceeds from the issue of the Notes primarily for debt refinancing and other general corporate purposes of the Group, including financing of operating activities and development projects of other members of the Group.
Further issues	The Issuer may from time to time, without the consent of the holders of the Notes, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects save for the first payment of interest thereon) so that such further issue shall be consolidated and form a single series with the outstanding Notes. Any such other securities shall be constituted by a deed supplemental to the Trust Deed and will benefit from a guarantee substantially in the form of the Guarantee. See "*Terms and Conditions of the Notes — Further Issues*".
Additional amounts	Any payments made by the Issuer or any Guarantor in respect of the Notes or any Guarantee will be made without withholding or deduction for taxes imposed or levied by any Relevant Jurisdiction, unless required by law. If withholding or deduction for such taxes is required

	to be made with respect to a payment on the Notes or a Guarantee, subject to certain exceptions, the Issuer or the Guarantor, as the case may be, will pay such additional amounts as may be necessary so that the net amount received by the Noteholders after such withholding or deduction is not less than the amount that they would have received in the absence of such withholding or deduction. See "*Terms and Conditions of the Notes — Taxation*".
Redemption for tax reasons	The Notes may be redeemed early at the option of the Issuer, in whole but not in part, at any time at 100 per cent of the principal amount thereof plus accrued and unpaid interest and additional amounts, if any, to the date fixed for such early redemption if certain changes affecting taxation in any Relevant Jurisdiction would require the Issuer or the Guarantor to pay additional amounts, as described under "*Terms and Conditions of the Notes — Redemption and Purchase — Redemption for Tax Reasons*".
Form and denomination	The Notes will be in registered form, without interest coupons attached, in denominations of US$200,000 or multiples of US$1,000 in excess thereof. The Notes will be issued in the form of the Regulation S Global Note and the Rule 144A Global Note, each in registered form without interest coupons. The Regulation S Global Note will be deposited with The Bank of New York Mellon, London Branch as common depository for, and registered in the name of The Bank of New York Depositary (Nominees) Limited as a nominee of, Euroclear and Clearstream, Luxembourg. The Rule 144A Global Note will be deposited with The Bank of New York Mellon, New York Branch as custodian for, and registered in the name of Cede & Co., as nominee of DTC. Ownership interests in the Regulation S Global Note and the Rule 144A Global Note will be shown on, and transfer thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.
Listing and Trading	Application has been made to the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's regulated market. References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC. It is expected that the Notes may be admitted to trading or listed on other stock exchanges, including the Moscow Exchange.

Events of Default and certain covenants	The terms and conditions of the Notes contain events of default and covenants (including a cross default provision and a negative pledge) as described further in "*Terms and Conditions of the Notes — Events of Default*" and "*Terms and Conditions of the Notes — Covenants*".
Trustee	BNY Mellon Corporate Trustee Services Limited.
Principal Paying Agent and a Transfer Agent	The Bank of New York Mellon, London Branch.
Registrar	The Bank of New York Mellon (Luxembourg) S.A.
Governing law	The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection therewith shall be governed by and construed in accordance with English law.
Risk factors	Prospective purchasers of the Notes should consider carefully all of the information set forth in this Prospectus and, in particular, the information set forth under "*Risk Factors*" below before making an investment in the Notes.
Selling restrictions	The Notes are subject to selling restrictions in the United States, the United Kingdom and the Russian Federation. See "*Subscription and Sale*".
Security Codes	Regulation S ISIN: XS1405766384 Regulation S Common Code: 140576638 Rule 144A ISIN: US73180YAB02 Rule 144A Common Code: 098266640 Rule 144A CUSIP: 73180YAB0
Expected rating of the Notes	"BB-" (outlook positive) Fitch, "Ba1" (outlook negative) Moody's, "BB-" (stable) Standard & Poor's. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Fitch is established in the European Union and is registered under the Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**"). As such, Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation. Standard and Poor's is established in the European Union and is registered under the CRA Regulation. As such, Standard and Poor's is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation.

RISK FACTORS

Investment in the Notes involves a high degree of risk. Prospective investors in the Notes should carefully consider the following information about the risks described below, together with other information contained in this Prospectus prior to making any investment decision with respect to the Notes. The risks highlighted below could have a material adverse effect on the Group's business, results of operations, financial condition or prospects, which, in turn, could have a material adverse effect on the ability of the Company to service its payment obligations under the Notes. In addition, the trading price of the Notes could decline if any of these risks materialise, and Noteholders may lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks the Group faces. The Company has described only the risks it considers to be material. However, there may be additional risks that it currently considers immaterial or of which it is currently unaware, and any of these risks could have the effect set forth above.

RISKS ASSOCIATED WITH THE GROUP'S BUSINESS AND THE GOLD MINING INDUSTRY

The financial results of companies operating in the gold mining industry depend largely on the price of gold, which may be subject to significant volatility

The Group derives substantially all of its revenue from the sale of gold. Accordingly, its financial results largely depend on the price of gold. The gold market is cyclical and sensitive to changes in general economic conditions, and may be subject to significant volatility. As a result, it is not possible to forecast with accuracy the price of gold. The price of gold is influenced by various factors, many of which are outside the control of the Group, including, but not limited to:

- global and regional economic and political conditions;
- global and regional supply and demand and expectations of future supply and demand;
- speculative trading activities in gold;
- actual, expected or rumoured purchase or release of built-up reserves of gold by central banks or other large holders or dealers, as well as purchases under hedging contracts;
- military conflicts and acts of terrorism;
- changes in the use of gold in industrial applications or as an investment, as well as fluctuations in the demand for jewellery;
- local and foreign government regulations and regulatory actions, including export quotas;
- the overall level of forward sales by other gold producers;
- the overall level and cost of production by other gold producers;
- currency exchange rates, particularly movements in the value of the U.S. dollar against other currencies; and
- actual or expected inflation and interest rates.

The global gold price has declined significantly since 2012, and has been subject to volatile movements over short periods of time. In 2014, the gold price was volatile and traded in the range of US$1,142 per ounce to US$1,385 per ounce. In 2015, the average London afternoon gold pricing fixing was US$1,160 per ounce, 8 per cent lower than in 2014, when it averaged US$1,266 per ounce. Gold opened in 2016 at US$1,073 per ounce and was US$1,269 per ounce on 5 October 2016.

In the case of a significant and prolonged reduction in the price of gold, the Group may be required to revise its development plans and budget, and if the price falls below the Group's cost of production, it may determine that it is not economically feasible to continue commercial production at some or all of its operations or the development of all of its current prospects. In such a circumstance, the Group may curtail or suspend some or all of its exploration and production activities or be required to draw down (without replacement) or restate downwards its reserves, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Significant sustained declines in the price of gold may render any of the gold exploration or development activities to be undertaken by the Group less profitable or unprofitable and may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In March 2014, the Group initiated the Strategic Price Protection Programme ("**SPPP**"), comprised of a series of zero cost Asian gold collars and gold forward contracts, aimed at increasing the price certainty of a material proportion of the Group's cash flow in light of gold price volatility (32.5 per cent of total gold sold in 2015 was covered by the SPPP). See note 13 to the 2015 Financial Statements. Although hedging generally reduces the risk of exposure to volatility in the gold price, it also deprives the Group from the benefits of an appreciation in the gold price to the extent of the hedge. Even though the Group has hedging in place, it cannot be guaranteed that the counterparties to the hedging arrangements will not fail to comply with the terms of the hedging arrangements. Any of the foregoing risks, if materialized, may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group's Olimpiada deposit generates a significant portion of the Group's total gold production and a disruption to its operations could adversely affect the Group's business, financial condition or results of operations

In 2015, the Group derived 43 per cent of its total gold production from its operations at the Olimpiada deposit, and the Olimpiada deposit, together with the other production mines which form the Krasnoyarsk business unit, generated a substantial majority of the Group's Adjusted EBITDA and 73 per cent of total gold sales in 2015 (79 per cent of the Group's Adjusted EBITDA and 75 per cent of total gold sales in the first six months of 2016) and 75 per cent of total revenue in 2015 (75 per cent in the first six months of 2016). See "*Business — Principal Operations — Krasnoyarsk region — Olimpiada deposit*" and "*Operating and Financial Review — Summary of performance results by business units for the years ended 31 December 2015, 2014 and 2013 – Krasnoyarsk business unit (Olimpiada, Blagodatnoye and Titimukhta mines)*". In 2010, the Olimpiada mine completed processing of oxide ores. In mid-2014, extensive stripping works commenced at Olimpiada, which are expected to be completed in 2016. However, to the extent that the Group's operations at Olimpiada are subject to a temporary or prolonged disruption, including, among other things, as a result of suspension or termination of mining licences, major equipment failure, failure to receive required supplies in a timely manner or at all, or catastrophic events, such as fires, floods or adverse weather conditions, the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes could be materially adversely affected.

The ongoing armed conflict in Eastern Ukraine and the international reaction to Russia's action in connection with Crimea resulting in the imposition of sanctions could further materially adversely affect the economic environment in Russia, including the business, results of operations and financial condition of the Group, and create significant political and economic uncertainty

The continuing significant civil and political crisis in Ukraine and the armed conflict in Eastern Ukraine have affected Russia's relations with the EU, the United States and certain other countries (including Canada, Australia, Japan and Norway). In March 2014, a referendum on the status of Crimea was held which resulted in a majority of votes in favour of seceding from Ukraine and joining the Russian Federation as a federal constituent entity. On 18 March 2014, Russia and Crimea signed an agreement on the accession of the Republic of Crimea to the Russian Federation. On 21 March 2014, the Russian parliament passed legislation extending the effect of Russian laws and operation of governmental authorities to the territory of Crimea.

The events in Ukraine and Crimea and the resulting change in its legal status brought about a negative reaction from the EU, the United States and a number of other countries. Several countries imposed various sanctions against Russia and refused to recognise the referendum in Crimea as legal. The United States and the EU have imposed sanctions on a number of Russian officials and individuals, former Ukrainian officials, and several Russian companies, banks and businessmen, with the consequences that entities and individuals in the U.S. and the EU cannot do business with them or provide funds or economic resources to them, with assets in the relevant sanctioning jurisdictions subject to seizure and the individuals to visa bans. In addition, the U.S. and the EU have applied "sectoral" sanctions, whose principal consequences are that several leading Russian banks have been restricted from accessing Western capital. Similar sanctions have been imposed on companies in the oil and gas sector and on defence companies. The U.S. executive order implementing sectoral sanctions also permits sanctions to be applied against companies in the metals and mining sectors. The current sanctions regime is a result of multiple extensions by the U.S. and the EU in the term and scope of sanctions, the most recent of which were taken in September 2016. As a countermeasure to the Western sanctions, Russia imposed its own sanctions.

The reaction of Western countries to the events in Eastern Ukraine and Crimea, in particular the economic sanctions described above, has adversely affected the Russian economy and Russia's financial markets, increased the cost of capital and capital outflows and worsened the investment climate in Russia. During the course of 2014, the international rating agencies, including S&P and Moody's, downgraded their foreign currency sovereign debt rating for the Russian Federation to 'BBB-' and 'Baa2', respectively, with negative outlook. On 26 January 2015, S&P cut its long-term foreign currency sovereign bond rating for the Russian Federation to 'BB+' with negative outlook, and on 20 February 2015, Moody's cut its sovereign debt rating for the Russian Federation to Ba1 with negative outlook; each of these ratings is below 'investment grade'.

As the Group's main production assets are located in the Russian Federation, if the sanctions were to be expanded to the metals and mining sector, such expansion could cause difficulties in the implementation of investment projects in terms of supplies of imported equipment and raising funds on EU and U.S. markets. Potential risks include a default on warranty and post-warranty maintenance of equipment contracts and an inability to execute new contracts for the supply of equipment, machines, components and spare parts manufactured in Western countries. In addition, U.S. and EU sanctions could apply to U.S. and EU employees or directors of the Group and its subsidiaries, meaning such individuals could not approve or in any other way participate in operations with the banned organisations or enter into transactions to which sanctions apply. The sanctions, if expanded to the metals and mining sector, could also adversely impact the Group's exports into the U.S. and the EU in the future.

The impact of any escalation in tensions between Ukraine and Russia would likely cause substantial economic disruption. This, in turn, could result in a general lack of confidence among international investors in the region's economic and political stability and in Russian investments generally. Such a lack of confidence could result in reduced liquidity, trading volatility and significant declines in the price of listed securities of companies with significant operations in Russia, and in the Group's inability to raise debt or equity capital in the international capital markets, which may materially adversely affect its business, financial condition, results of operations and prospects. The conflict in Ukraine is ongoing and could continue or escalate. Significant hostilities between Ukraine and Russia, if such were to occur, would likely cause substantial economic disruption to both countries. There would also likely be calls from the West for a comprehensive sanctions regime that would seek to isolate Russia from the world economy. If no resolution of the current level of ongoing civil insurrection in eastern Ukraine is forthcoming and Russia is continued to be perceived as acting inimically, there may well be further strengthening and broadening of sanctions against Russian persons. Various prominent Western politicians have already called for strengthening sanctions. For example, there have been proposals to cut off Russia from the international SWIFT payment system, which would disrupt ordinary banking services in Russia and any cross-border trade. Although none of the Company or its shareholders or subsidiaries is currently subject to any U.S. or EU sanctions, more expansive sanctions targeting metals and mining companies or a broader segment of the Russian economy could interfere with the Group's operations, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Global economic developments could have a significant adverse impact on the Group's total revenue and results of operations

The global economic downturn which occurred from 2008 to 2010 had an extensive adverse impact on the global commodities markets. While many economies have subsequently experienced some recovery from the economic crisis, growth in many markets remains slow, and many markets which previously had seen very high growth have exhibited slower growth in recent years. For instance, China has recently seen a substantial decline in its rate of growth, as well as significant devaluations of its currency and volatility on Chinese stock exchanges, which may be signs of further difficulties for the Chinese economy.

The region comprising the member states of the European Union that have adopted the euro (the "**Eurozone**") has been affected by the general slow growth in the economies of its Member States, following the global economic crisis, as well as the continued financial crisis in Greece and negotiations over its inability to repay its substantial debt. On 30 June 2015, Greece became the first developed country to miss its loan payment to the International Monetary Fund. Although the payment was finally made during a grace period, Greece remains in a difficult position and may not be able to meet its further loan repayments without further bailouts from the European Central Bank.

Financial markets and the supply of credit are likely to continue to be impacted by concerns surrounding the sovereign debts of Greece and potentially other EU countries, the prospective exit of the UK from the European Union, the possibility of further credit rating downgrades of, or defaults on, such sovereign debt, concerns about a slowdown in growth in certain economies and uncertainties regarding the stability and overall standing of the European Monetary Union. Governments and regulators have implemented austerity programmes and other remedial measures to respond to the Eurozone debt crisis and stabilise the financial system but the actual impact of such programmes and measures are difficult to predict.

If the Eurozone debt crisis is not resolved, it may be the case that one or more countries may default on their debt. If such an event were to occur, it could result in unpredictable market volatility as customers in the region could potentially reduce purchases from the Group, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes. In addition, the departure of one or more countries from the European Monetary Union may result in the imposition of, among other things, exchange controls and mandatory payment laws.

The exact nature of the risks that the Group faces is difficult to predict and guard against in light of the difficulties in predicting the outcomes of the remedial measures being undertaken in Europe, the extent to which the Eurozone debt crisis, in a slowdown in growth or recession in Europe and elsewhere, will impact on the global economy and the fact that the risks are outside of the Group's control. To the extent that the economic conditions in the European Union worsen, the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes could be materially adversely affected.

The Group requires significant capital expenditures to fund the projects contemplated by its current development pipeline, which might be subject to inflationary pressures and which may require external financing that may not be provided

Management's current development pipeline contemplates significant investments in 2016–2018, including capital expenditures required in connection with the ongoing construction projects at Natalka in connection with the planned commissioning of Natalka in 2017. See "*Business — Development Projects — Natalka*". The Group's capital expenditures might be subject to inflationary price pressures resulting from price increases, as well as price increases caused by an undersupply of critical equipment for mining and processing.

As the Group's strategy involves both acquisitions and the development of existing assets, further exploration and development may be dependent upon the Group's ability to obtain financing through the raising of equity or debt financing or other means. The Group's ability to secure debt or equity financing in amounts sufficient to meet the financial needs of the Group could be adversely affected by many factors beyond the Group's control, including, but not limited to, economic conditions, the level of liquidity in the Russian and international banking sectors and the impact of the U.S. and EU sanctions resulting from the Ukrainian crisis. There can be no assurance that additional funding required by the Group for its current development projects or any that might be undertaken in the future will be made available to it and, if such funding is available, that it will be offered on reasonable terms. If the Group is unable to obtain additional financing as needed, it may be required to delay or reduce the scope of its operations or anticipated capital investments, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group currently executes a number of significant projects related to the internal growth program, which could be disrupted by failure of third party contractors to perform their obligations

Management's current development pipeline contemplates the execution of a number of significant projects as part of the internal growth program. The Group relies on various third party contractors to execute the projects on time, on budget and as otherwise planned. Failure by third party contractors to meet schedules, budgets and/or specifications for the execution of the projects could adversely affect the introduction of both new production capacity and existing production plans, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group's principal operations are located in remote areas with harsh climates, which requires limiting production operations in the Irkutsk region to specific times of year, and the delivery of supplies to the areas where it operates may be disrupted or transportation costs may increase

The Group's principal operations are located in remote areas, some of which have harsh climates, resulting in technical and logistical challenges for conducting both geological exploration and mining. While the Group benefits from the modern mining transportation skills and technologies, which it has developed for operating in areas with harsh climates, it may sometimes be unable to overcome problems related to weather and climate at a commercially reasonable cost, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The remote location of the Group's principal operations also results in increased costs and transportation difficulties. The delivery of supplies to areas where the Group operates may be disrupted or transportation costs may increase. During winter, the minimum air temperature at the largest production sites (Olimpiada and Blagodatnoye) in Krasnoyarsk region can fall to as low as -61°C and the annual average is -5°C. The main terminal at Lesosibirsk, which is designed to handle, ship, store and deliver all supplies to sites, is connected by a 320 km road with a ferry crossing over the Yenisei River, or, in winter months, an ice crossing of the frozen river. The route is impassable for between two and three months each year. The mud season periods also significantly challenge the timely procurement of materials and technical resources for capital construction projects. An increase in costs of, or interruptions in, transportation could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group's ability to conduct operations and to continue developing mines depends on the reliability of third parties

The Group's operations use infrastructure provided by third parties, such as loading terminals and airfields, for transportation. The delivery of supplies may be disrupted or transportation costs may increase. Failure by suppliers to meet schedules for the production and delivery of necessary supplies could affect the Group's ability to conduct operations and to continue developing mines. The inability to obtain consumables, materials and equipment in a timely manner could adversely affect the introduction of both new production capacity and existing production plans, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Success in the gold mining industry depends on maintaining a highly qualified, skilled workforce, including qualified geologists and other mining specialists

The ability of the Group to maintain a competitive position and to implement its business strategy depends to a large degree on the services of senior management. The business and results of operations of the Group also depends, to a large extent, on its ability to attract, retain and motivate qualified personnel, particularly qualified geologists and mining specialists. Competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals, particularly skilled managers, accounting personnel and information technology personnel. Furthermore, only a limited number of skilled geologists and other mining specialists with adequate qualifications and experience are available in Russia and there is an increasing demand for such qualified personnel as more international companies invest in the Russian mining industries, as well as the oil and gas industries, which often compete for the same personnel. This competition for attracting and retaining qualified personnel is the main factor behind the recent increase in labor costs in the gold mining industry. The Group has experienced difficulties in the past in recruiting and retaining a sufficient number of qualified engineers and technicians for some of its facilities and there can be no certainty that the services of current key personnel will continue to be available to the Group. To the extent that labor costs were to keep increasing in the gold mining industry, this could result in a reduction in the Group's profit margins, while failure to retain an adequate number of qualified geologists or other mining specialists may hinder the development of the Group's gold assets and have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Gold exploration and the development of mines involves a high degree of risk and uncertainty

To maintain future gold production beyond the life of the current reserves or to increase production materially through mining new deposits, the Group will need to extend its mineral base through geological exploration. Gold exploration may require substantial expenditure and involves a high degree of risk, and exploration projects are frequently unsuccessful. Once gold deposits are discovered, it can take several years to determine whether gold reserves exist and few prospects that are explored are developed into productive mines. The long-term success of the Group's operations will be related to the cost and success of its exploration programmes. The risks associated with gold exploration include the identification of potential gold mineralisation based on analysis of geological data, the technological challenges of exploration and development, the receipt of necessary governmental permits and licences and the construction of mining and processing facilities at any site chosen for mining. A decline in the market price of gold may render ore reserves containing relatively lower grades of gold mineralisation uneconomic. No assurance can be given that any exploration programme undertaken by the Group will result in the discovery of new resources or in any new commercial mining operation.

Substantial expenditure may be required to establish ore reserves through drilling and to determine technological processes to extract metals from ore. If reserves are developed, it can take a number of years from the initial phases of drilling and identification of mineralisation until production is possible. During this period, the assumptions on which the Group has based its assessments of the economic feasibility of the mine, including in relation to future gold prices, anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed, anticipated recovery rates of gold from the ore, anticipated capital expenditures and cash operating costs, may require significant adjustment. The Group's initial access to information when forming such assumptions and making such assessments may also be limited.

Actual cash operating costs, production levels and economic returns may differ significantly from those anticipated by studies and estimates. There are a number of uncertainties inherent in the development and construction of a new mine or an extension to an existing mine. These uncertainties include, in addition to those discussed above, the timing and cost (which can be considerable) of the construction of mining and processing facilities; the availability and cost of skilled labor, power, water, consumables (such as cyanide, lubricants and fuel) and transportation facilities; the availability and cost of appropriate smelting and refining arrangements; the need to obtain necessary environmental and other governmental permits and the timing of those permits; and the availability of funds to finance construction and development activities in the longer term.

Consequently, no assurance can be given that the current and future exploration programmes undertaken by the Group will result in the discovery of deposits, the expansion of existing reserves or the development of mines. This may result in a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The volume and grade of the ore the Group extracts may not conform to current expectations

Like any mining company, the financial condition of the Group will depend on its reserves and resources. Ore reserves and mineral resources estimates of mining companies are inherently imprecise and depend to some extent on statistical inferences drawn from limited drilling and other testing, which may ultimately prove unreliable. Ore reserves and mineral resources estimates and classifications are also affected by economic factors, such as significant changes in metal prices.

Audits of the Group's reserves and resources in accordance with JORC were conducted from 2006 to 2015. Ore reserve and mineral resources estimates are expressions of professional judgement, based on knowledge, experience and industry practice, but are subject to considerable uncertainties. As a result, the Group cannot be certain that its estimated reserves and resources are completely accurate. Moreover, future volumes of mining, which may not occur for many years, and rates of recovery of metals could differ materially from such estimates. Should the Group discover, in the course of mining its deposits, that those deposits differ from those predicted by drilling, sampling and similar examinations, it may have to adjust its reserve and resource estimates and alter its mining plans in a way that might adversely affect the results of operations. The estimated resources described in this Prospectus should not be interpreted as a statement of the commercial viability, potential or profitability of any future operations. Although most of the Group's reserves and resources have been audited under JORC, further exploration or evaluation may significantly alter their value. Moreover, some of the Group's reserves and resources have not been audited under JORC or any other internationally recognised classification scheme and have been subject only to internal evaluation.

If estimates of the Group's mineral resources based on the results of exploration activities prove to be inaccurate or lower than forecast, the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes could be materially adversely affected. Alternatively, if the Group's ore and mineral reserves exceed current forecasts, it is not certain that it will be able to develop the production capacity to exploit those reserves commercially, the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes could be materially adversely affected.

For instance, the Natalka mineral resource and ore reserve estimates previously were based on the 2011 resource block model reviewed by Micon International and documented in its mineral expert report of February 2012 prepared in accordance with JORC Code (2004 requirements). When the Company hired Micromine Consulting Services and AMC Consultants Pty Ltd in 2013 to update the resource block model and the mineral resource and ore reserve estimates, they found that in the 2011 resource model, the channel sampling information, comprising approximately 60 per cent of the resource database, was derived from historical Soviet-era underground samples dating as far back as 1945, which had significant location errors, caused by coordinate conversions, and poor quality control support, which resulted in a systematic positive bias on the order of 40 per cent to 60 per cent. Following a review of mineral resource and ore reserve estimates for the Natalka deposit in 2014 and re-assessment of the deposit's reserves in the second half of 2014, the deposit's development was put on hold pending a detailed operational review. Following completion of a detailed operational review in August 2015, a project plan for the development of Natalka was prepared and approved by the Federal Agency for Subsoil Use. No assurance, however, can be given that the review has eliminated inaccuracies, or that the project plan for the development of Natalka will meet expectations. This may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary contracts, licences and permits, including subsoil licences, or fails to comply with the terms of its contracts, licences and permits

The Group's exploration, mining and processing activities are dependent upon the grant, renewal and continued enforceability of appropriate contracts, licences, permits and regulatory approvals and consents, which may be valid only for a defined period of time, may be subject to limitations and may provide for withdrawal in certain circumstances. In particular, companies seeking to explore or mine mineral deposits in Russia must obtain a subsoil licence issued by the Federal Agency for Subsoil Use for an identified mineral deposit. Subsoil rights are not granted in perpetuity in Russia, and any renewal of the relevant licence must be granted before expiry of the relevant current term.

The legal and regulatory basis for the licensing requirements in Russia is often unclear and subject to frequent change, which increases the risk that the Group may be found to be non-compliant, and the regulatory authorities in Russia exercise considerable discretion in the timing of licence issuances and renewals. In addition, it is possible that licences applied for or issued in reliance on acts and instructions relating to subsoil rights issued by the relevant regulatory agencies in Russia could be challenged by governmental prosecutorial authorities or otherwise challenged as being invalid if such acts or instructions were found to be beyond the authority of that ministry or agency or if the licences were issued in breach of the required procedures. Deficiencies of this nature may subject subsoil licencees and contracts to selective governmental claims. Any alleged non-compliance by the Group with licensing regulations or the terms of any of its licences could lead to suspension or termination of the licences and permits and to administrative, civil and criminal liability.

Compliance

Regulatory authorities in Russia exercise considerable discretion in the monitoring of a licencee's compliance with the terms of a licence. Conditions imposed by those authorities may include requirements to comply with numerous industrial standards, recruit qualified personnel and subcontractors, maintain necessary equipment and quality control systems, monitor the operations of the Group's licence-holders, maintain appropriate filings and, upon request, submit appropriate information to the licensing authorities. As a result, compliance with such conditions may be costly and time-consuming, and delays in the commencement or continuation of exploration or mining operations may occur as a result of delays to fulfil a licence-holder's obligations. The Group's current subsoil use contracts impose, on an annual basis, various social, financial, tax, insurance and other obligations and require the application of a specified period of time between the termination of exploration activities and the commencement of mining operations at the relevant site (for purposes of commercial discovery evaluation). The authorities have the power to impose fines for administrative violations of the terms and conditions of subsoil use contracts and licences and can require that those violations be remedied. In such circumstances, any failure to implement the required remedial measures under two or more notifications from the competent authority within the period prescribed in such notification could result in the termination of the relevant subsoil use contract, as well as the imposition of administrative and civil liabilities on the licence-holder or subsoil user. In 2015, for example, the Group was not fully in compliance with certain terms of its licence for the Chertovo Koryto deposit, namely the requirement to commence the construction of the infrastructure for the mine within the prescribed deadlines. There can be no assurance that all licence-holders within the Group will comply or continue to comply with their respective licence or contractual obligations.

Specific requirements of the Russian Federation

The Group currently holds licences for the use of subsoil plots which are considered subsoil plots of federal importance and may in the future acquire further licences, which may relate to subsoil plots of federal importance or under which the Group may discover such subsoil plots. As a result of the composition of the Group's shareholders, some of the Russian subsidiaries of the Group are currently designated under Russian law as companies with foreign participation. The Law of the Russian Federation 2395-1, dated 21 February 1992, "On the Subsoil", as amended (the "**Russian Subsoil Law**"), provides that, if in the course of geological research at a subsoil plot, a Russian legal entity with foreign participation discovers a deposit which meets the criteria for a subsoil plot of federal importance and, as a result, the national security of the Russian Federation may be threatened, the licensing authorities have the right to revoke the relevant subsoil licence or refuse to grant an exploration and production subsoil licence. The licence for the Bamskoye gold ore site, for example, has been temporarily suspended in the past because the deposit was recognised as a subsoil plot of federal importance, and the Group stopped all exploration works at the deposit pending receipt of permission of the Russian Government to continue works in accordance with Article 2.1 of the Russian Subsoil Law. An application to carry out exploration and mining works at the Bamskoye deposit was filed with the state authorities in the first quarter of 2013 and the Group received approval to carry out exploratory and mining works at the Bamskoye gold ore site in August 2014.

Companies which extract precious metals are required to offer refined precious metals on a priority basis to the relevant governmental authorities, which may use their pre-emptive rights if certain conditions are met. Refined precious metals, which have not been sold to governmental authorities under this priority system, may be sold in the domestic market, used in internal production or exported. In addition, gold producers are required to obtain a licence from the Russian Ministry of Industry and Trade in order to export gold. For non-banking institutions, the Russian Ministry of Industry and Trade only issues such licences with respect to each particular export contract for a term of no longer than one year. In 2015, substantially all of the Group's gold sales were made to banks in Russian roubles (linked to the official exchange rate of the U.S. dollar to the rouble at the date of transaction and at a gold price with a reference to London Metal Exchange Quotations) with immediate payment terms. Depending on market conditions, however, the Group may decide to export its products in the future, for which it would be required to obtain such a licence in advance.

As a result of the foregoing uncertainties, there can be no assurance that the contracts, licences, permits and regulatory approvals and consents that the Group requires to conduct its operations will be granted, renewed or continue in force, or, if so, on what terms. The withdrawal of licences, termination of subsoil use contracts or failure to secure requisite licences or subsoil use contracts in respect of any of the Group's operations may, therefore, have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group is subject to mining risks

The Group's operations, like those of other mining companies, are subject to all of the hazards and risks normally associated with the exploration, development and production of natural resources, any of which could result in production shortfalls or damage to persons, property or the environment. The Group engages in open-pit mining. Hazards associated with open-pit mining operations include flooding, collapses of the open-pit wall or shelf, accidents associated with the operation of mining transportation equipment, accidents associated with the preparation and ignition of large-scale open-pit blasting operations, production disruptions due to weather and hazards associated with the disposal of mineralised waste water, such as groundwater and waterway contamination. On 23 May 2016, for example, the Group experienced a landslide at the Vostochny pit of its Olimpiada deposit, resulting in the supplies from the Vostochny pit being temporarily suspended. The output of the Group's mines may also be adversely affected by the low winter temperatures in the regions where the Group's principal mines are located and by unforeseen geological conditions, as well as emergency breakdowns in mining equipment, such as those that the Group experienced at Verninskoye in 2012, where production was affected by the breakdown of the primary crusher.

The Group may experience any of these hazards. The occurrence of any of these or similar hazards could delay production, increase production costs, damage the Group's reputation or result in injury or death to persons and damage to property, as well as associated liability for the Group, and may result in actual production differing potentially materially from estimates of production. While the Group purchased property damage, machinery breakdown and business interruption insurance (including pollution clean-up, strikes, civil commotions, construction, and damage or collapse of tailings dam) covering the main production units of the Group (JSC Polyus, JSC Pervenets, and JSC Aldanzoloto GRK) with one-year coverage starting from 1 September 2016, the Group may incur costs that are not covered under this insurance, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Equipment failures or production curtailments or shutdowns could adversely affect the Group's sales and profitability

Interruptions in production capacities will inevitably increase production costs and reduce sales and earnings. In addition to equipment failures, the Group's facilities are also subject to the risk of catastrophic loss or production curtailments due to unanticipated events, such as fires, explosions or adverse weather conditions. The Group may experience material plant shutdowns or periods of reduced production as a result of any equipment failures. Furthermore, a longer-term business disruption could result in a loss of customers. If this were to occur, future sales and the Group's profitability could be adversely affected. While the Group has in place property damage insurance covering operational equipment for full replacement value, machinery breakdown and business interruption risks, the Group may incur costs that are not covered under this insurance, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group is subject to extensive environmental, health and safety controls and regulations, and any breach of these regulations could result in fines or the suspension of operations, which could have a material adverse effect on its reputation, operating results and financial condition

The Group is subject to extensive environmental controls and regulations in Russia. Its operations involve the use of environmentally hazardous materials, such as cyanides, as well as processes that could lead to the discharge of materials and contaminants into the environment, disturbance of land, potential harm to flora and fauna and other environmental concerns. In addition, environmental hazards may exist on the Group's properties, or may be encountered when its products are in transit. Environmental laws and regulations are continually changing and are generally becoming more restrictive. New laws and regulations, the imposition of more stringent requirements in licences, increasingly strict enforcement or new interpretations of existing environmental laws, regulations or licences, or the discovery of previously unknown contamination, may require further expenditures to modify operations, install pollution control equipment or perform site clean-ups; the curtailment of operations; or the payment of fees, fines and other penalties. The terms of the Group's subsoil licences contain extensive site clean-up, restoration and rehabilitation obligations due in the future that are mandatory for the Group, and the Group is required to have a closure plan for each mine and to allocate a budget for site rehabilitation in the event of a mine closure. The Group could also be liable for losses associated with environmental hazards and rehabilitation. The Group's operations are associated with the emission of "greenhouse gases". Ongoing international negotiations, which aim to limit greenhouse gas emissions, may result in the introduction of new regulations, which may have an adverse impact on Group's operations.

In addition, the licences and subsoil use contracts under which the Group operates include conditions regarding environmental compliance. For example, each operating mine of the Group is required to obtain a mandatory environmental permit in order to conduct atmospheric emissions, discharge waste water and dispose of waste. Failure to obtain such a permit could lead to administrative penalties, civil sanctions and, in certain circumstances, may result in the issuance of a court order prohibiting and suspending those operations of the relevant mine causing atmospheric emissions, waste water discharge or waste disposal, although the Company believes that such a severe sanction is unlikely to occur. The introduction of more stringent environmental laws and regulations could lead to the need for new or additional rehabilitation and decommissioning reserves or to an increase in the Group's environmental liabilities, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes. See "*Regulatory Matters — Environmental Law*".

Actual and potential supply chain shortages and increases in the prices of production inputs may have an adverse effect on the Group's operations and profits

The Group's results of operations may be affected by the availability and pricing of raw materials and other essential production inputs, including fuel, grind balls, and cyanide and other reagents. A sustained interruption in the supply of any of these materials would require the Group to find acceptable substitute suppliers and, in relation to cyanide, the Group believes that the alternatives to its two current suppliers are limited. Most of the Group's fuel is supplied by one supplier and any sustained interruption in the supply of fuel would require the Group to replace such supplier with a substitute supplier within a short time frame. The Group is also reliant on one shipping contractor for the transportation of coal supplies since there are currently no feasible alternatives. To the extent that the Group is unable to obtain alternative sources in the event of a prolonged disruption to its usual supply network, the Group may be forced to reduce its operating levels. Furthermore, even if the Group were able to obtain supplies of production inputs from alternative sources, it may incur substantially higher costs, particularly in relation to purchases of grind balls. More generally, the price of raw materials may be substantially affected by changes in global supply and demand, along with weather conditions, governmental controls and other factors. Any significant increase in the prices of these materials will increase the Group's operating costs and affect production considerations, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The cost and supply of electricity, particularly self-generated electricity, can be unstable. An increase in power costs will make production more costly and alternative power sources may not be available

Power is one of the Group's largest operating expenses. Some of the Group's mines currently purchase power from state-controlled regional energy agencies, which charge consumers a rate based on tariffs that are modified from time to time. The Russian Government initiated the deregulation of electricity prices for industrial consumers in 2011, which has resulted in higher prices for the Group's electricity needs.

There is a deficit of power grid facilities in the Krasnoyarsk Region (Olimpiada and Blagodatnoye deposits). As a result, the Group is required to use more expensive captive generations, reducing the security of the energy supply for existing operations. The implementation of new power line construction projects may be threatened by a poor road infrastructure and harsh climatic conditions. The deficit of generating and power grid facilities, along with delays in the construction of new power grids, may result in a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Some of the Group's mines generate their own power through coal, diesel or hydro-generation facilities located at the mines. These mines purchase diesel or transport coal by barges, and any increase in the costs of these supplies, or any interruption in any of these supplies, could result in higher overall fuel costs. These mines use a combination of self-generated and purchased power when tariffs for purchased power are lower than the cost of self-generated power. However, if power costs increase, revenue and production capacity of the Group could be negatively affected, which may result in a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In addition, some of the Group's subsidiaries in the Irkutsk region that provide connections to the power grid to the other Group companies are subject to governmental regulation, which may affect their operations. For instance, in 2014, one of the Group's companies was found to have violated regulations that require it to provide connections to the power grid within the prescribed deadline on an equal basis for Group companies and other end users, and was ordered to provide power supply to other end users on the same basis as it provides supply for the applicable Group company. Since the Company is now providing power supply to other end users, some of the Group's operations could become more expensive or made more costly, which could result in a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Wage increases in Russia may reduce the Group's profit margins

Wage costs in Russia have historically been significantly lower than wage costs in the more economically developed countries of North America and Europe for similarly skilled employees. However, to the extent that wage costs keep increasing in Russia, this could result in a reduction in the Group's profit margins. To the extent that the Group is unable to continue to increase the efficiency and productivity of its employees, wage increases could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group's operations depend to a significant extent on external contractors, including with respect to maintenance services, which exposes the Group to certain risks

The Group's operations are dependent to a significant extent on the efforts and abilities of outside contractors, experts and other advisers, including with respect to maintenance services. As a result, the Group's operations at those sites at which such contractors are present are subject to a number of risks, some of which are outside the Group's control, including:

- negotiating agreements with contractors on terms acceptable to the relevant Group company;
- the inability to replace a contractor and its operating equipment in the event that either party terminates the agreement;
- reduced control over those aspects of operations which are the responsibility of the contractor;
- failure of a contractor to perform under its agreement with the Group;
- interruption of operations or increased costs in the event that a contractor ceases its business due to insolvency or other unforeseen events; and
- failure of a contractor to comply with applicable legal and regulatory requirements, to the extent it is responsible for such compliance.

The occurrence of any one of, or a combination of any of, the risks mentioned above could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group operates in a highly competitive industry and may not be able to compete successfully for licences, exploratory prospects and producing properties

The gold market is highly competitive and the Group faces competition from other competitors in all areas of its operations, including the acquisition of mineral licences, exploratory prospects and producing properties. The Group's competitors include international gold producers, some of which are larger, have greater resources for raising capital, have more technologically advanced production facilities and, in some cases, have lower operating costs than it does. The Group cannot guarantee that it will be able to compete successfully in the future. The intensity of competition, combined with the cyclicality and unpredictability of gold markets, results in significant variations in economic performance, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group's acquisition strategy may not be successful

As part of its development strategy, the Group monitors potential investment opportunities in the gold mining industry, both in Russia and overseas. The Group faces significant competition for potential acquisitions of gold assets as the Company believes that some international mining companies, which have greater resources than the Group, have begun to seek investment targets in the Russian gold mining industry. The participation of such companies in an auction or sale of Russian gold deposits and assets could adversely affect the Group's ability to acquire additional gold mining operations in Russia because of, for example, the resulting increased prices for such acquisitions.

When making acquisitions, it may not be possible for the Group to conduct a detailed investigation of the nature or title of the assets being acquired, for example, due to time constraints in making the decision. The Group may also become responsible for additional liabilities or obligations not foreseen at the time of an acquisition. As a result, unforeseen expenditures may arise which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group is subject to foreign currency exchange rate risks

The Group's income is subject to exchange rate fluctuations. The Group's revenue from gold sales is linked to U.S. dollars, whereas most of the Group's operating expenses are denominated in Russian roubles. Accordingly, an appreciation of the Russian rouble against the U.S. dollar may negatively affect the Group's margins by increasing the U.S. dollar value of its rouble-denominated costs. Conversely, an appreciation of the U.S. dollar may positively affect the Group's margins by decreasing the U.S. dollar value of its Russian rouble-denominated costs. As a result of currency hedging transactions entered into primarily in the first half of 2014, the Group did not fully benefit from the rouble devaluation at the cash flow level. The negative effect from the collars in 2014 amounted to US$594 million and the Group's cross-currency swaps resulted in a loss of US$403 million.

Since 2016, the Group is fully unhedged with regard to the rouble in terms of free cash flow and EBITDA. Cross-currency swaps effectively hedge the Company's debt in U.S. dollars and will expire in 2019 and 2021, matching corresponding debt maturities. However, to the extent any of its cash flows are unhedged, an appreciation of the Russian rouble against the U.S. dollar may negatively affect the Group's margins and its results of operations.

In addition, at present, as a result of the Group's hedging arrangements, almost all of the Group's indebtedness is either denominated in or linked to U.S. dollars. However, as all of the Group's revenue is linked to U.S. dollars, to the extent the Group has any rouble-denominated or linked debt, particularly if the existing hedging arrangements were to expire or be terminated or if the Group incurs any additional rouble-denominated or linked indebtedness, an appreciation of the rouble against the U.S. dollar may adversely affect the Group's margins by increasing such debt obligations in U.S. dollars terms.

The Group is leveraged, and a substantial amount of its borrowings are subject to covenants which could be breached

The total interest-bearing loans and borrowings of the Group's companies, including the Issuer and the Guarantor (excluding intercompany indebtedness and including applicable accrued interest), as at 30 June 2016 and 31 December 2015, 2014 and 2013 were US$4,847 million, US$2,185 million, US$1,813 million and US$1,206 million, respectively. Furthermore, as at 30 June 2016, the Group's net debt to Adjusted EBITDA ratio was 2.32x, and as at 30 September 2016, the Group's estimated net debt was US$2,941 million. Although the Group has been seeking to deleverage, it will remain subject to fluctuations in EBITDA as a result of the changes in market conditions and other factors, all of which could have a material adverse effect on the Group's ability to service its debt obligations or raise new debt financing (if required) or refinance existing indebtedness on commercially acceptable terms or at all.

Furthermore, the Group's borrowings include various financial covenants, including covenants requiring the Group to maintain certain net debt to EBITDA and interest cover ratios. A breach of such ratios or other covenants could cause a cross-default under the terms of the Group's other financing arrangements, causing all the debt under those other financing arrangements, including the Notes, to become due. No assurance can be given that if the indebtedness under the Notes were to be accelerated, the assets of the Group would be sufficient to generate the funds necessary to satisfy its obligations under the Notes.

In addition, the Group's debt instruments contain certain restrictions limiting its flexibility in operating its business, potentially placing the Group at a disadvantage compared to its less leveraged and/or so restricted competitors and constraining its ability to take advantage of strategic or other opportunities if any arise. Such restrictions, among other things, limit the Group's ability to create liens, borrow money, sell or otherwise dispose of assets, engage in mergers or consolidation and transfer assets. While the Group believes it is currently in compliance with its debt obligations, the Group's debt service and compliance obligations under these and future financings and the associated risks of breaching these obligations, as well as any difficulties in obtaining financing in the future, could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group may not be able to renew its arrangements with trade unions on favourable terms, and its operations could be adversely affected by strikes and walkouts

As at 30 June 2016, approximately 37 per cent of the Group's employees at its Russian operations were represented by trade unions. The Group has not experienced any business interruption as a result of labor disputes at any of its businesses in Russia in the past. Although the Group considers its relations with its employees in Russia to be good, large union representation subjects the Group's businesses to the risk of interruptions through strikes, lockouts or delays in renegotiating collective agreements, whose terms are typically three years. The collective agreements for the Group's Krasnoyarsk and Yakutia (Kuranakh) business units will expire on 31 December 2016. If the Group is unable to renew its existing arrangements with trade unions on favourable terms or at all, the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes could be materially adversely affected.

The Group is responsible for maintaining part of the social and physical infrastructure in some of the regions in which it operates

The Group is currently responsible for establishing and maintaining some of the social and physical infrastructure in the regions of Russia in which it operates. These regions are economically dependent on the Group's respective business operations to a significant degree, which requires a substantial commitment of resources. In addition, the Group may become liable to meet the costs of resettlement of persons living in proximity to its facilities if, as a result of changes in applicable law, such facilities no longer meet minimum standards required for industrial facilities which are located close to residential facilities. Any significant increase in such social contributions, voluntary or otherwise, could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group's level or scope of insurance coverage may not be adequate and the Group may become subject to liability for risks that cannot be insured against or against which it may elect not to be so insured

The insurance industry is not well developed in Russia, and many forms of insurance protection common in more economically developed countries are not available in Russia on comparable terms.

While the Group purchased property damage, machinery breakdown and business interruption insurance (including pollution clean-up, strikes, civil commotions, construction, and damage or collapse of tailings dam) covering the main production units of the Group (JSC Polyus, JSC Pervenets, and JSC Aldanzoloto GRK) with one-year coverage starting from 1 September 2016, losses from uninsured risks may cause the Group to incur costs that could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group's cash reserves are held predominantly at Russian state-owned banks and bankruptcy or financial soundness concerns regarding any of such banks could result in a forfeiture of the Group's cash reserves

Most of the Group's cash reserves are kept at leading Russian state-owned banks, with a significant part of those cash reserves being held at Sberbank of Russia. Bankruptcy, revocation of banking licence, failure to meet financial soundness requirements, the impact of the U.S. and EU sanctions resulting from the Ukrainian crisis or the impact of other material adverse developments on any of such banks could lead to forfeiture of, or delays in accessing, the Group's cash reserves or withdrawal/transactional limits or restrictions being imposed on the Group's accounts, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Inflation may materially adversely affect the Group's results of operations

The activities of the Group are located primarily in Russia, and the majority of its costs are incurred in Russia and in roubles. Russia has experienced high levels of inflation since the early 1990s. Inflation, along with government measures to combat inflation and public speculation about possible future government measures, has significant negative costs, contributing to economic uncertainty. The Russian Consumer Price Index, calculated by the Russian Federal State Statistics Service, increased to 12.9 per cent in 2015 compared to 11.4 per cent in 2014 and 6.5 per cent in 2013, and was 7.5 per cent for the first six months of 2016. Russian companies have generally experienced inflation-driven increases in their costs that are linked to the general price level in Russia, such as supplies and materials, as well as salaries. Accordingly, high rates of inflation in Russia are likely to increase the costs of the Group, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes. High inflation rates in Russia have historically been accompanied by a depreciation of the rouble relative to the U.S. dollar, which reduces the cost of the Group's rouble operating expenses in U.S. dollar terms. See "*— The Group is subject to foreign currency exchange rate risks*".

Russian currency control regulations may hinder the Group's ability to conduct business

The Group's operational expenses are primarily denominated in Russian roubles. The current Russian currency control laws and regulations impose a number of limitations on banking and currency transactions. Currency control restrictions include a general prohibition on foreign currency operations between Russian residents, except for certain specified operations permitted by law, and the requirement to repatriate, subject to certain exceptions, export-related earnings in Russia. For example, should the Group wish to export its gold, it will have to ensure that export-related earnings are repatriated to Russia. Failure to comply with this requirement may lead to the imposition of various administrative fines on the relevant member of the Group exporting the gold. These currency control restrictions may restrict the Group's operational flexibility, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

If transactions that the Group's Russian subsidiaries have entered into are challenged for non-compliance with applicable legal requirements, the transactions could be invalidated or liabilities could be imposed on the Group

The Group's Russian subsidiaries have taken a variety of actions relating to share issuances, share and asset disposals and acquisitions, charter capital increases and decreases, valuation of property, interested party transactions, major transactions, currency control and antimonopoly issues, in respect of which the applicable legal procedures are not always clear and which, therefore, could be subject to legal challenges. If any such challenge was successful, it could result in the invalidation of the relevant transaction, seizure of the relevant assets or the imposition of liabilities on the Group. Moreover, since many provisions of Russian law are open to many different interpretations, the Group's Russian subsidiaries may not be able to defend successfully any challenge in respect of such transactions. For example, the provisions of Russian law defining which transactions must be approved as "interrelated major transactions" are subject to differing interpretations and there is no assurance that former or current minority shareholders of PJSC Polyus or shareholders of its Russian subsidiaries or any other interested parties will not challenge such transactions in the future. Although the Company does not expect any past transaction to be so challenged, the invalidation of any such transactions or imposition of any such liabilities could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group is subject to antimonopoly laws enforced by the Federal Antimonopoly Service, which may result in certain limitations being imposed on the Group's activities

The Federal Law No. 135-FZ "On Protection of Competition", dated 26 July 2006, which came into force on 26 October 2006 (the "**Competition Law**"), generally prohibits any concerted action, agreement or coordination of business activities that results or may result in, among other things, fixing or maintaining of prices, discounts, surcharges or margins; coordination of auction bids; allocation of a market by territory, volume of sales or purchases, types of goods, customers or suppliers; refusal to enter into contracts with certain buyers (customers) in the absence of economic or technological justification therefor; imposing unfavourable contractual terms; fixing disparate prices for the same goods, for reasons other than economic or technological reasons; creation of barriers to entering or exiting a market; and restriction of competition in any other way. There is no uniform court practice on what concerted actions or coordination of business activity are and the regulator and courts interpret these concepts inconsistently. As a result, there is significant uncertainty as to what actions may be viewed as a violation of the Competition Law. In a number of court cases, Russian courts found concerted actions where market participants acted in a similar way within the same period of time, although, arguably, there have been legitimate economic reasons for such behaviour and the behaviour was not aimed at restriction of competition. Therefore, there is a risk that the Group can be found in violation of the Competition Law if its market behaviour vis-à-vis its customers or suppliers is viewed as being similar to behaviour of the Group's competitors and perceived by Federal Antimonopoly Service (the "**FAS**") as a purported restriction of competition. See "*Regulatory Matters — Regulation of Competition*".

The Competition Law also prohibits any form of unfair competition, including, among other things, through defamation or otherwise. Such broad interpretations of the Competition Law may result in the FAS imposing behaviorial limitations on the Group's activities, may limit operational flexibility and may result in civil, administrative and even criminal liability.

If the Group's activities are found to be in violation of antimonopoly legislation, the Group could be subject to penalties or requested to change its business operations in a manner that may increase the Group's costs or reduce the Group's profit margin and revenues. As such, these factors could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Company believes that the Group's operations are currently in compliance with Russian antimonopoly regulations. However, if the FAS undertakes an investigation into some aspect of the Group's operations or transactions and decides to impose penalties or other sanctions against the Group, such penalties or sanctions could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Legal uncertainties relating to privatisation of the Group's assets may exist

Some of the companies comprising the Group were formed on the basis of assets that had been privatised in the middle of the 1990s. Russian privatisation laws at that time were vague, inconsistent or in conflict with other laws, including conflicts between federal and regional privatisation laws, and consequently many Russian privatisations may be arguably deficient and, therefore, vulnerable to challenge. For example, a series of Presidential decrees issued in 1991 and 1992 that granted to the Moscow City government the right to adopt its own privatisation procedures were subsequently invalidated by the Constitutional Court of the Russian Federation, ruling, in part, that the Presidential decrees addressed issues that were the subject of federal law. Although the statute of limitations for challenging transactions entered into in the course of privatisations is now only three years from the time when an affected party learnt of the infringement on its rights and in any event not later than 10 years from the time of an alleged infringement, a residual risk still remains that privatisation transactions of the Group may be vulnerable to challenge, including selective action by governmental authorities and inconsistent application of the statute of limitations by courts. Should the privatisation of any relevant predecessor companies be challenged in court on the grounds that these companies or any of their assets have been improperly privatised, and should the court for any reason disapply the limitation periods, the Group may lose its rights to some of its assets, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group's acquisitions or title to, or other rights in, land that it owns or leases may be challenged

The Group companies either own or lease the land plots on which their mines and other production facilities are located. Any challenge to the validity or enforceability of the Group companies' title to, or rights in, such land may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group is beneficially controlled by a single shareholder

The Group is beneficially controlled by Mr. Said Kerimov (the "**Principal Shareholder**"), who controls indirectly 100 per cent of the Company's shares. As a result, the Principal Shareholder has the ability to exert significant influence over certain actions in respect of the Company. While transactions with the Principal Shareholder and affiliates of the Principal Shareholder can benefit the Group and the Company believes that such transactions have been conducted on an arm's-length basis, there can be no assurance that the Group could not have achieved more favourable terms had such transaction not been entered into with related parties. To the extent that the interests of the Principal Shareholder were to conflict with the interests of the Noteholders, the trading price of the Notes could be materially adversely affected.

RISKS RELATING TO THE RUSSIAN FEDERATION

Emerging markets are subject to greater risks than more developed markets, including significant legal, economic and political risks

Investors in emerging markets such as Russia should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in debt or equity markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, including during the current global economic crisis, and the developments affecting the Russian economy in 2014, 2015 and 2016, including the current political and economic crisis in Ukraine and related sanctions imposed on certain Russian individuals and legal entities by the U.S. and the EU, as well as the sharp decrease in oil prices, financial problems or an increase in the perceived risks associated with investing in emerging economies may adversely affect the level of foreign investment, which may, in turn, adversely affect the economies in those countries. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. As a result, financial turmoil in Russia could seriously disrupt the Group's business and its ability to service its payment obligations under the Notes, as well as result in a decrease in the trading price of the Notes. Companies operating in emerging markets may also be exposed to political risks. Investors should also note that an emerging economy such as that of Russia is subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Potential investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

Instability in the Russian economy could materially adversely affect the Group's business

Over the last two decades, the Russian economy has experienced or continues to experience at various times:

- significant declines in its GDP and rate of GDP growth;
- high levels of inflation;
- high and fast-growing interest rates;
- unstable credit conditions;
- instability of the rouble;
- pervasive capital flight;
- high levels of government debt relative to GDP;
- a weakly diversified economy which depends significantly on global prices of commodities;
- sudden price declines in commodities;
- a lack of reform in the banking sector and a weak banking system, providing limited liquidity to Russian enterprises;
- continued operation of loss-making enterprises due to the lack of effective bankruptcy proceedings;
- high levels of corruption and the penetration of organised crime into the economy;
- widespread tax evasion;
- significant increases in unemployment and underemployment;
- ethnic and religious tensions;
- low personal income levels of a significant part of the Russian population; and
- major deterioration of physical infrastructure.

In the past few years, the Russian economy has been characterised by significant volatility in the debt and equity markets, including the suspension of trading several times during the financial crisis of 2008-2009. The Russian economy has experienced significantly fluctuating growth rates over the last two decades, including recent significant declines. In 2014, Russia's GDP growth rate slowed to 0.6 per cent; in 2015, Russia's GDP declined by 3.7 per cent in real terms; and the IMF in January 2016 predicted that Russian GDP will contract by 1 per cent in 2016.

As Russia produces and exports large quantities of crude oil, natural gas, petroleum products and other commodities, the Russian economy is particularly vulnerable to fluctuations in oil and gas prices, as well as other commodities prices, which historically have been subject to significant volatility over time, as illustrated by the recent decline in crude oil prices. The price of the global benchmark Brent crude has fallen from US$96 per barrel Brent in 2014 to US$50 per barrel Brent on 30 June 2016 and is widely predicted not to recover to its previous levels for some time to come. The international sanctions arising from the Ukraine crisis have also undercut confidence in the Russian economy and added to the cost of capital. The lack of confidence in the Russian economy led to a decline in the rouble/U.S. dollar exchange rate in late 2014, which continued in 2015. This has been accompanied by rising inflation and a declining trend in real average wages from 8.4 per cent growth in 2012, to 4.8 per cent in 2013, to 1.3 per cent in 2014 and to 7.5 per cent in 2015, with the Ministry of Economic Development predicting a decline of real wages of up to 2.9 per cent in 2016. There can be no assurance that any measures adopted by the Russian Government to mitigate the effect of any financial and economic crisis will result in a sustainable recovery of the Russian economy. Russian banks, and the Russian economy generally, were also adversely affected by the global financial crisis. Current macroeconomic challenges, low or negative economic growth in the United States, China, Japan and/or Europe and market volatility may provoke or prolong any economic crisis. As an emerging economy, Russia remains particularly vulnerable to further external shocks. Events occurring in one geographic or financial market sometimes result in an entire region or class of investments being disfavoured by international investors – so-called "contagion effects". Russia has been adversely affected by contagion effects in the past, and it is possible that the market for Russian investments will be similarly affected in the future by negative economic or financial developments in other countries. Economic volatility, or a future economic crisis, may undermine the confidence of investors in the Russian markets and the ability of Russian businesses to raise capital in international markets, which in turn could have a material adverse effect on the Russian economy and the Group's results of operations, financial condition and prospects. In addition, any further declines in oil and gas prices or other commodities pricing could disrupt the Russian economy and materially adversely affect the Group's business.

The Group is subject to limitations imposed by Russian legislation which restricts the rights of foreign entities to invest in certain Russian companies and in the subsoil sector

Under the Strategic Investment Laws of the Russian Federation, including the Foreign Investments Law (as defined in "*Regulatory Matters*"), the acquisition by a foreign investor, or a "group" of persons, as such term is defined under Russian law, including one or more foreign investors, of 25 per cent or more of the voting shares in a company undertaking operations at subsoil plots of federal importance (a "**Strategic Subsoil Company**"), requires the prior approval of the Foreign Investment Commission (as defined in "*Regulatory Matters*"). Furthermore, if a foreign investor, or a group of persons including one or more foreign investors, already exercises direct or indirect "control" (as defined in the Foreign Investments Law) of over 25 per cent (but less than 75 per cent) of the voting shares of a Strategic Subsoil Company, each subsequent acquisition of shares of the Strategic Subsoil Company by the foreign investor, or group of persons including a foreign investor, whether directly or indirectly, requires the prior approval of the Foreign Investment Commission (with the exception of transactions which do not result in the increase of the ownership percentage of a foreign investor of a group including a foreign investor in the charter capital of a Strategic Subsoil Company or by persons that are under control of the person which controls such Strategic Subsoil Company). Additional restrictions apply to foreign states and governmental organisations and investors controlled by them, to which lower approval thresholds apply and which are generally prohibited from establishing control over strategic entities. Failure to obtain a prior approval renders the transaction void or may lead to limitations on the foreign investor's voting rights. As at the date of this Prospectus, gold mining subsidiaries within the Group, comprising subsidiaries of PJSC Polyus, including JSC Polyus, JSC Tonoda, JSC South-Verkhoyansk Mining Company, JSC Matrosova Mine, LLC Amurskoye GRP, LLC Krasnoyarskoye GRP, Magadanskoye GRP and JSC Pervenets, hold licences to subsoil plots of federal importance, as defined in the Russian Subsoil Law, which comprise in aggregate approximately 90 per cent of the Group's reserves. As a result, each of these subsidiaries is considered a Strategic Subsoil Company. Under a strict interpretation of the Strategic Investment Laws, the acquisition of 25 per cent or more of the voting shares in a direct or indirect holding company of a Strategic Subsoil Company, such as the Company, is generally subject to similar limitations.

In addition to the above, some Russian subsidiaries of the Group, which are not Strategic Subsoil Companies, are engaged in other types of activities considered strategic under the Foreign Investments Law, which technically include production of industrial explosives and activities in the sphere of securing air safety and providing airport services. On these grounds, members of the Group JSC Dalnyaya Taiga, JSC Sevzoto, JSC Svetlyi, JSC Marakan, JSC Aldanzoloto GRK, LLC Novyi Ugahan and CJSC Lensib are considered strategic companies. Acquisition of more than 50 per cent of shares in such companies by a foreign investor or a group comprising a foreign investor, directly or through acquisition of shares in their holding companies, including the Company, is also subject to approval by the Foreign Investment Commission.

If shares of the Company are acquired in circumstances where approval under the Foreign Investments Law is required but has not been obtained, there is a risk that action could be taken against the Company to limit its voting rights in respect of the Group's Strategic Subsoil Companies, or to invalidate the corporate decisions and transactions of such Strategic Subsoil Companies that were made following the relevant acquisition of shares of the Company without approval.

For a more detailed discussion of implications of the Strategic Investment Laws, see "*Regulatory Matters — Foreign Investment in Sectors that are of Strategic Importance for the National Security and Defence of the Russian Federation, including the Subsoil Sector*".

Changes in Russian legislation aimed at the "deoffshorisation" of the Russian economy may negatively affect the Group's operations and financial position

Russian government officials and representatives have increasingly made statements encouraging the deoffshorisation of businesses with predominantly Russian assets that are held through ownership structures outside of Russia. A corresponding piece of legislation, the "Foreign Companies Act", was signed by the Russian President in November 2014. The Russian Ministry of Finance has introduced significant amendments to Russian tax legislation as part of the "deoffshorisation" process and further measures, tax-related and otherwise, may be implemented in the future to support these initiatives. These amendments will remove tax breaks associated with foreign-based structures and disallow their access to state support, in particular, offshore companies are prohibited from participating in public procurement. As a result, companies registered under foreign jurisdictions, but which operate in Russia, may find that the Russian Government's deoffshorisation policies could lead to restrictions on contracts with state bodies, and limits being placed on state support and tax relief.

Changes in Russian law aimed at implementing "deoffshorisation" initiatives could increase the Group's taxes, or otherwise have a negative effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes. In particular, the Company, which is incorporated in Jersey, Channel Islands, may face:

- difficulties in obtaining relief on mining and income tax if restrictions are placed on such relief measures;
- an absence of state support or co-funding of infrastructure and power projects considered to be of local or federal importance; or
- an increased tax burden on the Group due to the implementation of new tax residency rules for corporations, which could lead to increased taxes payable by the Group and its offshore subsidiaries.

Due to these developments, the Group is having to reconsider the expediency of the further use of its foreign corporate structure. To help guide its further actions, the Group is involved in consultations with corporate legal advisors and is carrying out a detailed analysis of the potential consequences of the amendments to Russian laws in terms of its strategic priorities. Any such amendments to Russian laws could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes. See "*Risks relating to taxation — Risks relating to the Russian taxation system — The Russian taxation system is not fully developed and is subject to frequent changes, which could have an adverse effect on the Group*".

Some of Russia's physical infrastructure is in very poor condition, which could disrupt normal business activity of the Group or lead to increased costs and efforts by the Russian Government to improve the country's infrastructure, and which may result in increased costs for the Group

Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained since the dissolution of the Soviet Union. The rail and road networks, power generation and transmission, communications systems and building stock have been particularly affected. In the past, Russia has experienced electricity and heating shortages and blackouts, and the Russian railway system is subject to risks of disruption as a result of the declining physical condition of rail tracks and a shortage of rail cars. For example, in May 2005, an electricity blackout affected much of Moscow for one day, disrupting normal business activity and in August 2009, an accident occurred at the Sayano Shushenskaya hydroelectric power shortages for both residential and industrial consumers. The poor condition or further deterioration of the physical infrastructure in Russia may harm its national economy, disrupt the transportation of goods and supplies, increase the costs of doing business and interrupt business operations, each of which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Investments in Russia may be adversely affected by fluctuations in the global economy

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Since Russia is one of the world's largest producers and exporters of oil, natural gas and metal products, the Russian economy is especially sensitive to commodity prices on the world markets. The sharp decrease in prices for natural resources in 2008 and 2014-2016 resulted in a significant decrease of governmental revenues, which had a negative effect on the Russian economy. Commodity prices continue to be volatile and future fluctuations in the global markets could substantially limit the Group's access to capital. These developments could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Potential political or social conflicts could create an uncertain operating environment hindering the Group's long-term planning ability and could have a material adverse effect on the value of investments in Russia, including the trading price of the Notes

The Russian Federation is a federation of sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts, some of which have the right to manage their internal affairs pursuant to agreements with the federal government and in accordance with applicable laws. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in some instances, unclear. In practice, the division of authority and uncertainty could hinder the Group's long-term planning efforts and may create uncertainties in the Group's operating environment, which may prevent it from effectively carrying out its business strategy.

Emerging markets such as Russia are also subject to heightened volatility resulting from political and economic conflicts. Any disruption or reversal of the reform policies or any recurrence of political or governmental instability or significant terrorist attacks (to which Russia is potentially particularly exposed given ongoing ethnic and religious tensions, notably with peoples and regions from and in the Caucasus and Central Asia) may lead to a deterioration in Russia's investment climate and trading volatility, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, acts of terrorism (principally connected with the North Caucasus region) and military conflict, including the military conflict between the Russian Federation and Georgia in 2008, recent deterioration in relations between the Russian Federation and Turkey as a result of the attack on the Russian military jet by Turkish Air Forces along the Syrian-Turkish border in November 2015 and ongoing participation of the armed forces of the Russian Federation in the Syrian conflict. If existing conflicts, tensions or terrorist activities, or threats thereof, remain unresolved, or new disturbances or hostilities arise, this could have significant political and economic consequences and the Group may be unable to access capital, or access capital on terms reasonably acceptable to it, and its sales may be impacted, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Political and governmental instability could adversely affect the value of investments in Russia, including the Notes

Since 1991, Russia has been moving from a one-party state with a centrally planned economy to a federal republic with democratic institutions and a market-oriented economy. The Russian political system, though more stable than in the 1990s, remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian Government has, at times, been unstable. However, over the period from 2000 to 2008, President Vladimir Putin achieved and generally maintained political and governmental stability in the country, which accelerated the reform process and made the political and economic situation in Russia more conducive to investment. In March 2008, Mr. Dmitry Medvedev was elected as the President of Russia, and a significant degree of continuity has been maintained, due in large part, to the appointment by President Medvedev of Vladimir Putin as the Russian Prime Minister, and, following Mr. Putin's election as President of Russia in March 2012, the subsequent appointment of Mr. Medvedev as Prime Minister. It is possible, however, that future presidents may take a different approach to reforms and to the state's foreign and domestic policies in the future. Moreover, in December 2011 and in 2012, there have been public protests alleging voting irregularities in federal parliamentary and presidential elections and demanding political reform. Any significant further increases in political instability, including in light of the elections to the State Duma held in September 2016, could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Changes in the Russian Government, the State Duma or the presidency, major policy shifts or eventual lack of consensus between the President, the Russian Government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading prices of the Notes.

A reversal of reform policies or government policies targeted at specific individuals or companies could have an adverse effect on the Group's business, as well as investments in Russia more generally

From 2001 until 2013, the political and economic situation in Russia became more stable and conducive to investment. Such stability, however, has been negatively affected by the global financial crisis and subsequent economic sanctions imposed by the United States and the EU and the on-going economic recession. See *"— The ongoing armed conflict in Eastern Ukraine and the international reaction to*

Russia's action in connection with Crimea resulting in the imposition of sanctions could further materially adversely affect the economic environment in Russia, including the business, results of operations and financial condition of the Group, and create significant political and economic uncertainty" and *"— Investments in Russia may be adversely affected by fluctuations in the global economy*". Any significant struggle over the direction of future reforms, or a reversal of the reform process, could lead to another deterioration in Russia's investment climate, which might constrain the Group's ability to obtain financing in the international capital markets, limit its sales in Russia or otherwise have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In the past, Russian authorities have prosecuted some Russian companies, their executive officers and their shareholders on tax evasion and related charges. In some cases, the result of these prosecutions has been the imposition of prison sentences for individuals and significant claims for unpaid taxes. According to some commentators, such prosecutions have called into question the security of property and contractual rights, the independence of the judiciary and the progress of the market and political reforms in Russia. Any similar actions by governmental authorities could lead to further negative effect on investor confidence in Russia's business and legal environment and the Group's ability to raise equity and debt capital in the international markets, as well as the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Russian banking system remains underdeveloped

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications. There is currently a limited number of creditworthy Russian banks (most of which are headquartered in Moscow) with the capacity to service companies of the size of those found in the Group. Another banking crisis in Russia or globally, or the expansion of international sanctions against Russia, could place severe liquidity constraints on the Russian banking system. Although the CBR has the mandate and authority to suspend banking licences of insolvent banks, many insolvent banks still operate. Some banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still does not meet internationally accepted norms.

The CBR's supervisory/control mechanisms may be in certain cases insufficient to timely identify non-compliance with banking legislation. As part of a gradual consolidation process, which started in 2014, Russia's larger banks have acquired smaller banks and increased their market share, and banks with stronger credit profiles have merged with distressed banks. In connection with this consolidation, the CBR has revoked banking licences from a substantial number of Russian banks. The CBR's orders on revocation of such licences state that the banks were in breach of banking laws and regulations and were found to have false statements in their reports. The revocations have raised some concerns about the stability of the Russian banking system and the liquidity on the domestic market.

These deficiencies in the Russian banking sector, combined with the deterioration of Russian banks' credit portfolios, may result in the banking sector being more susceptible to the current global macroeconomic situation. Due to the imposition of Ukraine-related sanctions and the recent oil price decline, among other things, Russian banks experienced difficulties in recent years with funding on international markets and continue to experience serious mismatches in their liabilities and assets. As a result, credit ratings of several banks were lowered. With the Russian economy experiencing a recession in 2015 and further recessionary conditions expected to continue in 2016, the Russian banking sector has experienced renewed instability. For example, according to the United Credit Bureau, the level of non-performing loans in the Russian banking sector has increased from 15.66 per cent at the end of 2014 to 18 per cent at the end of the second quarter of 2016. The CBR's December 2014 RUB 127 billion bail-out of Trust Bank, Russia's 22nd largest bank by assets, the largest bank bail-out in Russian history to date, may be symptomatic of weaknesses in the Russian banking sector. With few exceptions (notably the state-owned banks), the Russian banking system suffers from weak depositor confidence, high concentration of exposure to certain borrowers and their affiliates, poor credit quality of borrowers and improper related party transactions. Risk management, corporate governance and transparency and disclosure often remain below international best practices. During the 2007-2008 global financial crisis, Russian banks were faced with a number of problems simultaneously, such as withdrawal of deposits by customers, payment defaults by borrowers, deteriorating asset values and rouble depreciation and currency mismatching (foreign currency denominated liabilities against rouble denominated assets), all of which could re-occur if another banking crisis were to occur. Russia's current economic circumstances are likely to continue to put stress on the Russian banking system.

In response to the situation in Ukraine and Crimea, sanctions have been imposed by a number of countries against certain Russian banks, financial institutions and companies, as well as certain Russian individuals who hold interests or positions in such entities. Among other measures, the United States and the European Union have recently imposed, among others, sectoral sanctions on certain major Russian financial institutions. These sectoral sanctions generally prohibit persons from engaging in transactions involving new equity or new debt (in the case of the United States) or transferable securities, money market instruments, and loans or credit (in the case of the European Union) of greater than 30 days maturity with the targeted entities and entities owned and/or controlled by such entities (including Bank of Moscow, VTB Bank, Vnesheconombank, Gazprombank, Russian Agricultural Bank and Sberbank), substantially cutting off these financial institutions from the United States and European Union debt and equity markets. It is difficult to predict the full impact of the foregoing sanctions on the Russian banking sector over time; however, there is a risk that Russian banks could be unable to refinance their existing debt or that such refinancing may become more expensive, and/or that Russian banks could be unable to issue loans in amounts necessary for borrowers, and/or that the cost of borrowing could increase significantly for borrowers. Moreover, over time, the above prohibitions could lead to a shortage of U.S. dollars or Euros in the Russian markets, which may affect a borrower's performance under contracts with settlement occurring in such currencies. As the Group relies substantially on financing from Russian financial institutions, any of these risks could have a material adverse effect on its ability to raise new capital or refinancing existing indebtedness.

A significant part of the Group's cash reserves are held at Russian state-owned banks. Various prominent Western politicians have already called for strengthening U.S. and EU Ukraine-related sanctions against certain Russian companies and state-owned financial institutions. For example, there have been proposals to cut off Russia from the international SWIFT payment system, which would disrupt ordinary banking services in Russia and any cross-border trade. More expansive sanctions targeting Russian banks, including Russian state-owned banks, where a significant part of the Group's cash reserves is held, could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to any worldwide credit market downturn and economic slowdown. A prolonged or serious banking crisis or the bankruptcy of a number of Russian banks could materially adversely affect the Group's business and its ability to complete banking transactions in Russia.

The accession of the Russian Federation to the World Trade Organisation may lead to changes in the business and legal environment in Russia

The Russian Federation officially became a member of the World Trade Organisation ("**WTO**") on 22 August 2012. The accession may lead to significant changes in Russian legislation including, among others, the regulation of foreign investments in Russian companies and competition laws, as well as changes in the taxation system and customs regulations in Russia. In addition, implementation of the WTO rules may result in an increase in competition in the markets where the Group operates. Although during 2012-2015, Russia adopted certain changes to its legislation related to its accession to the WTO (for example, for regulation of intellectual property), it is unclear yet if and when all necessary legislative changes related to the accession will take place. If further new legislation is implemented in Russia as a result of its accession to the WTO, such legislation could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Russia's property law is subject to uncertainty and contradiction and title to some of the Group's mineral properties or production facilities may be challenged

The legal framework relating to the ownership and use of land and other real property in the Russian Federation is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in some of the more developed market economies, such as those of North America and Western Europe. During the Russian Federation's transformation from a centrally planned economy to a market economy, legislation was enacted to protect private property against expropriation and nationalisation. However, it is possible that, due to a lack of experience in enforcing these provisions and due to political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation, or in the event that the Group's business is reorganised. It is often difficult to determine with certainty the validity and enforceability of title to land in the Russian Federation and the extent to which it is encumbered. Moreover, in order to use and develop real property in the Russian Federation, approvals, consents and registrations of various federal, regional and local governmental authorities are required, and this can be a lengthy and cumbersome process. Further, it is not always clear which governmental body or official has the right to lease or otherwise regulate the use of real property. In addition, building and environmental regulations often contain requirements that are impossible to fully comply with in practice. Failure to obtain or comply with the required approvals, consents, registrations or other regulations may lead to severe consequences, including with regard to any current construction activities. If the real property owned or leased by the Group is found not to be in compliance with all applicable approvals, consents, registrations or other regulations, the Group may lose the use of such real property, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Negative publicity could harm the Group's business

The local and international press have reported high levels of corruption and extortion in the Russian Federation, including selective investigations and prosecutions to further the personal or commercial interests of certain favoured companies or individuals. There is also a tendency among the local and international press to generate speculative reports that contain allegations of criminal conduct or corruption on the part of Russian companies or individuals within Russian companies or the Russian government. In addition, the Russian press and other non-traditional media are suspected of publishing biased articles and reports in return for payment. Such negative publicity could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The ongoing development in the Russian legal system and Russian legislation creates an uncertain environment for investment and for business activity

Russia continues to develop its legal framework in accordance with international standards and the requirements of a market economy. Since 1991, new Russian domestic legislation has been put into place. Currently, this system includes the Constitution of the Russian Federation of 1993, the Civil Code of the Russian Federation and other federal laws, decrees, orders and regulations issued by the President, the Russian Government and federal ministries, which can be complemented by regional and local rules and regulations, adopted in certain spheres of regulation. Several fundamental Russian laws have only recently become effective and there still remain gaps and inconsistencies in regulatory infrastructure. Consequently, certain areas of judicial practice are not yet fully settled, and are therefore sometimes difficult to predict.

Among the risks of the current Russian legal system are:

- inconsistencies among federal laws; decrees, orders and regulations issued by the President, the Russian Government, federal ministries and regulatory authorities; and regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- the relative inexperience of judges, courts and arbitration tribunals in interpreting new principles of Russian legislation, particularly business and corporate law;
- a lack of judicial independence from political, social and commercial forces;
- bankruptcy procedures that are still under development;
- difficulty in enforcing court judgments in practice;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation; and
- a high degree of unchecked discretion on the part of governmental and regulatory authorities.

Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions and the expropriation of property. The possibility of unlawful, selective or arbitrary governmental action also enhances opportunities for official corruption and extortion, as well as the penetration of organised crime into the economy, all of which is widely reported to be high in Russia. Press reports have described instances in which governmental officials have engaged in selective investigations and prosecutions to further their personal interests. The Russian Government has pursued a campaign against corruption, the results of which have not been yet achieved. See *"—Findings of failure to comply with existing laws or regulations, unlawful or arbitrary government action or increased governmental regulation of the Russian operations of the Group could result in substantial additional compliance costs or various sanctions*".

There are also legal uncertainties relating to property rights in Russia. During Russia's transformation to a market economy, the Russian Government has enacted legislation to protect property against expropriation and nationalisation, and, if property is expropriated or nationalised, legislation provides for fair compensation. There is, however, no assurance that such protections would be enforced.

In addition, Russia is not party to any multilateral or bilateral treaties with most Western jurisdictions for the mutual enforcement of court judgments. Consequently, should a judgment be obtained from a court in any of such jurisdictions, it is difficult to predict whether a Russian court will give direct effect to such judgment. Russia (as successor to the Soviet Union) is a party to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). A foreign arbitral award obtained in a state that is party to the New York Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the New York Convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation and non-violation of Russian public policy). There is also a risk that Russian procedural legislation will be changed by way of introducing further grounds preventing foreign court judgments and arbitral awards from being recognised and enforced in Russia. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian courts or other officials, thereby introducing delays and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in Russia. In addition, the Russian courts may, and in certain cases must, accept jurisdiction notwithstanding the submission by the parties to arbitration (*e.g.*, where a dispute is within the exclusive competence of the Russian courts or in insolvency of the Russian obligor).

Notwithstanding recent reforms of the Russian court system, the transitional state of the Russian legal system could affect the Group's ability to enforce its rights under contracts, or to defend itself against claims by others, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The implementation of certain amendments to the Russian Civil Code may create an uncertain environment for business activities and investments

The Russian parliament has recently implemented widespread amendments to the Russian Civil Code, many of which became effective in 2014 and 2015. The scope of these amendments modify existing laws governing, among other things, regulation of legal entities, certain types of transactions, pledges, mortgages, other security arrangements and property rights. As of the date of this Prospectus, the potential interpretation of these amendments by state authorities (including the courts), along with their impact on the Group's business and corporate governance, remain unclear.

Findings of failure to comply with existing laws or regulations, unlawful or arbitrary government action or increased governmental regulation of the Russian operations of the Group could result in substantial compliance costs or various sanctions

The Group's operations and properties in Russia are subject to regulation by various government entities and agencies at both the federal and regional levels. Regulatory authorities often exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licences and permits and in monitoring licencees' compliance with licence terms, which may lead to inconsistencies in enforcement. Russian authorities have the right to, and frequently do, conduct periodic inspections of operations and properties of Russian companies throughout the year. Any such future inspections may conclude that the Group violated applicable laws, decrees or regulations. Findings that the Group failed to comply with existing laws or regulations or directions resulting from government inspections may result in the imposition of fines, penalties or more severe sanctions, including the suspension, amendment or termination of the Group's licences or permits or in requirements that the Group cease certain business activities, or in criminal and administrative penalties being imposed on the Group's officers. Any such decisions, requirements or sanctions, or any increase in governmental regulation of the Russian operations of the Group, could increase the Group's costs and could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In addition, government officials have a high degree of discretion in Russia and at times act selectively or arbitrarily, without a hearing or prior notice, and sometimes in a manner that is contrary to law or is influenced by political or commercial considerations. Unlawful, selective or arbitrary actions of Russian government officials have reportedly included the denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. The Group's competitors may receive preferential treatment from Russian government officials, potentially giving them a competitive advantage over the Group. Unlawful, arbitrary or selective government actions directed against other Russian companies (or the consequences of such actions) may generally impact on the Russian economy, including the securities markets. Any such actions, decisions, requirements or sanctions, or any increase in governmental regulation of the Russian operations of the Group, could increase the Group's costs and could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Shareholder liability under Russian legislation could cause the Company to become liable for the obligations of its applicable subsidiaries

Under Russian law, the Company may be primarily liable for the obligations of its Russian subsidiaries jointly and severally with such entities if: (i) the Company has the ability to make decisions for such Russian subsidiaries as a result of its ownership interest, the terms of a binding contract or in any other way; and (ii) the relevant Russian subsidiary concluded the transaction giving rise to the obligations pursuant to the Company's instructions or with the Company's consent. The Company, if it is viewed as having the actual ability to determine its Russian subsidiaries' operations, may also be held liable for the losses incurred by such subsidiaries and caused by the Company. In addition, the Company may have secondary liability for the obligations of its Russian subsidiaries if the subsidiary becomes insolvent or bankrupt as a result of the Company's action. This liability could result in significant losses, and could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In addition, some of the Company's Russian subsidiaries do not comply with formal requirements of Russian law which provide that a shareholder of a wholly-owned subsidiary cannot be itself a wholly-owned company. In such circumstances, competent authorities could request that the existing breaches are rectified and, in case these are repeated or remain unrectified, bring a claim seeking liquidation of the company on the basis of gross or repeated breaches of law. The Group does not believe that its existing shareholding structure could result in any claims against its subsidiaries, however, if the Group's ownership structure were challenged and the challenge was successful, the Group would be forced to restructure its existing shareholding structure. Any such challenge or restructuring, if successful, could lead to additional costs and affect the relevant companies' operations.

Russian legislation may not adequately protect against expropriation and nationalisation

The Russian Government has enacted legislation to protect foreign investment and other property against expropriation and nationalisation. If property is expropriated or nationalised, legislation provides for fair compensation. However, there is no assurance that such protections would be enforced. This uncertainty is due to several factors, including weaknesses in the judiciary and insufficient mechanisms to enforce judgments, as well as reports of corruption among state officials. In addition, it is possible that, due to a lack of experience in enforcing these provisions or due to political change, legislative protections may not be enforced in the event of an attempted nationalisation. Furthermore, there is little experience in enforcing legislation enacted to protect private property against nationalisation. Although the Company does not believe that there is a legal basis for the expropriation or nationalisation of any of its assets, any expropriation or nationalisation of the Group's business could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Unlawful or arbitrary government actions may be directed at the Group

State authorities have a high degree of discretion in Russia and at times exercise such discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes they illegally go beyond the limits of their discretion. There is a risk that state authorities may arbitrarily nullify or terminate contracts, withdraw licences, conduct sudden and unexpected tax audits, initiate criminal prosecutions and civil actions and use common defects in documentation of financing activities, accounting or share issues and registration as pretexts for court claims and other demands to liquidate companies or invalidate such financing activities, share issues and registrations and/or to void transactions. Unlawful or arbitrary state action, if directed at the Group, could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The limited independence and experience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Group from obtaining effective redress from a court or tribunal

The independence of the judicial system remains largely untested. The court system in Russia is understaffed and under-funded and not immune to external influences. Judges and the courts in Russia are often inexperienced in interpreting and applying many aspects of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all court decisions are readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims and prosecutions are sometimes influenced by, or used in furtherance of, private interests. The Group may be subject to such claims and may not be able to receive a fair trial.

Publicly available data may be unreliable

The Group has derived substantially all of the information contained in this Prospectus concerning its competitors and market share from publicly available information and has relied on the accuracy of this information without independent verification.

In addition, some of the information contained in this Prospectus has been derived from official data of Russian government agencies and the CBR. Some of the official data published by Russian federal, regional and local governments may not be complete or researched to the standard of Western countries. The veracity of some official data released by the Russian government may be inaccurate. Official statistics, including those produced by the CBR, may also be produced to a different standard than those used in Western countries. Any discussion of matters relating to the Russian Federation in this Prospectus must, therefore, be subject to uncertainty due to the potential inaccuracy of available official and public information.

RISKS RELATING TO TAXATION

RISKS RELATING TO THE RUSSIAN TAXATION SYSTEM

The Russian taxation system is not fully developed and is subject to frequent changes, which could have an adverse effect on the Group

A significant part of the Group's assets and operations is located in Russia and, therefore, weaknesses in the Russian tax system could adversely affect the Group. The Russian subsidiaries of the Group are subject to a broad range of taxes and charges imposed at the federal, regional and local levels, including but not limited to, corporate income tax, the mineral extraction tax, value added tax ("**VAT**"), property tax and payroll related social security contributions.

The Tax Code of the Russian Federation (the "**Russian Tax Code**") has been in force for a short period relative to tax laws and regulations in more developed market economies. Moreover, provisions of the Russian tax law applicable to financial instruments (including, securities) may be subject to more rapid and unpredictable changes than similar tax laws in jurisdictions with more developed financial markets or more developed taxation systems. The implementation of Russian tax laws and regulations is often unclear or inconsistent.

Historically, the system of tax collection in Russia has been relatively ineffective, resulting in continual changes in the tax legislation, which sometimes occur on short notice and apply retrospectively, and in the interpretation and application of existing laws and regulations by various authorities. Although Russia's tax climate and the quality of Russian tax legislation have generally improved with the introduction of the Russian Tax Code, there can be no assurance that the Russian Tax Code will not be changed or interpreted in the future in a manner adverse to the stability and predictability of the Russian tax system. The possibility exists that Russia may impose arbitrary or onerous taxes, levies, fines and penalties in the future, which could adversely affect the Group's business.

Since Russian federal, regional and local tax laws and regulations have been subject to frequent change and some of the sections of the Russian Tax Code relating to the aforementioned taxes are comparatively new, the interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax laws and regulations may exist both among and within government bodies at federal, regional and local levels, increasing the amount of uncertainty and tax risks and leading to the inconsistent enforcement of these laws and regulations. Furthermore, taxpayers, the Russian Ministry of Finance and the Russian tax authorities often interpret tax laws and regulations differently. In some instances, the Russian tax authorities have applied new interpretations of tax laws and regulations retroactively. Private clarifications to specific taxpayers' queries in respect of particular situations issued by the Russian Ministry of Finance are not binding on the Russian tax authorities. There can be no assurance, therefore, that the representatives of the local Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Russian Ministry of Finance. Moreover, there can be no assurance that the Russian legislation and regulations will not be altered, in whole or in part, or that the Russian tax authorities and/or Russian courts or other regulatory authorities will not interpret these rules and regulations in such a way that the arrangements described in the Prospectus would be subject to different tax treatment than the treatment described in the Prospectus, whether retroactively or otherwise, or would be adversely affected in some other way.

In practice, taxpayers often have to resort to court proceedings to defend their position against the Russian tax authorities. In the absence of binding precedent or consistent court practice, rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

Despite the Russian Government having taken steps to reduce the overall tax burden in recent years in line with its objectives, the possibility exists that the Russian Federation would impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. These uncertainties could possibly expose the Group to significant fines and penalties and potentially severe enforcement measures despite its best efforts at compliance, and could result in a greater than expected tax burden, and could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Tax declarations, together with related documentation, are subject to review and investigation by a number of Russian authorities, which are empowered by Russian law to impose fines and penalties on taxpayers. Generally, tax declarations, together with the related documentation, remain subject to inspection by the Russian tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. Tax audits can however go beyond this general three-year term to cover the tax period for which an amended tax return (if any) has been filed. The fact that a particular year has been reviewed by the Russian tax authorities does not prevent further review and investigation by the Russian tax authorities of any tax declarations and other documentation relating to that year during the three-year limitation period. In particular, a repeated tax audit may be conducted (i) by a higher-level tax authority as a measure of control over the activities of lower-level tax authorities, or (ii) in connection with the reorganisation/liquidation of a taxpayer, or (iii) as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable to the revenue. Therefore, previous tax audits may not preclude subsequent claims relating to the audited period.

Additionally, the Russian Tax Code provides for possible extension of the three-year statute of limitations for liabilities for tax offences if the taxpayer has actively obstructed the performance of the tax audit and such obstruction has become an insurmountable obstacle for the tax audit. As the terms "obstructed" and "insurmountable obstacles" are not specifically defined in Russian tax law or any other branches of Russian law, the Russian tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax audit with obstruction by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three-year limitation period. Therefore, the statute of limitations is not entirely effective with respect to liability for tax offences in Russia. An extended tax audit, if it is concluded that the Group had significant tax underpayments relating to previous tax periods, may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes. Tax audits may also impose additional administrative burden on the Group by diverting the attention of its management and financial personnel and requiring resources for defending the Group's tax filing position, including for any tax litigation.

In its Decision No. 138-O of 25 July 2001, the Constitutional Court of the Russian Federation introduced the concept of "a taxpayer acting in bad faith" without clearly stipulating the criteria for its interpretation and application. Similarly, this concept is not defined in the Russian tax legislation or other branches of Russian legislation. Nevertheless, in practice, this concept has been used by the Russian tax authorities in order to deny, for instance, the taxpayer's right to rely on the letter of the tax law. Based on available practice, the Russian tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is at times unfavourable to taxpayers.

In October 2006, the Plenum of the Supreme *Arbitrazh* Court of the Russian Federation issued ruling No. 53 ("**Ruling No. 53**"), which introduced a concept of an "unjustified tax benefit" defined mainly by reference to specific examples of such tax benefits (for example, tax benefits obtained as a result of a transaction that has no reasonable business purpose) which may lead to disallowance of their application. Based on the available court practice relating to Ruling No. 53, it is apparent that the Russian tax authorities have been actively seeking to apply this concept when challenging tax positions taken by taxpayers. Although the explicit intention of Ruling No. 53 was to combat tax law abuses, based on the available judicial interpretations relating to Ruling No. 53, the Russian tax authorities have started to apply this concept in a broader sense than may have been intended by the Supreme *Arbitrazh* Court. Importantly, the Group is aware of cases where this concept has been applied by the Russian tax authorities in order to disallow benefits granted by double tax treaties. In many cases where this concept has been applied, the courts have ruled in favour of taxpayers, although recent trends demonstrate the tendency for the courts to support the position of tax authorities.

The Group operates in various jurisdictions and includes companies incorporated outside of Russia. Russian tax laws currently in effect are not well developed as far as taxation of foreign companies in

Russia or operations of Russian companies abroad are concerned. The Russian Tax Code contains a concept of permanent establishment in Russia as a means for taxing foreign legal entities which carry out regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities. However, the practical application of the concept of a permanent establishment under Russian law is not well developed and foreign companies having even limited operations in Russia, which would not normally satisfy the conditions for creating a permanent establishment under international rules, may be at a risk of being treated as having a permanent establishment in Russia. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities and/ or courts to their interpretation and application, the Group might become subject to additional taxation in Russia in respect of its operations outside Russia.

In addition, the Russian Tax Code contains the "controlled foreign companies" rules (the "**Russian CFC Rules**"), the concept of tax residency for legal entities and the beneficial ownership concept, which came into force on 1 January 2015. Under the Russian CFC Rules, in certain circumstances, undistributed profits of foreign companies and non-corporate structures (for instance, trusts, funds or partnerships) domiciled in foreign jurisdictions, which are ultimately owned and/ or controlled by Russian tax residents (legal entities and individuals) will be subject to taxation in Russia. The Russian CFC Rules are being further developed. Certain provisions of the Russian CFC Rules are still ambiguous and may be subject to arbitrary interpretation by the Russian tax authorities.

Under the concept of tax residency for legal entities, a foreign legal entity may be recognised as a Russian tax resident if such entity is in fact managed from Russia. When an entity is recognised as Russian tax resident, it is obligated to register with the Russian tax authorities, calculate and pay Russian tax on its worldwide income and comply with other tax-related rules established for Russian entities. The new rules set principal and secondary criteria for determining the place of management (among other things, the place where the company's executive body operates). However, there is some uncertainty as to how these criteria will be applied by the Russian tax authorities in practice.

A beneficial ownership concept, which is broadly in line with the concept developed by the Organisation for Economic Co-operation and Development (the "**OECD**"), has also been added to the Russian Tax Code. In particular, based on this concept the treaty relief should be available to foreign legal entities provided they have the actual right to receive income (*i.e.*, they qualify as a "beneficial owner of income"). A beneficial owner is defined as a person holding directly, through its direct and/or indirect participation in other organisations or otherwise, the right to own, use or dispose of income, or the person on whose behalf another person is authorised to use and/or dispose of such income. When determining the beneficial owner, the functions of a foreign person that is claiming the application of reduced tax rates under an applicable double tax treaty and the risks that such person takes should be analysed. The benefits of a double tax treaty will not apply if a foreign person claiming such benefits has limited powers to dispose of the relevant income, fulfils intermediary functions without performing any other duties or taking any risks and paying such income (partially or in full) directly or indirectly to another person who would not be entitled to the same benefits should it received the income in question directly from Russia. The Russian Tax Code gives the right to the tax agent (*i.e.*, the payer of income) to require, in addition to a certificate of tax residency, a confirmation from the recipient of the income that it is the beneficial owner of the income; starting from 1 January 2017, a non-resident income recipient should be obliged to provide a tax agent with such confirmation. However, at the moment it is still not clear in what form such confirmation should be obtained.

Introduction of these new rules and concepts is likely to impose additional administrative burden on the Group. No assurance can currently be given as to how the above concepts will be applied in practice, their potential interpretation by the Russian tax authorities and the possible impact (including additional tax liability, if any) on the Group. Therefore, it cannot be excluded that the Group might be subject to additional tax liabilities because of these changes being introduced and applied to transactions carried out by the Group, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

On 1 July 2015, the Convention on Mutual Administrative Assistance in Tax Matters developed by the Council of Europe and the OECD came into effect in Russia. On 12 May 2016, the Russian Federation signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (thereby joining the Standard for Automatic Exchange of Financial Account Information (Common Reporting Standard)) which enables the Russian tax authorities (from 2018) to obtain information for tax purposes from foreign countries, including certain offshore jurisdictions.

Each of foregoing factors creates tax risks in Russia that may be substantially more significant than those typically found in countries with more developed tax systems. These tax risks impose additional burdens and costs on the Group's operations, including management resources. Although the Group undertakes measures aimed at minimising tax risks and strives to comply with Russian tax laws and regulations, there can be no assurance that the Group would not be required to make substantially larger tax payments in the future and that certain transactions and activities of the Group that have not been challenged in the past may be challenged in the future, resulting in a greater than expected tax burden. These risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, and could materially adversely affect the Group's business, results of operations or financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Furthermore, Russian tax legislation is consistently becoming more sophisticated. It is possible that new revenue raising measures could be introduced. Although it is unclear how any new measures would operate, the introduction of such measures may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. No assurance can be given that no additional tax exposures will arise. Additional tax exposures could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Russian transfer pricing rules may adversely affect the Group's business, financial condition and results of operations

The Russian transfer pricing legislation allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to "controlled" transactions. The list of "controlled" transactions under the transfer pricing legislation includes transactions performed with related parties and certain types of cross-border transactions. This legislation shifts the burden of proving market prices from the Russian tax authorities to the taxpayer. Although this legislation has been modelled on the basis of the transfer pricing principles developed by the OECD, there are some peculiarities as to how the OECD transfer pricing principles are reflected in the Russian rules. Special transfer pricing rules continue to apply to transactions with securities and derivatives.

Accordingly, due to uncertainties in the interpretation of Russian transfer pricing legislation and the absence of court practice, no assurance can be given that the Russian tax authorities will not challenge the Group's prices and make adjustments which could adversely affect the Group's tax position. The imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Payments under the Guarantee may be subject to Russian withholding tax

Payments under the Guarantee to be made by the Guarantor to the Trustee (acting on behalf of the Noteholders) might be characterised as Russian source income that would be subject to the Russian withholding tax at a rate of 20 per cent for the Non-Resident Noteholder-Legal Entity or 30 per cent for the Non-Resident Noteholder-Individual, unless the Russian withholding tax is reduced or eliminated based on the applicable double tax treaty or the Russian tax exemption relating to such payments is applied. However, obtaining of advance relief or a refund of the tax withheld by the Non-Resident Noteholder-Individual may be extremely difficult. See "*Taxation — The Russian Federation*".

If payments under the Guarantee become subject to Russian withholding tax, the Guarantor will be obliged (subject to certain conditions) to pay additional amounts so as to result in the receipt by the Noteholders (or the Trustee acting on behalf of the Noteholders) of such amounts as would have been received by them if no such tax withholding or deduction had been required. See "*Terms and Conditions of the Notes — Taxation*".

The Russian Tax Code provides that the taxpayers, including foreign persons who receive Russian source income, must pay legally established taxes. To the extent Russian courts interpret the provisions obliging the Guarantor to gross up payments under the Guarantee as an arrangement providing for payment by one party of taxes imposed on another party, the relevant gross-up provisions will not be enforceable under the Russian laws. Accordingly, there is a risk that gross up for withholding tax will not take place and that the payments made by the Guarantor under the Guarantee will be reduced by the amount of the Russian income tax withheld by the Guarantor at the rate of 20 per cent (in the case of applicability of the rate established for Non-Resident Noteholders-Legal Entities) or at a rate of 30 per cent (in the case of applicability of the rate established for Non-Resident Noteholders-Individuals), or such other rate as may be in force at the time of payment.

Tax might be withheld on proceeds received from a source within Russia upon disposals of the Notes reducing their value

Generally, there should be no Russian withholding tax on gains from sale or other disposition of the Notes imposed on Non – Resident Noteholder – Legal Entity. There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the Notes (*i.e.*, debt obligations) where proceeds from sale or other disposition of the Notes are received from a source within Russia by a Non-Resident Noteholder–Legal Entity, which is caused by isolated precedents in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the Notes. Although the Russian Ministry of Finance in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest on the Notes paid to a non-Russian organization should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having a registered tax presence in Russia which purchases the Notes or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20 per cent (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds.

Where proceeds from the sale or other disposal of the Notes are deemed to be received from a source within Russia by a Non-Resident Noteholder-Individual, a Russian personal income tax at a tax rate of 30 per cent will apply to the gross amount of sales or other disposal proceeds realised upon such sale or other disposal of the Notes less any available duly documented cost deductions (including the acquisition cost of the Notes and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes), provided that the documentation supporting cost deductions is available to the person obliged to calculate and withhold Russian personal income tax in a timely manner. Although such tax may be reduced or eliminated based on provisions of an applicable double tax treaty subject to timely compliance by that Noteholder with the treaty clearance formalities, in practice a Non-Resident Noteholder-Individual may not be able to obtain the advance treaty relief in relation to sales or disposal proceeds received from a source within Russia, whilst obtaining a refund of taxes withheld can be extremely difficult, if not impossible.

Further, even though the Russian Tax Code requires only a Russian professional asset manager or broker or another person (including an economically autonomous subdivision of a foreign company in Russia or an individual entrepreneur located in Russia) acting under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or a commercial mandate agreement to withhold the tax from payment to an individual associated with disposition of securities, there is no guarantee that other Russian companies or foreign companies operating in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax.

The imposition or possibility of imposition of Russian withholding tax, as applicable, under such circumstances could adversely affect the value of the Notes. See "*Taxation — The Russian Federation*".

RISKS RELATING TO THE NOTES

The Notes may be redeemed at the option of the Issuer in certain circumstances

The Issuer may at its option redeem the Notes if, as a result of certain changes affecting taxation in any Relevant Jurisdiction (as defined in "*Terms and Conditions of the Notes*"), which are announced, enacted or become effective on or after the date of this Prospectus, the Issuer or the Guarantor becomes obliged to pay additional amounts so that the net amount received by the Noteholder after deduction or withholding for any taxes imposed by any Relevant Jurisdiction is not less than the full amount then due and payable. If the Issuer redeems the Notes in such circumstances, the redemption price will be equal to 100 per cent of the principal amount of the Notes plus any interest and additional amounts (if any) due.

The Notes may not have an active trading market, which may have an adverse impact on the value of the Notes

An active trading market for the Notes may not develop. The Notes have not been registered under the Securities Act or any U.S. state securities laws and, unless so registered, may not be offered or sold except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. Application has been made for admission to trading of the Notes on the Official List. However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes or that such holders will be able to sell their Notes for a price that reflects their value. Liquidity may be further limited if the Issuer makes a large allocation of the Notes to a limited number of investors.

In addition, the market for emerging market debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. There can be no assurance that the market for the Notes will not be subject to similar disruptions. Any such disruptions may affect the market price of the Notes.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Group's and its competitors' operating results, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts, the actual or anticipated sale of a large number of Notes or other securities and other factors. In addition, securities markets, in recent periods, have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities are traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited

Except in limited circumstances, the Notes will be issued only in global form with interests therein held through the facilities of Euroclear and Clearstream, Luxembourg and DTC. Ownership of beneficial interests in the Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and DTC or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because Euroclear and Clearstream, Luxembourg and DTC can only act on behalf of their participants, which in turn act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a Note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear or Clearstream, Luxembourg or DTC systems may be impaired.

The Notes are subject to restrictions on transfer

The Notes are being offered and sold in the United States in reliance on Rule 144A (the "**Rule 144A Offering**") to purchasers who are QIBs. The Notes also may be offered and sold outside the United States (the "**Regulation S Offering**") in reliance on Regulation S. Each purchaser of Notes pursuant to the Rule 144A Offering will be deemed to have represented to the Issuer that it is a QIB. Each purchaser of the Notes pursuant to the Regulation S Offering will be deemed to have represented to the Issuer that it is purchasing the Notes in an "offshore transaction" as such term is defined in Regulation S. See "*Transfer Restrictions*".

The Notes are subject to risks relating to exchange rate and exchange controls

The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or current unit (the "**Investor's Currency**") other than the U.S. dollar. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease (i) the Investor Currency's equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

Changes to the credit ratings of the Group or the Notes may adversely affect the value of the Notes

The Notes are expected to be rated "BB-" (outlook positive) by Fitch, "Ba1" (outlook negative) by Moody's and "BB-" (stable) by Standard & Poor's. The foregoing credit ratings do not mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. The significance of each rating should be analysed independently from any other rating. Ratings provided by other rating agencies may be different. On 27 May 2016, upon request of PJSC Polyus, Fitch withdrew the ratings of PJSC Polyus, the parent company of the Guarantor, although the ratings of the Company are unaffected by the withdrawal. Any changes in the credit ratings of the Group or the Notes could adversely affect the value of the Notes and the price that a subsequent purchaser will be willing to pay for the Notes.

If the Issuer sells, or otherwise disposes of, all or a majority of its holding in the share capital of PJSC Polyus, changes its domicile or elects to transfer all of its rights and obligations under the Notes to a Substituted Issuer, in each case as permitted under the Conditions, certain covenants set forth in the Conditions will cease to apply to the Issuer, and the Trustee and the Noteholders may not have recourse to the Issuer or PJSC Polyus until PJSC Polyus accedes to the Trust Deed as a guarantor or, as applicable, the Issuer or the Substituted Issuer, as the case may be, may become subject to a new legal and regulatory regime different to the regime currently applicable to the Issuer

The Conditions allow the Issuer to sell, lease, assign, transfer, convey or otherwise dispose of any shares in the share capital of PJSC Polyus. As a result of such disposal, the Issuer may cease to hold 50 per cent or more of the share capital of PJSC Polyus, which may result in PJSC Polyus no longer being a consolidated subsidiary of the Issuer and the Issuer ceasing to be a holding company of the Group. If such a sale or disposal is effected, the covenants set forth in the Conditions will continue to apply to the Guarantor and its Subsidiaries, but will cease to apply to the Issuer, other than certain covenants relating to liens and indebtedness. In particular, the Issuer will no longer furnish the IFRS financial statements with respect to the Group. Instead, PJSC Polyus will provide the IFRS financial statements with respect to it and its consolidated Subsidiaries. Upon such a sale, notwithstanding the fact that the covenants will continue to apply to the Guarantor and its Subsidiaries, the Trustee and the Noteholders will not have recourse to PJSC Polyus or its assets prior to PJSC Polyus' accession to the Trust Deed as a guarantor.

Pursuant to the Conditions, the Issuer also may, at any time, without the consent of the Noteholders, transfer all of its rights and obligations under the Notes and the Trust Deed to another entity or corporation organised under the laws of any jurisdiction, which satisfies "know your client" and similar regulatory requirements of the Trustee and complies with certain other criteria and conditions (the "**Substituted Issuer**"). The Issuer may also, at any time, re-domicile by transferring its registered office to, establish or continue its corporate existence in, or change its place of main interest to, another jurisdiction being Jersey, Guernsey, the UK or any member state of the European Economic Area. As a result of any such change in the Issuer's jurisdiction or the Substituted Issuer assuming the obligations of the Issuer under the Notes and the Trust Deed, the Issuer or the Substituted Issuer, as the case may be, may become subject to a new legal and regulatory regime different to the one currently applicable to the Issuer.

The right of Noteholders to receive payments under the Notes is effectively subordinated to any liabilities of the Issuer's and the Guarantor's subsidiaries

The Issuer is a holding company, and while the Guarantor is the principal operating subsidiary of the Group, some of the Group's operations are conducted through the Guarantor's subsidiaries, and, to a certain extent, the Issuer and the Guarantor may depend on the earnings and cash flows of these subsidiaries to meet their respective obligations, including their obligations under the Notes and the Guarantee. Since these subsidiaries do not guarantee the Issuer's payment obligations under the Notes, Noteholders will not have any direct claim on the subsidiaries' cash flows or assets. In the event of a bankruptcy, liquidation or reorganisation of any of the Guarantor's subsidiaries, their creditors will generally be entitled to payment of their claims from the cash flows and assets of those subsidiaries before any cash flows or assets are made available for distribution to the Guarantor as a shareholder. This may adversely affect the Issuer's and the Guarantor's ability to service their payment obligations under the Notes and the Guarantee.

In particular, payments by JSC Matrosova Mine in the amount of approximately RUB 4.5 million under one of its utilities contracts are more than three months overdue, as confirmed by the decision of the Arbitrazh Court of Magadan Region dated 15 June 2016 and the appeal of that decision by JSC Matrosova Mine was dismissed in September 2016. As a matter of Russian bankruptcy law, the claimant has become entitled to initiate bankruptcy procedures in respect of JSC Matrosova Mine. However, given that JSC Matrosova Mine plans to file a further cassation appeal, the Company believes it is unlikely that any such claim will be filed before the decision of the cassation court is issued. Should the cassation court uphold the decision of the lower courts and should JSC Matrosova Mine fail to comply with such court's decision, the claimant may initiate bankruptcy procedures in respect of JSC Matrosova Mine. Commencement of bankruptcy procedures against JSC Matrosova Mine and/or a failure by JSC Matrosova Mine to repay the overdue debt may, after the lapse of any grace periods under the relevant financing agreements to which the Issuer, the Guarantor and/or certain Guarantor's subsidiaries are party, lead to the acceleration of the existing payment obligations of the Issuer, the Guarantor and/or the relevant Guarantor's subsidiaries and/or may constitute an event of default or a breach of covenants under those financing agreements, which may adversely affect the Issuer's and the Guarantor's ability to service their payment obligations under the Notes and the Guarantee.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or to the review by, or regulation of, certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments to it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Further Issues of Notes

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest, the date of issue and the amount of principal) so as to be consolidated and form a single series with the Notes. Even if such additional securities are treated for non-tax purposes as part of the same series as the Notes, such additional securities may in some cases be treated as a separate series for U.S. federal income tax purposes. In such case, such additional securities may be considered to have been issued with original issue discount ("**OID**") even if the Notes were not issued with OID for U.S. federal income tax purposes. These differences may affect the market value of the Notes if such additional securities are not otherwise distinguishable from the Notes.

Under certain circumstances, payments on the Notes may be subject to U.S. information reporting and withholding tax under FATCA

Under the Foreign Account Tax Compliance Act provisions of the U.S. Internal Revenue Code ("**Code**") and related U.S. Treasury guidance ("**FATCA**"), a withholding tax of 30 per cent will be imposed in certain circumstances on (i) payments of certain U.S. source income (including interest and dividends) and gross proceeds from the sale or other disposition of property that can produce U.S. source interest or dividends ("**withholdable payments**") and (ii) payments by certain foreign financial institutions (such as banks, brokers, investment funds or certain holding companies) ("**FFIs**") that agree to comply with FATCA ("**participating FFIs**") that are attributable to withholdable payments ("**foreign passthru payments**"). It is uncertain at present when payments will be treated as "attributable" to withholdable payments. FATCA withholding on foreign passthru payments generally will not apply to debt obligations that are issued on or before the date that is six months after the date on which the final U.S. Treasury regulations that define "foreign passthru payments" ("**passthru payment regulations**") are filed unless such obligations are materially modified after that date.

It is possible that, in order to comply with FATCA, the Issuer or the Guarantor (or if the Notes are held through an FFI, such FFI) may be required, pursuant to an agreement with the United States (an "**FFI Agreement**") or under applicable non-U.S. law enacted in connection with an intergovernmental agreement between the United States and another jurisdiction (an "**IGA**") to request certain information and documentation from the holders or beneficial owners of the Notes, which may be provided to the IRS. In addition, if the terms of the Notes are materially modified on a date more than six months after the date on which the passthru payment regulations are filed, then it is possible that the Issuer, the Guarantor or such other financial institution through which the Notes are held may be required to apply the FATCA withholding tax to any payment with respect to the Notes treated as a foreign passthru payment made after the later of (a) 31 December 2018 and (b) the date on which the passthru payment regulations are published if any required information or documentation is not provided or if payments are made to certain FFIs that have not agreed to comply with an FFI Agreement (and are not subject to similar requirements under applicable non-U.S. law enacted in connection with an IGA).

Each non-U.S. person considering an investment in the Notes should consult its own tax advisor regarding the application of FATCA to the Notes.

Payments of interest on the Notes may be subject to UK withholding tax unless an exemption is available

The Issuer is managed and controlled in the UK and is currently treated as UK resident for UK tax purposes. Accordingly, interest on the Notes will have a UK source and, as such, payments of interest on the Notes will be subject to UK withholding tax unless an exemption is available under UK domestic law or an applicable double tax treaty. In view of the fact that the Notes will be admitted to the Official List and to trading on the London Stock Exchange's regulated market, which is a "recognised stock exchange" for the purposes of UK domestic law, under current law the quoted Eurobond exemption should apply. In the event that the Notes are no longer determined to be listed on a "recognised stock exchange" for the purposes of UK domestic law, other exemptions may be available. If any withholding or deduction on account of UK tax is required to be made (see "*Taxation — United Kingdom — Payments on the Notes — Withholding Tax*"), the Issuer or the Guarantor (as the case may be) will generally be obliged, except in certain circumstances (see "*Terms and Conditions of the Notes — Taxation*"), to pay such additional amounts so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required.

There can be no assurance that the quoted Eurobond exemption will continue to apply to payments of interest on the Notes, or that individual Noteholders will be entitled to additional amounts under the Terms and Conditions of the Notes in the event that any UK withholding tax becomes applicable to payments of interest on the Notes.

A derogation has been granted by the Financial Conduct Authority in relation to the Guarantor

Under Annex VI of the European Commission Regulation (EC) No 809/2004, as amended, a guarantor must disclose information about itself as if it were the issuer of that same type of security that is the subject of the guarantee. This normally requires the inclusion of a guarantor's individual financial statements in the prospectus relating to such securities. The Issuer has applied to the Financial Conduct Authority for derogation from the requirement for the Guarantor to include its individual financial statements in this Prospectus. Under Regulation 25(c) of the Prospectus (Directive 2003/71/EC) Regulations 2005, the Financial Conduct Authority has granted such derogation. The equivalent information is included in the Annual Financial Statements included in this Prospectus.

USE OF PROCEEDS

The Company intends to use the net proceeds from the issue of the Notes primarily for debt refinancing and other general corporate purposes of the Group, including financing of operating activities and development projects of other members of the Group.

CAPITALISATION

The following table sets forth the Company's consolidated cash and cash equivalents and capitalisation as of 30 June 2016, derived from the Interim Financial Statements included elsewhere in this Prospectus. The following table should be read in conjunction with "*Selected Consolidated Financial and Other Information*", "*Operating and Financial Review*" and the Financial Statements included elsewhere in this Prospectus.

(in millions of U.S. dollars)	**As of 30 June 2016**
Cash and cash equivalents	**1,676**
Current borrowings	138
Non-current borrowings	4,709
Total borrowings	**4,847**
Capital and reserves	
Share capital	1
Additional paid-in capital	1,493
Cash flow hedge revaluation reserve	31
Translation reserve	(2,732)
Retained earnings	193
Accumulated deficit attributable to shareholders of the Company	**(1,014)**
Capitalisation (total borrowings and equity attributable to shareholders of the Company)	**3,833**

There have been no material changes in the consolidated capitalisation of the Company and its subsidiaries since 30 June 2016.

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The tables set forth below show certain selected consolidated financial and other information of the Group as of the dates and for the periods indicated below. For a discussion of the presentation of financial information, see "Presentation of Financial and Other Information".

The financial information as of and for the years ended 31 December 2015, 2014 and 2013 has been derived from the Annual Financial Statements included elsewhere in this Prospectus. The financial information as of 30 June 2016 and for the six months ended 30 June 2016 and 2015 set forth below has been derived from the Interim Financial Statements included elsewhere in this Prospectus. Prospective investors should not rely on interim results as being indicative of results the Group may expect for the full year.

See "Presentation of Financial Information and Other Information". The selected consolidated financial information should be read in conjunction with "Operating and Financial Review" and the Financial Statements and the notes thereto included elsewhere in this Prospectus.

(in millions of U.S. dollars, unless otherwise indicated)	***Year ended 31 December***			***Six months ended 30 June***	
	2015	***2014***	***2013***	***2016***	***2015***
Gold production (koz)	1,763	1,696	1,652	839	784
Gold sold (koz)	1,768	1,691	1,631	837	799
Average realised gold price (excluding effect of SPPP) (US$/oz)	1,155	1,275	1,385	1,223	1,202
Average realised gold price (including effect of SPPP) (US$/oz)	1,221	1,300	1,385	1,277	1,257
Gold sales	2,159	2,197	2,259	1,069	1,005
Other sales	30	42	70	13	14
Total revenue	**2,189**	**2,239**	**2,329**	**1,082**	**1,019**
Cost of gold sales	(876)	(1,174)	(1,347)	(379)	(406)
Cost of other sales	(26)	(33)	(47)	(12)	(12)
Gross profit	**1,287**	**1,032**	**935**	**691**	**601**
Selling, general and administrative expenses	(166)	(183)	(226)	(66)	(74)
Other expenses, net	(2)	(20)	(15)	(12)	-
Reversal of impairment / (impairment losses)	22	17	(472)	1	4
Operating profit	**1,141**	**846**	**222**	**614**	**531**
Finance costs	(48)	(26)	(14)	(73)	(43)
Interest income on bank deposits	59	31	27	17	31
Loss on derivative financial instruments and investments, net	12	(934)	(5)	(142)	145
Foreign exchange gain / (loss), net	149	123	4	257	(5)
Profit before income tax	**1,313**	**40**	**234**	**673**	**659**
Income tax expense	(194)	(222)	(91)	(179)	(76)
Profit / (loss) for the year from continuing operations	**1,119**	**(182)**	**143**	**494**	**583**
Profit from discontinued operations	-	-	6	-	-
Profit / (loss) for the year	1,119	(182)	149	494	583
Profit / (loss) for the year from continuing operations attributable to:					
Shareholders of the Company	1,033	(164)	134	460	552
Non-controlling interests	86	(18)	9	34	31
Earnings / (loss) per share (U.S. Cents), basic[(1)]	34	(5)	4	19	18
Earnings / (loss) per share (U.S. Cents), diluted[(1)]	34	(5)	4	19	18
Adjusted net profit	**901**	**615**	**565**	**401**	**432**
Adjusted net profit margin (%)	**41**	**27**	**24**	**37**	**42**

Note:

1. There are no financial instruments or any other instances which could cause an antidilutive effect on the earnings / (loss) per share calculation.

(in millions of U.S. dollars)	*Year ended 31 December* 2015	2014(1)	2013(1)	*Six months ended 30 June* 2016	2015
Consolidated cash flow information					
Net cash generated from operating activities	1,076	866	454	477	515
Net cash utilised in investing activities	(487)	(774)	(1,023)	(114)	(118)
Net cash generated from / (utilised in) financing activities	269	393	461	(758)	(290)
Net increase / (decrease) in cash and cash equivalents	**858**	**485**	**(108)**	**(395)**	**107**
Cash and cash equivalents at beginning of the year	1,217	809	960	2,039	1,217
Effect of foreign exchange rates on cash and cash equivalents	(36)	(77)	(43)	32	4
Cash and cash equivalents at end of the year	**2,039**	**1,217**	**809**	**1,676**	**1,328**

Note:

1. Net cash generated from operating activities and net cash generated from financing activities as presented above have been adjusted and do not correspond with the information presented in the statements of cash flow for the years ended 2014 or 2013 included in the 2014 Financial Statements, due to the reclassification of interest paid, gain on exchange of interest payments and cross-currency rate swaps from operating activities into financing activities. The amounts reclassified for 2014 and 2013 were 57 million and 32 million, respectively, which increased net cash flow from operating activities and net cash flow utilized in financing activities.

(in millions of U.S. dollars)	*As of 31 December* 2015	2014	2013	*As of 30 June* 2016	2015
Consolidated statement of financial position information					
ASSETS					
Non-current assets					
Property, plant and equipment	2,023	2,351	3,532	2,440	2,449
Derivative financial instruments and investments	212	172	2	32	148
Inventories	184	227	295	216	236
Deferred tax assets	46	47	-	62	62
Other non-current assets	8	3	-	23	4
Total non-current assets	**2,473**	**2,800**	**3,829**	**2,773**	**2,899**
Current assets					
Inventories	296	440	702	374	428
Derivative financial instruments and investments	20	-	-	11	
Deferred expenditures	13	13	16	25	26
Other receivables	14	11	27	21	15
Advances paid to suppliers and prepaid expenses	18	16	28	15	16
Taxes receivable	63	48	250	67	54
Bank deposits	-	269	48	-	49
Cash and cash equivalents	2,039	1,217	809	1,676	1,328
Total current assets	**2,463**	**2,014**	**1,880**	**2,189**	**1,916**
TOTAL ASSETS	**4,936**	**4,814**	**5,709**	**4,962**	**4,815**
EQUITY AND LIABILITIES					
Equity attributable to shareholders of the Company(1)	1,714	1,474	3,679	(1,014)	1,885
Non-controlling interests	163	146	275	1	176
TOTAL EQUITY	**1,877**	**1,620**	**3,954**	**(1,013)**	**2,061**
Non-current liabilities					
Site restoration, decommissioning and environmental obligations	32	49	69	41	46
Borrowings	2,147	1,723	937	4,709	1,714
Derivative financial instruments	509	423	-	646	382

(in millions of U.S. dollars)	As of 31 December 2015	2014	2013	As of 30 June 2016	2015
Deferred tax liabilities	133	150	134	165	144
Other non-current liabilities	21	22	33	26	23
Total non-current liabilities	**2,842**	**2,367**	**1,173**	**5,587**	**2,309**
Current liabilities					
Borrowings	38	90	269	138	38
Derivative financial instruments	-	547	-	-	214
Trade, other payables and accrued expenses	150	154	260	193	148
Taxes payable	29	36	53	57	45
Total current liabilities	**217**	**827**	**582**	**388**	**445**
TOTAL LIABILITIES	**3,059**	**3,194**	**1,755**	**5,975**	**2,754**
TOTAL EQUITY AND LIABILITIES	**4,936**	**4,814**	**5,709**	**4,962**	**4,815**

Note:

1. Equity attributable to shareholders of the Company includes share capital, additional paid-in capital, cash flow hedge revaluation reserve, translation reserve and retained earnings.

(in millions of U.S. dollars, unless otherwise indicated)	Year ended 31 December 2015	2014	2013	Six months ended 30 June 2016	2015
Non-IFRS measures					
Adjusted EBITDA	1,268	1,011	910	689	589
Adjusted EBITDA margin (%)	58	45	39	64	58
Net debt	146	327	349	3,171	375
Net debt to Adjusted EBITDA (x)[(1)]	0.12	0.32	0.38	2.32	0.31

Note:

1. Net debt to Adjusted EBITDA ratio is calculated as net debt as at the end of the relevant period divided by Adjusted EBITDA for the relevant period. For the purposes of the semi-annual Net debt to Adjusted EBITDA ratio, Adjusted EBITDA is calculated as trailing the twelve months ended on 30 June 2016 (being Adjusted EBITDA for 2015 less Adjusted EBITDA for the six months ended 30 June 2015 plus Adjusted EBITDA for the six months ended 30 June 2016).

Adjusted EBITDA

Adjusted EBITDA has been calculated by management based on information derived from the Financial Statements. The following table sets out a reconciliation of the Group's Adjusted EBITDA for the six months ended 30 June 2016 and 2015.

(in millions of U.S. dollars, unless otherwise indicated)	Six months ended 30 June 2016	2015	Change (%)
Profit for the period	**494**	**583**	**(15)**
Income tax	179	76	136
Foreign exchange (gain) / loss	(257)	5	N.M.[(1)]
Loss / (gain) on derivative financial instruments and investments, net	142	(145)	(198)
Interest income on bank deposits	(17)	(31)	(45)
Finance costs	73	43	70
Depreciation and amortisation	66	62	6
Long-term incentive plan	6	-	N.A.
Reversal of impairment	(1)	(4)	(75)
Loss on property, plant and equipment disposal	4	-	N.M.
Adjusted EBITDA	**689**	**589**	**17**
Adjusted EBITDA margin (%)	64	58	6 ppts

Notes:

1. Not material.

The following table sets out a reconciliation of the Group's Adjusted EBITDA for the years ended 31 December 2015 and 2014.

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December*		
	2015	***2014***	***Change (%)***
Profit / (loss) for the year	**1,119**	**(182)**	**(715)**
Income tax	194	222	(13)
Foreign exchange gain	(149)	(123)	21
(Loss) / gain on derivative financial instruments and investments, net	(12)	934	(101)
Interest income on bank deposits	(59)	(31)	90
Finance costs	48	26	85
Depreciation and amortisation	128	182	(30)
Reversal of impairment	(22)	(17)	29
Long-term incentive plan	7	-	N.M.[(1)]
One-off professional services (delisting expenses)	15	-	N.M.[(1)]
Loss on property, plant and equipment disposal	(1)	-	N.M.[(1)]
Adjusted EBITDA	**1,268**	**1,011**	**25**
Adjusted EBITDA margin (%)	58	45	13 ppts

Note:

1. Not material.

The following table sets out a reconciliation of the Group's Adjusted EBITDA for the years ended 31 December 2014 and 2013.

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December*		
	2014	***2013***	***Change (%)***
(Loss) / profit for the year	**(182)**	**143**	**(227)**
Income tax	222	91	144
Foreign exchange	(123)	(4)	2,975
Depreciation and amortisation	182	214	(15)
Finance costs	26	14	86
Interest income on bank deposits	(31)	(27)	(15)
Loss / (gain) on derivative financial instruments and investments	934	5	18,580
(Reversal of impairment) / impairment losses	(17)	472	(104)
Loss on property, plant and equipment disposal	-	2	(100)
Adjusted EBITDA	**1,011**	**910**	**11**
Adjusted EBITDA margin (%)	45	39	6 ppts

Total Cash Costs

TCC and TCC per ounce sold have been calculated by management based on information derived from the Financial Statements.

The following table shows the Group's TCC per ounce sold for the six months ended 30 June 2016 and 2015.

	Six months ended 30 June		
(in millions of U.S. dollars, unless otherwise indicated)	*2016*	*2015*	*Change (%)*
Cost of gold sales	**379**	**406**	**(7)**
– property, plant and equipment depreciation	(65)	(64)	2
– provision for annual vacation paymen	-	1	N.M.[1]
– employee benefit obligations cost	(1)	-	N.M.
– change in allowance for obsolescence of inventor	-	1	N.M.
+ non-monetary changes in inventories[2]	3	5	(40)
TCC	**316**	**349**	**(9)**
Gold sales ('000 ounces)	837	799	5
TCC (US$ per ounce sold)	**377**	**436**	**(14)**

Notes:

1. Not material.

2. "Non-monetary changes in inventories" is a calculation to estimate the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

The following table shows the Group's TCC per ounce sold for the years ended 31 December 2015 and 2014.

	Year ended 31 December		
(in millions of U.S. dollars, unless otherwise indicated)	*2015*	*2014*	*Change (%)*
Cost of gold sales	**876**	**1,174**	**(25)**
– property, plant and equipment depreciation	(126)	(174)	(28)
– provision for annual vacation payment	(1)	1	(200)
– employee benefit obligations cost	(4)	(1)	300
– change in allowance for obsolescence of inventory	-	(14)	N.M.[1]
+ non-monetary changes in inventories[2]	4	3	33
TCC	**749**	**989**	**(24)**
Gold sales ('000 ounces)	1,768	1,691	5
TCC (US$ per ounce sold)	**424**	**585**	**(28)**

Notes:

1. Not material.

2. "Non-monetary changes in inventories" is a calculation to estimate the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

The following tables show the Group's TCC and TCC per ounce sold for the years ended 31 December 2014 and 2013.

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December* *2014*	*2013*	*Change (%)*
Cost of gold sales	**1,174**	**1,347**	**(13)**
– property, plant and equipment depreciation	(174)	(209)	(17)
– provision for annual vacation payment	1	(1)	N.M.[1]
– employee benefit obligations cost	(1)	(5)	(80)
– change in allowance for obsolescence of inventory	(14)	3	N.M.
+ non-monetary changes in inventories[2]	3	18	(83)
TCC	**989**	**1,153**	**(14)**
Gold sales ('000 ounces)	1,691	1,631	4
TCC (US$ per ounce sold)	**585**	**707**	**(17)**

Notes:

1. Not material.

2. "Non-monetary changes in inventories" is a calculation to estimate the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

All-In Sustaining Costs (AISC)

The following table shows the Group's AISC per ounce sold for the six months ended 30 June 2016 and 2015.

(in millions of U.S. dollars, unless otherwise indicated)	*Six Months ended 30 June* *2016*	*2015*	*Change (%)*
Total TCC	**316**	**349**	**(9)**
+ Selling, general and administrative expenses	66	74	(11)
Less: amortisation and depreciation included in selling, general and administrative expenses	(2)	(2)	-
+ stripping activity asset additions	30	57	(47)
+ sustaining capital expenditures[2]	56	14	300
+ unwinding of discounts on decommissioning liabilities	1	2	(50)
+ provision for annual vacation payment	-	(1)	N.M.[1]
+ change in allowance for obsolescence of inventory	-	(1)	N.M.
Total AISC	**467**	**492**	**(5)**
Gold sold ('000 ounces)	837	799	5
AISC (US$ per ounce sold)	**558**	**617**	**(10)**

Note:

1. Not material.

2. Sustaining capital expenditures represents 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.

The following table shows the Group's AISC per ounce sold for the years ended 31 December 2015 and 2014.

(in millions of U.S. dollars, unless otherwise indicated)	***Year ended 31 December*** 2015	2014	*Change (%)*
Total cash costs	**749**	**989**	**(24)**
+ Selling, general and administrative expenses included in selling, general and administrative expenses	166	183	(9)
Less: amortisation and depreciation	(3)	(4)	(25)
+ research expenses and other sustain expenses	1	-	N.M.[1]
+ stripping activity asset additions	104	109	(5)
+ sustaining capital expenditures	51	99	(48)
+ unwinding of discounts on decommissioning liabilities	4	4	-
+ provision for annual vacation payment	1	(1)	(200)
+ employee benefit obligations cost	4	1	300
+ change in allowance for obsolescence of inventory	-	14	N.M.
Total AISC	**1,077**	**1,394**	**(23)**
Gold sold ('000 ounces)	1,768	1,691	5
AISC (US$ per ounce sold)	**610**	**825**	**(26)**

Note:

1. Not material.

The following table shows the Group's AISC per ounce sold for the years ended 31 December 2014 and 2013.

(in millions of U.S. dollars, unless otherwise indicated)	***Year ended 31 December*** 2014	2013	*Change (%)*
Total cash costs	**989**	**1,153**	**(14)**
+ Selling, general and administrative expenses included in selling, general and administrative expenses	183	226	(19)
Less: amortisation and depreciation	(4)	(4)	-
+ research expenses and other sustain expenses	-	2	N.M.
+ stripping activity asset additions	109	38	187
+ sustaining capital expenditures	99	210	(53)
+ unwinding of discounts on decommissioning liabilities	4	5	(20)
+ provision for annual vacation payment	(1)	1	N.M.
+ employee benefit obligations cost	1	5	(80)
+ change in allowance for obsolescence of inventory	14	(3)	N.M.
Total AISC	**1,394**	**1,633**	**(15)**
Gold sold ('000 ounces)	1,691	1,631	4
AISC (US$ per ounce sold)	**825**	**1,002**	**(18)**

OPERATING AND FINANCIAL REVIEW

The following Operating and Financial Review includes forward-looking statements that involve risks and uncertainties. See "Risk Factors" and "Forward-Looking Statements" for a discussion of important factors that could cause the actual results to differ materially from the results described in the forward-looking statements contained in this Prospectus. The financial information as of and for the years ended 31 December 2015, 2014 and 2013 has been derived from the Annual Financial Statements included elsewhere in this Prospectus, and the financial information for the six months ended 30 June 2016 and 2015 has been derived from the Interim Financial Statements included elsewhere in this Prospectus. The following should be read in conjunction with the Financial Statements and the related notes included in this Prospectus. Investors should not rely solely on the information contained in this section.

Overview

The Group is the largest gold mining group in Russia based on ounces of gold produced, according to the Russian Union of Gold Miners, and with 64.3 million ounces of gold in JORC proven and probable reserves, has the fourth largest gold reserves in the world based on the most recent publicly available reports of other gold mining companies. The Group develops and mines hardrock gold and alluvial gold deposits, with its principal deposits in the Krasnoyarsk, Irkutsk, Magadan and Republic of Sakha (Yakutia) regions of Russia. The Group's total gold production in 2015 was 1,763 thousand ounces. For the year ended 31 December 2015, the Group had total gold sales of US$2,159 million, total revenue of US$2,189 million, profit for the period of US$1,119 million and, as at 31 December 2015, total assets of US$4,936 million and total equity of US$1,877 million. The Group's Adjusted EBITDA was US$1,268 million in 2015. TCC was US$424 per ounce in 2015, and AISC was US$610 per ounce in 2015. For the six months ended 30 June 2016, the Group had total gold sales of US$1,069 million, total revenue of US$1,082 million and profit for the period of US$494 million, and, as at 30 June 2016, total assets of US$4,962 million and total equity deficit of US$1,013 million. The Group's net debt as of 30 September 2016 was US$2,941 million. The Group's Adjusted EBITDA was US$689 million in the first six months of 2016. Total cash cost was US$377 per ounce in the first six months of 2016, and AISC was US$558 per ounce in the first six months of 2016.

Significant Factors Affecting the Group's Financial Results

The results of the Group are significantly affected by fluctuations in gold prices, the price of commodities that it requires for gold mining and production, such as cyanide, grinding balls, explosives, spare parts for equipment and mill lines, fuel, energy, oil and steel, as well as movements in currency exchange rates, particularly the rouble/U.S. dollar exchange rate.

The table below shows the gold price and average and period end RUB/US$ rates for the periods indicated:

	Year ended 31 December			*Six months ended 30 June*	
Average price / rate	***2015***	***2014***	***2013***	***2016***	***2015***
Average London afternoon gold price fixing (US$ per ounce)[1]	1,160	1,266	1,411	1,221	1,206
Average RUB/US$ rate[2]	60.96	38.42	31.85	70.26	57.42
Period end RUB/US$ rate[2]	72.88	56.26	32.73	64.28	55.52

Notes:

1. Source: London Bullion Market Association.
2. Source: The CBR.

Gold Prices

The market price of gold is the most significant factor influencing the revenues, profitability and operating cash flow of the Group. The global gold price has declined significantly since 2012, and has been subject to volatile movements over short periods of time. In 2014, the gold price was volatile and traded in the range US$1,142 per ounce to US$1,385 per ounce and averaged US$1,266 per ounce, 10 per cent lower than in 2013, when it averaged US$1,411 per ounce. In 2015, the average London afternoon gold pricing fixing was US$1,160 per ounce, eight per cent lower than in 2014, when it averaged US$1,266 per ounce. In the first six months of 2016, the average London afternoon gold pricing fixing was US$1,221 per ounce, one per cent higher than in the first six months of 2015, when it averaged US$1,206 per ounce. Gold opened in 2016 at US$1,073 per ounce and was US$1,314 per ounce on 20 September 2016. The Group initiated the SPPP in 2014, comprised of a series of zero cost Asian gold collars and gold forward contracts, aimed at increasing the certainty of a material proportion of the Group's cash flow in light of gold price volatility. In 2015, the SPPP covered 575 thousand ounces of gold sold during the year (32.5 per cent of total gold sold in 2015) and mitigated the decrease in gold price in 2015. See note 13 to the 2015 Financial Statements. In the first six months ended 30 June 2016, the SPPP covered 375 thousand ounces of gold sold during the first six months.

Foreign Currency Exchange Rates

The Group's revenue from gold sales is denominated in U.S. dollars, whereas most of the Group's operating expenses and capital expenditures are denominated in roubles. Accordingly, an appreciation of the Russian rouble against the U.S. dollar may negatively affect the Group's margins by increasing the U.S. dollar value of its rouble-denominated costs. Conversely, an appreciation of the U.S. dollar may positively affect the Group's margins by decreasing the U.S. dollar value of its Russian rouble-denominated costs. In 2015, the average RUB/US$ exchange rate was 60.96, compared to 38.42 in 2014, representing a 37 per cent year-on-year rouble decrease, and was 72.88 at year-end. In 2014, the average RUB/US$ exchange rate was 38.42, compared to 31.85 in 2013, representing a 17 per cent year-on-year rouble decrease, and was 56.26 at year-end. In the first six months ended 30 June 2016, the average RUB/US$ exchange rate was 70.26, compared to 57.42 in the six months ended 30 June 2015. The rouble started strengthening in the second half of February 2016, moving from RUB 77.8 / US$1.00 on 16 February 2016 to RUB 63.4 / US$1.00 on 1 October 2016. Management believes that the combination of sanctions imposed on the Russian economy (related to the Ukrainian conflict), combined with a steep fall in the oil price from US$96 per barrel Brent in 2014 to US$59 per barrel Brent at 2015 year-end, caused a sharp decline in the value of the rouble. This fall in the rouble positively affected the Group's operating margins in 2014 and 2015, though it reduced the value of the Group's net assets shown in its financial statements due to the use of the rouble as the functional currency of the Group's production subsidiaries.

In 2014, the Group sought to hedge its currency risk by purchasing put options and selling call options for a total amount of US$1,900 million. As a result of these transactions, the Group did not fully benefit from the rouble devaluation at the cash flow level in 2014. The negative effect from the collars in 2014 amounted to US$594 million. During 2015, all remaining outstanding options matured and resulted in a gain of US$53 million recognised in the profit or loss statement due to the revaluation of the currency collars. From 2016, the Group is fully unhedged with regard to the rouble in terms of free cash flow and EBITDA and, thus, is expected to benefit from any rouble devaluation. Cross-currency swaps effectively hedge the Company's debt in U.S. dollars and will expire in 2019 and 2021, matching corresponding debt maturities. However, to the extent any of its cash flows are unhedged, an appreciation of the Russian rouble against the U.S. dollar may negatively affect the Group's margins and its results of operations.

Seasonality

The Group's sales volumes of gold are typically higher in the summer months, primarily as a result of the seasonal nature of the Group's alluvial operations. Due to the cold temperatures of the winter months in the Irkutsk region, production of gold at the Group's Irkutsk alluvial business unit is limited mainly to the period of May to October. In 2015, gold production at alluvial operations comprised 10 per cent of the Group's total gold production (four per cent in the first six months of 2016). In addition, the more favourable weather conditions of the summer months enable the Krasnoyarsk business unit to produce and sell higher volumes of gold as compared to the winter period. See "*Risk Factors — The Group's principal operations are located in remote areas with harsh climates, which requires limiting production operations in the Irkutsk region to specific times of year, and the delivery of supplies to the areas where it operates may be disrupted or transportation costs may increase*".

Discussion of Results of Operations for the Six Months Ended 30 June 2016 and 2015

The following table shows a summary of the Group's condensed consolidated interim statement of profit or loss and the percentage change in the six months ended 30 June 2016 as compared to the six months ended 30 June 2015.

(in millions of U.S. dollars, unless otherwise indicated)	*Six months ended 30 June* *2016*	*2015*	*Change (%)*
Gold sales	1,069	1,005	6
Other sales	13	14	(7)
Total revenue	**1,082**	**1,019**	**6**
Cost of gold sales	(379)	(406)	7
Cost of other sales	(12)	(12)	-
Gross profit	**691**	**601**	**15**
Gross profit margin	64%	59%	5 ppts
Selling, general and administrative expenses	(66)	(74)	(11)
Other expenses, net	(12)	-	-
Reversal of impairment	1	4	(75)
Operating profit	**614**	**531**	**16**
Finance costs	(73)	(43)	(70)
Interest income on bank deposits	17	31	(45)
(Loss) / gain on derivative financial instruments and investments, net	(142)	145	(198)
Foreign exchange gain / (loss), net	257	(5)	5,240
Profit before income tax	**673**	**659**	**2**
Income tax expense	(179)	(76)	(136)
Profit for the period	**494**	**583**	**(15)**
Profit attributable to:			
Shareholders of the Company	460	552	(17)
Non-controlling interests	34	31	10
Earnings per share (U.S. Cents), basic[1]	19	18	6
Earnings per share (U.S. Cents), diluted[1]	19	18	6

Note:

1. There are no financial instruments or any other instances which could cause an antidilutive effect on the earnings / (loss) per share calculation.

Adjusted EBITDA

Adjusted EBITDA has been calculated by management based on information derived from the Financial Statements. The following table sets out a reconciliation of the Group's Adjusted EBITDA in the six months ended 30 June 2016 as compared to the six months ended 30 June 2015.

(in millions of U.S. dollars, unless otherwise indicated)	*Six months ended 30 June* *2016*	*2015*	*Change (%)*
Profit for the period	**494**	**583**	**(15)**
Income tax	179	76	136
Foreign exchange (gain) / loss	(257)	5	N.M.[1]
Loss / (gain) on derivative financial instruments and investments, net	142	(145)	(198)
Interest income on bank deposits	(17)	(31)	45
Finance costs	73	43	70
Depreciation and amortisation	66	62	6

(in millions of U.S. dollars, unless otherwise indicated)	*Six months ended 30 June* 2016	2015	*Change (%)*
Long-term incentive plan	6	-	N.A.
Reversal of impairment	(1)	(4)	75
Loss on property, plant and equipment disposal	4	-	N.M.
Adjusted EBITDA	**689**	**589**	**17**
Adjusted EBITDA margin (%)	64	58	6 ppts

Note:

1. Not material.

The Group's Adjusted EBITDA increased by 17 per cent to US$689 million in the six months ended 30 June 2016 from US$589 million in the six months ended 30 June 2015, with the Adjusted EBITDA margin improving by six per cent to 64 per cent. This increase was mainly due to the full-scale rollout of TOE, the weaker rouble against the U.S. dollar, higher sales volumes and the positive effect from the SPPP amounting to US$45 million.

Olimpiada and Blagodatnoye remained the main contributors to the Group's earnings in the six months ended 30 June 2016. EBITDA at Olimpiada has remained virtually unchanged in the first six months ended 30 June 2016 as compared to the six months ended 30 June 2015, due to a modest increase in TCC as a result of an increase in ore treatment volumes, which offset temporarily lower grades. At Blagodatnoye there was a considerable increase in EBITDA in the first six months of 2016 as compared to the same period in 2015 due to a significant increase in production as a result of higher grades and improved recoveries. Titimukhta posted a decrease in EBITDA in the first six months of 2016 as compared to the same period in 2015 as a result of considerably lower gold sales volumes as compared to the first six months ended on 30 June 2015, which was only partially offset by a decline in costs.

Total Cash Costs

The following table shows the Group's TCC and TCC per ounce sold in the six months ended 30 June 2016 as compared to the six months ended 30 June 2015. TCC and TCC per ounce sold have been calculated by management based on information derived from the Financial Statements.

(in millions of U.S. dollars, unless otherwise indicated)	*Six months ended 30 June* 2016	2015	*Change (%)*
Cost of gold sales	**379**	**406**	**(7)**
– property, plant and equipment depreciation	(65)	(64)	2
– provision for annual vacation payment	-	1	N.M. (1)
– employee benefit obligations cost	(1)	-	N.M.
– change in allowance for obsolescence of inventory	-	1	N.M.
+ non-monetary changes in inventories(2)	3	5	(40)
TCC	**316**	**349**	**(9)**
Gold sales ('000 ounces	837	799	5
TCC (US$ per ounce sold)	**377**	**436**	**(14)**

Notes:

1. Not material.

2. "Non-monetary changes in inventories" is a calculation to estimate the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

The Group's TCC per ounce decreased by 14 per cent to US$377 per ounce in the six months ended 30 June 2016 from US$436 per ounce in the six months ended 30 June 2015. As a result of the weaker rouble against the U.S. dollar, strong operational performance, and a positive impact from efficiency improvement initiatives, all mines demonstrated cost improvements in the first six months of 2016, despite pressures from inflationary trends.

The most visible progress was achieved at Kuranakh with TCC declining 24 per cent in the first six months ended 30 June 2016 to US$487 per ounce as compared to the six months ended 30 June 2015, due to lower labor costs mainly as a result of the depreciation of the Russian rouble, operational improvements, including increased ore processing volumes as a result of higher grinding circuit capacity, and higher production volumes. In addition, Kuranakh entered the electricity wholesale market in January 2016, which had a positive effect on electricity costs.

At the Group's largest mine, Olimpiada, TCC decreased by three per cent in the first six months ended 30 June 2016 to US$416 per ounce as compared to the six months ended 30 June 2015. Due to processing of the previously stockpiled lower grade material, there was a temporary decline in average grade in ore processed at Olimpiada. This was largely offset by operational improvements, including elevated ore processing volumes as a result of higher Titimukhta mill capacity utilisation and increased recoveries.

At Blagodatnoye, TCC decreased by 21 per cent in the first six months ended 30 June 2016 to US$279 per ounce as compared to the six months ended 30 June 2015, which was primarily driven by improvements in production, including higher grades and an increase in recoveries, along with a weaker rouble and higher grinding circuit capacity.

At Titimukhta, TCC decreased by 21 per cent in the first six months ended 30 June 2016 to US$396 per ounce as compared to the six months ended 30 June 2015, as a result of the rouble devaluation and a decrease in fixed costs as a result of limited mining activity. Operational improvements in processing activity provided additional cost savings, with higher grades in ore processed due to a selective approach in stockpiled ore treatment.

At Verninskoye, TCC decreased by 12 per cent in the first six months ended 30 June 2016 to US$407 per ounce as compared to the six months ended 30 June 2015. This was mainly due to an increase in recoveries, surpassing the design target parameter of 86 per cent. In addition, depreciation of the rouble helped offset the negative effect of the higher costs of reagents, explosives and repairs.

At Alluvials, TCC decreased by seven per cent in the first six months ended 30 June 2016 to US$550 per ounce as compared to the six months ended 30 June 2015. Depreciation of the rouble offset the higher spare expenses and outsourced mining services costs.

All-In Sustaining Costs

The following table shows the Group's AISC and AISC per ounce sold in the six months ended 30 June 2016 as compared to the six months ended 30 June 2015.

(in millions of U.S. dollars, unless otherwise indicated)	*Six months ended 30 June* 2016	2015	*Change (%)*
Total TCC	**316**	**349**	**(9)**
+ selling, general and administrative expenses	66	74	(11)
- amortisation and depreciation	(2)	(2)	-
+ stripping activity asset additions	30	57	(47)
+ sustaining capital expenditures	56	14	300
+ unwinding of discounts on decommissioning liabilities	1	2	(50)
+ provision for annual vacation payment	-	(1)	N.M.[1]
+ change in allowance for obsolescence of inventory	-	(1)	N.M.
Total AISC	**467**	**492**	**(5)**
Gold sold ('000 ounces)	837	799	5
AISC (US$ per ounce sold)	**558**	**617**	**(10)**

Note:

1. Not material.

The Group's AISC per ounce decreased by 10 per cent to US$558 per ounce in the six months ended 30 June 2016 from US$617 per ounce in the six months ended 30 June 2015. The lower AISC was mainly driven by the decrease in TCC and reduced stripping expenses, as well as lower selling, general and administrative expenses. The lowest cost asset, Blagodatnoye, demonstrated further substantial cost reduction, a decrease of 16 per cent as compared to the six months ended 30 June 2015, to US$375 per ounce for the six months ended 30 June 2016. At Alluvials, due to the seasonality of Alluvials, where washing season starts in the second quarter of 2016, AISC increased by 11 per cent as compared to the six months ended 30 June 2015, to US$1,151 per ounce, partially reflecting the six per cent decrease in gold in slime production as compared to the six months ended 30 June 2015.

Gold Sales

The following table shows the results and breakdown of the Group's gold sales in the six months ended 30 June 2016 as compared to the six months ended 30 June 2015.

Gold Sales	*Six months ended 30 June* 2016	2015	*Change (%)*
Gold sales (US$ millions)	1,069	1,005	6
Gold sales ('000 ounces)	837	799	5
Average realised gold price (excluding effect of SPPP) (US$ per ounce)	1,223	1,202	2
Average realised gold price (including effect of SPPP) (US$ per ounce)	1,277	1,257	2
Average London afternoon gold price fixing (US$ per ounce)[1]	1,221	1,206	1
Premium of average selling price (including effect of SPPP) over average London afternoon gold price fixing (US$ per ounce)	56	51	10

Note:

1. Source: London Bullion Market Association.

The following table shows the results and breakdown of the Group's gold production for the period indicated and the percentage change.

Production of Gold ('000 ounces)	***Six months ended 30 June*** ***2016***	***2015***	***Change (%)***
Refined Gold Production			
Krasnoyarsk region			
Olimpiada mine	332	357	(7)
Blagodatnoye mine	221	186	19
Titimukhta[(1)]	40	57	(30)
Poputninskoye	4	-	-
Irkutsk region			
Verninskoye	100	79	27
Alluvials	33	33	-
Republic of Sakha (Yakutia) region			
Kuranakh	78	66	18
Refined gold	**808**	**779**	**4**
Gold in flotation concentrate	31	5	520
Total gold produced	**839**	**784**	**7**

Notes:

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

2. Not material.

The Group's revenue from gold sales increased by six per cent to US$1,069 million in the six months ended 30 June 2016 from US$1,005 million in the six months ended 30 June 2015. In the six months ended 30 June 2016, gold sales volumes increased by five per cent to 837 thousand ounces from 799 thousand ounces in the six months ended 30 June 2015. Due to a growth in gold prices with the average LBMA price increasing one per cent to US$1,221 per ounce as compared to the six months ended 30 June 2015, the Group benefited from the SPPP, which was launched by the Group in March 2014 and set the price floor for a significant amount of gold sold. The positive effect of the SPPP on the average selling price in the six months ended 30 June 2016 amounted to US$54 per ounce, as compared to US$55 per ounce in the first six months ended 30 June 2015. The SPPP covered 375 koz gold sold during the first six months of each of 2016 and 2015. Mine-by-mine gold sales were broadly in line with the production performance of each asset, with no serious delays in sales volumes at the Group's operations in the first six months of 2015.

Cost of Gold Sales

The following tables shows the components of the Group's cost of gold sales for the six months ended 30 June 2016 and 2015.

(in millions of U.S. dollars)	***Six months ended 30 June*** ***2016***	***2015***	***Change (%)***
Labor	96	110	(13)
Consumables and spares	112	94	19
Tax on mining	60	70	(14)
Fuel	32	32	-
Power	12	17	(29)
Outsourced mining services	4	3	33
Other	16	27	(41)
Cash operating costs	**332**	**353**	**(6)**

(in millions of U.S. dollars)	Six months ended 30 June 2016	2015	Change (%)
Depreciation and amortisation of operating assets	65	64	2
Increase in gold-in-process and refined gold inventories	(18)	(11)	(64)
Cost of gold sales	**379**	**406**	**(7)**

The Group's cash operating costs decreased by six per cent to US$332 million in the six months ended 30 June 2016 from US$353 million in the six months ended 30 June 2015. The cost of the Group's gold sales decreased to US$379 million in the six months ended 30 June 2016 from US$406 million in the six months ended 30 June 2015, representing a seven per cent decrease. The major contributor to the overall decrease was the decrease in labor expenses. The positive effect from the TOE programme, as well as the impact of operational optimisation initiatives and the weaker rouble against the U.S. dollar contributed to the cost decrease and helped offset the increase in variable costs (resulting from higher production and sales volumes) and inflation.

Labor expenses decreased by 13 per cent to US$96 million in the six months ended 30 June 2016 from US$110 million in the six months ended 30 June 2015. As all the Group's labor expenses are denominated in roubles, rouble depreciation was a key factor in declining labor costs, despite annual salary indexation.

Consumables and spares' consumption expenses increased by 19 per cent to US$112 million in the six months ended 30 June 2016 from US$94 million in the six months ended 30 June 2015. The increase was due to the processing of higher volumes in the Company's mines and an increase in costs, which was offset in part by the ongoing implementation of the TOE programme. The slightly higher spare parts expenses reflected maintenance work scheduling, and an increase in the prices of major consumables and spare parts.

Fuel costs remained unchanged at US$32 million in the six months ended 30 June 2016 as the increase in transportation costs at Krasnoyarsk were offset by the weaker rouble against the U.S. dollar.

Power costs decreased by 29 per cent to US$12 million in the six months ended 30 June 2016 from US$17 million in the six months ended 30 June 2015. Notwithstanding annual tariffs indexation and overall higher production volumes, the decrease in power costs were due to a weaker rouble against the U.S. dollar and a decline in the average tariff at Kuranakh, as a result of Kuranakh entering the wholesale electricity market.

Mineral Extraction Tax payments decreased by 14 per cent to US$60 million in the six months ended 30 June 2016 from US$70 million in the six months ended 30 June 2015, as a result of a minor increase in the average realised gold price (excluding the effect of SPPP) as compared to the same period in 2015 and the currency translation effect because of the increased volatility in the foreign exchange rate in the period.

The cost of outsourced mining services increased by 33 per cent to US$4 million in the six months ended 30 June 2016 from US$3 million in the six months ended 30 June 2015.

Other costs declined by 41 per cent to US$16 million in the six months ended 30 June 2016, as a result of the rouble weakening, as well as a decrease in insurance, rent, repair and maintenance expenses.

On 23 May 2016, a pit wall failure occurred at Vostochny pit at Olimpiada, which resulted in a nine day suspension of mining works at the pit. The suspension of mining works at Olimpiada enabled its mining fleet to be used at Blagodatnoye to accelerate stripping works. Despite the incident at the mine, treatment volumes at Olimpiada were increased due to the availability of previously stockpiled ore.

Selling, general and administrative expenses

The following table sets forth the selling, general and administrative expenses of the Group for the six months ended 30 June 2016 and 2015 and the percentage change.

	Six months ended 30 June		
(in millions of U.S. dollars)	***2016***	***2015***	***Change (%)***
Salaries	45	53	(15)
Taxes other than mining and income taxes	6	6	-
Professional services	7	6	17
Amortisation and depreciation	2	2	-
Other	6	7	(14)
Total	**66**	**74**	**(11)**

The Group's selling, general and administrative expenses decreased by 11 per cent to US$66 million in the six months ended 30 June 2016 from US$74 million in the six months ended 30 June 2015, primarily due to cost optimisation measures and the effects of a weaker rouble against the U.S. dollar. The major component of selling, general and administrative expenses in the first six months of 2016 continued to be salaries, which declined by 15 per cent to US$45 million as of 30 June 2016 from US$53 million as of 30 June 2015.

Finance costs and interest income on bank deposits

The following table sets forth the components of financial and investment activity for the periods indicated and the percentage change.

	Six months ended 30 June		
(in millions of U.S. dollars)	***2016***	***2015***	***Change (%)***
Interest on borrowings	115	65	77
Gain on exchange of interest payments under cross currency swap	(11)	(18)	39
Gain on exchange of interest payments under interest rate swaps	(5)	(6)	17
Unwinding of discounts on site restoration, decommissioning and environmental liabilities	1	2	(50)
Bank one-off commissions	15	-	N.M. [1]
Other	1	-	N.M.
Sub-total finance cost	**116**	**43**	**170**
Interest capitalised in the cost of Mine under development and Capital construction-in progress	(43)	-	N.M.
Total finance cost expensed	**73**	**43**	**70**

Notes:

1. Not material.

The Group's total finance costs were US$73 million in the six months ended 30 June 2016, as compared to US$43 million in the six months ended 30 June 2015. This increase was mainly due to the decision by the Group to resume interest capitalisation with regards to the Natalka development project, which has entered an active stage with an increase in the construction work being carried out. The capitalised interest relating to the Natalka project amounted to US$43 million in the six months ended 30 June 2016, while there was no material capitalised interest in the six months ended 30 June 2015. Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps) increased to US$99 million in the six months ended 30 June 2016, as compared to US$41 million in the six months ended 30 June 2015. Interest rates increased due to higher gross debt, as well as an increase in the average interest rate to 4.7 per cent.

Gain / (loss) on derivative financial instruments and investments, net

Net loss on derivative financial instruments and investments was US$142 million in the six months ended 30 June 2016, as compared to gain amounting to US$145 million in the six months ended 30 June 2015. The following table sets forth the components of the gain / (loss) on derivative financial instruments and investments, net for the periods indicated and the percentage change.

	Six months ended 30 June		
(in millions of U.S. dollars)	*2016*	*2015*	*Change (%)*
Gain on currency collars	-	116	(100)
Revaluation gain on cross currency swaps	121	21	476
Gain on disposal of subsidiary	16	-	N.A.
Revaluation (loss) / gain on ineffective part of the revenue stabiliser under Tranches 1 and 2	(66)	7	M.M.
Revaluation loss on ineffective part of the revenue stabiliser under Tranches 3 and 4	(224)	-	N.A.
Revaluation gain on interest rate swap	12	2	500
Other	(1)	(1)	-
Total	**(142)**	**145**	**(198)**

Revenue stabiliser

In March 2014, the Group initiated the SPPP, comprised of a series of zero cost Asian gold collars ("**revenue stabiliser**") and gold forward contracts.

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

During the year ended 31 December 2015, the Group partially restructured its revenue stabiliser programme, taking advantage of gold price movements during the year. The restructuring was done at zero cost. The Group neither paid nor received any cash consideration in any of the transactions. During the second half of 2015, the Group completed the restructuring of Tranches 1 and 2 of the revenue stabiliser programme and began signing agreements under Tranche 3 and 4. The Group focused on deleveraging the revenue stabiliser structure by the restructuring of Tranches 1 and 2, which resulted in the closing out of part of the fourth-year options and the lowering of barriers on the remaining options for the first three years. Tranche 3 was launched in October 2015 and Tranche 4 of the revenue stabiliser programme was launched in February 2016. With the launch of Tranche 4, the Company estimates that approximately 48 per cent of the Group's gold output in 2016 will be protected under the revenue stabiliser.

Tranches 1 and 2 of the revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the cash flow hedge revaluation reserve within equity, whilst the remaining change in the fair value of the US$66 million loss is reflected in the condensed consolidated interim statement of profit or loss (see note 9 to the Interim Financial Statements). During the six months ended 30 June 2016, under Tranches 1 and 2, US$51 million of decrease was recognised in the cash flow hedge revaluation reserve within equity and following the sale of the hedged volume of gold and the exercise of certain options US$33 million was subsequently reclassified to gold sales within the condensed consolidated interim income statement.

Tranches 3 and 4 are accounted at fair value. During the six months ended 30 June 2016, loss resulting from the change in fair value totalled US$224 million (see note 9 of the condensed consolidated interim statement of profit or loss) for the six months period ended 30 June 2016. During the six months ended 30 June 2016, the realised gain of US$4 million for Tranches 3 and 4 collars was recognised within gold sales of the condensed consolidated interim statement of profit or loss.

For the six months ended 30 June 2016, the positive effect on revenue from the revenue stabiliser programme amounted to US$37 million.

Gold forward

During the year ended 31 December 2014, the Group entered into financing contracts to sell a total of 310 thousand ounces of gold monthly in equal quantities over a period of two years starting from 1 July 2014 and ending on 30 June 2016 at a fixed price of US$1,321 per ounce.

During the six months ended 30 June 2016, US$9 million of loss was recognised in the cash flow hedge revaluation reserve within equity and following the sale of the hedged amount of gold US$8 million was reclassified from the cash flow hedge revaluation reserve within equity into gold sales within the condensed consolidated interim statement of profit or loss. There are no outstanding balances of gold forwards as of 30 June 2016.

The positive effect on revenue from gold forward contracts in the first six months ended 30 June 2016 amounted to US$8 million, as gold traded below the Company's fixed contract price of US$1,321 per ounce.

For the first six months ended 30 June 2016, the combined effect of gold-linked derivatives (revenue stabiliser and forward contracts) on revenue amounted to US$45 million.

Cross currency swaps

Rouble denominated credit facilities with fixed interest rate

In April 2014, the Group signed a five-year RUB 36 billion credit facility agreement with Sberbank. The interest rate for this credit facility is 10.35 per cent. The revenue of the Group is linked to U.S. dollars as the gold price is denominated in U.S. dollars. The Group entered into a number of cross currency swaps with leading Russian banks to economically hedge interest payments and the exchange of principal amounts.

Under the cross currency swap agreements with the banks, the Group pays to the banks a quarterly three-month LIBOR plus margin of 2.47 per cent in U.S. dollars and receives from the banks 10.35 per cent in roubles; and at maturity (9 April 2019), the Group will exchange the related principal amounts by paying U.S. dollars US$1,023 million and receiving RUB 35,999 million.

Russian bonds

In July 2015, the Group placed RUB 15 billion in bonds. To economically hedge interest payments and principal amounts in exchange for these Russian bonds, the Group entered into cross currency swaps with leading Russian banks for a total amount of RUB 10 billion. Under the cross currency swap agreements, the Group will semi-annually pay to the banks six-month LIBOR plus margin of 4.45 per cent in U.S. dollars and receive from the banks 12.1 per cent in RUB; and at maturity (16 July 2021), the Group will exchange the principal amounts by paying US$173 million and receiving RUB 10,000 million.

Under IAS 39, the swaps were not eligible to be designated as cash flow or fair value hedges.

Interest rate swaps

In the first half of 2014, the Group entered into an interest rate swap agreement with leading Russian banks, under which the Group pays semi-annually and until 29 April 2020 three-month LIBOR plus 3.55 per cent in U.S. dollars and receives 5.625 per cent in U.S. dollars in respect of a US$750 million nominal amount. The purpose of this swap is to decrease the effective interest rate for the Company's US$750 million 5.625 per cent guaranteed notes due 2020 (the "**2020 Eurobonds**"). 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 them at fair value, which was determined using a discounted cash flow valuation technique.

The overall positive effect in the six months ended 30 June 2016 on finance costs from cross-currency and interest rate swaps amounted to US$16 million. This was recorded in finance costs as a realised gain on the exchange of interest payments under interest rate and cross currency swaps.

Foreign exchange gain

The Company's foreign exchange gain in the six months ended 30 June 2016 amounted to US$257 million, as compared to a US$5 million loss in the six months ended 30 June 2015. The increase reflects the revaluation of U.S. dollar-denominated debt and bank deposits as the functional currency of the subsidiaries of the Group is roubles.

In February 2016, the Group launched Tranche 4 of the revenue stabiliser programme in addition to the three existing Tranches. The Company estimates that approximately 48 per cent of the Group's gold output in 2016 is protected under the revenue stabiliser. No changes were made to the gold forward programme, and there are no outstanding balances with regards to the gold forward programme as at 30 June 2016.

Income tax expense

The Company's income tax amounted to US$179 million in the six months ended 30 June 2016, which is more than a two-fold increase as compared to the six months ended 30 June 2015. The current income tax expense in the six month period ended 30 June 2016 increased 91 per cent as compared to the six month period ended 30 June 2015, despite a steady increase in profit before tax. The reason for the increase was that the profit before tax in the first half of 2016 was negatively impacted by losses on derivative financial instruments and investments, for which deferred tax assets were fully provided.

Summary of performance results by business units

The following tables show the Group's performance results by business unit in the six months ended 30 June 2016 and 2015.

	Six months ended 30 June 2016						
(in millions of U.S. dollars, unless otherwise indicated)	***Gold sales***	***Gold sold ('000 ounces)***	***Production ('000 ounces)***	***Adjusted EBITDA***	***TCC per ounce of gold sold (US$ per ounce)***	***AISC per ounce of gold sold (US$ per ounce)***	***Capital expenditures***
Krasnoyarsk	806	622	624	544	363[1]	509[2]	49
Irkutsk alluvial	42	33	33	13	550	1,151	11
Irkutsk ore	121	100	100	74	407	491	6
Yakutia Kuranakh	95	78	78	54	487	705	12
Magadan	-	-	-	-	-	-	82
Exploration	5	4	4	1	1,010	-	3
Capital construction	-	-	-	-	-	-	18
Unallocated	-	-	-	3	-	-	4
Total	**1,069**	**837**	**839**	**689**	**377**	**558**	**185**

Note:

1. Calculated as weighted average of the relevant TCC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$416 million for Olimpiada, US$279 million for Blagodatnoye, US$396 million for Titimukhta.

2. Calculated as weighted average of the relevant AISC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$604 million for Olimpiada, US$375 million for Blagodatnoye, US$459 million for Titimukhta.

	Six months ended 30 June 2015						
(in millions of U.S. dollars, unless otherwise indicated)	***Gold sales***	***Gold sold ('000 ounces)***	***Production ('000 ounces)***	***Adjusted EBITDA***	***TCC per ounce of gold sold (US$ per ounce)***	***AISC per ounce of gold sold (US$ per ounce)***	***Capital expenditures***
Krasnoyarsk	792	621	606	492	413[1]	578[2]	15
Irkutsk alluvial	39	33	33	10	589	1,037	3
Irkutsk ore	96	79	79	58	462	521	8
Yakutia Kuranakh	78	66	66	33	640	757	2
Magadan	-	-	-	-	-	-	38
Exploration	-	-	-	(1)	-	-	1
Capital construction	-	-	-	1	-	-	28
Unallocated	-	-	-	(4)	-	-	1
Total	**1,005**	**799**	**784**	**589**	**436**	**617**	**96**

Note:

1. Calculated as weighted average of the relevant TCC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$429 million for Olimpiada, US$352 million for Blagodatnoye, US$499 million for Titimukhta.

2. Calculated as weighted average of the relevant AISC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$648 million for Olimpiada, US$444 million for Blagodatnoye, US$577 million for Titimukhta.

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales in the six months ended 30 June 2016 and 2015. Realised gains on derivatives of US$45 million were included within gold sales (US$44 million in the six months ended 30 June 2015).

Krasnoyarsk business unit (Olimpiada, Blagodatnoye and Titimukhta mines)

In the six months ended 30 June 2016, the Krasnoyarsk business unit sold 806 thousand ounces of gold, as compared to 792 thousand ounces of gold sold in the six months ended 30 June 2015. Sales volumes exclude gold produced from the Poputninskoye deposit, where trial mining was launched in 2015 and continued in the first half of 2016. Total gold production amounted to 624 thousand ounces of gold, as compared to 606 thousand ounces of gold in the six months ended 30 June 2015. Total gold produced represents refined gold output together with gold contained in concentrate.

Irkutsk alluvial business unit (alluvial deposits)

In the six months ended 30 June 2016, the Irkutsk alluvial business unit sold 42 thousand ounces of gold, as compared to 39 thousand ounces of gold sold in the six months ended 30 June 2015. Gold production remained at 33 thousand ounces of gold, as compared to 33 thousand ounces of gold in the six months ended 30 June 2015.

Irkutsk ore business unit (Verninskoye mine)

In the six months ended 30 June 2016, the Irkutsk ore business unit sold 121 thousand ounces of gold, as compared to 96 thousand ounces of gold sold in the six months ended 30 June 2015. Gold production amounted to 100 thousand ounces of gold, as compared to 79 thousand ounces of gold in the six months ended 30 June 2015. This growth was achieved through a planned significant increase in recoveries, as the Verninskoye plant reached its design recovery level of 86 per cent in 2015 and 87 per cent in the first six months of 2016, up from the average of 79 per cent in 2014.

Yakutia Kuranakh business unit (Kuranakh mine)

In the six months ended 30 June 2016, the Yakutia Kuranakh business unit sold 95 thousand ounces of gold, as compared to 78 thousand ounces of gold sold in the six months ended 30 June 2015. Gold production amounted to 78 thousand ounces of gold, as compared to 66 thousand ounces of gold in the six months ended 30 June 2015.

Review of Financial Sustainability and Solvency for the six months ended 30 June 2016 and 2015

Analysis of statement of financial position items

The table below shows an extraction of key items from the Group's condensed consolidated interim statement of financial position as of 30 June 2016 and 2015.

	30 June	
(in millions of U.S. dollars)	*2016*	*2015*
ASSETS		
Non-current assets		
Property, plant and equipment	2,440	2,449
Derivative financial instruments and investments	32	148
Inventories	216	236
Deferred tax assets	62	62
Other non-current assets	23	4
Total non-current assets	**2,773**	**2,899**
Current assets		
Inventories	374	428
Derivative financial instruments and investments	11	
Deferred expenditures	25	26
Other receivables	21	15
Advances paid to suppliers and prepaid expenses	15	16
Taxes receivable	67	54
Bank deposits	-	49
Cash and cash equivalents	1,676	1,328
Total current assets	**2,189**	**1,916**
TOTAL ASSETS	**4,962**	**4,815**
EQUITY AND LIABILITIES		
Equity attributable to shareholders of the Company(1)	(1,014)	1,885
Non-controlling interests	1	176
TOTAL EQUITY	**(1,013)**	**2,061**
Non-current liabilities		
Site restoration, decommissioning and environmental obligations	41	46
Borrowings	4,709	1,714
Derivative financial instruments	646	382
Deferred tax liabilities	165	144
Other non-current liabilities	26	23
Total non-current liabilities	**5,587**	**2,309**
Current liabilities		
Borrowings	138	38
Derivative financial instruments	-	214
Trade, other payables and accrued expenses	193	148
Taxes payable	57	45
Total current liabilities	**388**	**445**
TOTAL LIABILITIES	**5,975**	**2,754**
TOTAL EQUITY AND LIABILITIES	**4,962**	**4,815**

Note:

1. Equity attributable to shareholders of the Company includes share capital, additional paid-in capital, cash flow hedge revaluation reserve, translation reserve and retained earnings / (accumulated deficit).

Borrowings

As of 30 June 2016, the Group's total borrowings (excluding liabilities arising from derivative financial instruments) amounted to US$4,847 million. The decision by the Group to obtain the credit facility from Sberbank in January 2016 resulted in an increase in bank loans (increased by 122 per cent since the end of 2015) and in the Group's gross debt structure. It led to a decline in the share of public debt, including the 2020 Eurobonds and Russian bonds, to 19 per cent of the Group's gross debt as of 30 June 2016. The Group's debt portfolio remains dominated by U.S. dollar-denominated instruments, representing 85 per cent of the total gross debt as of 30 June 2016 (20 per cent increase as compared to 30 June 2015). This was due to the Group entering into a seven-year credit facility with Sberbank in January 2016. The RUB 36,000 million credit facility from Sberbank obtained in April 2014 and the RUB 15,000 million bonds placed in July 2015 were both economically hedged (in the case of the latter, RUB 10,000 million was hedged) through cross-currency swaps.

The following table sets forth the components of the Group's total borrowings as of 30 June 2016 and 30 June 2015:

		Six months ended 30 June	
	Nominal rate%	***2016***	***2015***
Credit facilities with financial institutions nominated in US$ with variable interest rates	US$ LIBOR + margins ranging from 0.55% to 4.95%	3,350	355
2020 Eurobonds	5.625%	747	746
Credit facilities with financial institutions nominated in RUB with fixed interest rates	10.35%	523	604
Notes due in 2025 (Russian bonds) with noteholders' early repayment option in 2021	12.1%	155	-
Letters of credit with deferred payments terms with variable rates	Cost of fund (COF) + 2.7%, Euribor +1.8%, US$ LIBOR + 2.35%	29	47
Lease liabilities nominated in US$ with fixed interest rate	5%	5	
Credit facilities with financial institutions nominated in RUB with variable interest rates	Central bank rate + 2.3%	38	-
Sub-total		4,847	1,752
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(138)	(38)
Long-term borrowings		**4,709**	**1,714**

In January and February 2016, the Group signed the following new credit facility agreements:

- US$2,500 million credit facility agreement with Sberbank with maturity in 2023 at three-month LIBOR plus 4.5 per cent, entered into by the Guarantor and supported by guarantees by the Company and several other of its subsidiaries, including JSC Matrosova Mine, JSC Pervenets, JSC Aldanzoloto GRK and Polyus Stroy LLC, as well as undertakings by the Company and PJSC Polyus to maintain their shareholdings in PJSC Polyus and the Guarantor, respectively, above certain thresholds;

- US$100 million credit facility agreement with Credit Bank of Moscow maturing in 2019 having an annual interest rate of three-month LIBOR plus 4.5 per cent.

The Company and subsidiaries of the Group from time to time obtain credit facilities from different financial institutions and issue notes.

Unused credit facilities

In 2014, one of the Group's subsidiaries entered into a five year RUB 40,000 million credit line with VTB Bank to fund its general corporate purposes. As of 30 June 2016, the amount of unused credit facilities was RUB 40,000 million (equivalent to US$622 million, covering a substantial portion of debt repayments up to 2020, totalling approximately US$2,350 million at the RUB / U.S. Dollar exchange rate in effect at the end of the relevant period).

In 2015, one of the Group's subsidiaries entered into an 11 year RUB 6,054 million credit line with Gazprombank to fund deployment of Razdolinskaya-Tayga power grid construction. As of 30 June 2016, credit facilities in the amount of RUB 3,612 million (US$56 million at the RUB / U.S. Dollar exchange rate in effect at the end of the period) were unused.

Other matters

The Guarantor has guaranteed liabilities of all the companies in the Group for all outstanding borrowings.

There were a number of financial covenants under several loan agreements in effect as of 30 June 2016, according to which certain subsidiaries of the Company and the Company itself are limited:

- in the distribution of their assets (the Group is not allowed to divest more than 10 per cent of its assets in any form of transaction without prior consent of the banks. This limitation is applicable to the most significant subsidiaries of the Group);
- in its right to dispose of the controlling share in certain significant subsidiaries of the Group; and
- in the transfer of non-core assets between certain subsidiaries of the Group.

The Group was in compliance with all these covenants as of 30 June 2016.

The following table sets forth the currency breakdown of the Group's total borrowings as of 30 June 2016 and 30 June 2015:

(in millions of U.S. dollars)	*30 June 2016*	*30 June 2015*
EUR	-	16
RUB	716	604
US$	4,131	1,132
Total	**4,847**	**1,752**

The following table sets forth the debt maturity schedule of the Group's total borrowings as of 30 June 2016:

Due in	*(in millions of U.S. dollars)*[1]
2016	21
2017	259
2018	420
2019	741
2020	775
2021+	2,675

Note:

1. The debt maturity breakdown is based on actual maturities and excludes US$44 million of bank commissions included in borrowings, in accordance with IFRS.

Cash and cash equivalents and bank deposits

As of 30 June 2016, the Group's cash and cash equivalents amounted to US$1,676 million, as compared to US$1,328 million as of 30 June 2015.

The Group's cash position is comprised primarily of U.S. dollars, as revenue is fully linked to the U.S. dollar-denominated gold price, while the rouble exchange rate is subject to significant volatility. The following table sets forth the currency composition of cash, cash equivalents and bank deposits as of 30 June 2016 and 2015:

(in millions of U.S. dollars)	*30 June 2016*	*30 June 2015*
RUB	92	164
US$	1,584	1,164
Total	**1,676**	**1,328**

Cash flow analysis

The following table sets forth the main components of the Group's consolidated cash flow statement for the six months ended 30 June 2016 and 2015.

	Six months ended 30 June	
(in millions of U.S. dollars)	*2016*	*2015*
Consolidated cash flow information		
Net cash generated from operating activities	477	515
Net cash utilised in investing activities	(114)	(118)
Net cash utilised in financing activities	(758)	(290)
Net (decrease) / increase in cash and cash equivalents	**(395)**	**107**
Cash and cash equivalents at beginning of the year	2,039	1,217
Effect of foreign exchange rates on cash and cash equivalents	32	4
Cash and cash equivalents at end of the year	**1,676**	**1,328**

Operating activities

Net cash generated from operating activities decreased to US$477 million in the six months ended 30 June 2016, as compared to US$515 million in the six months ended 30 June 2015, driven by lower costs, higher sales volumes and a weaker rouble. This was achieved despite the US$82 million increase of working capital, which was due to an increase in spare parts procurement prior to scheduled repair works, restoration of consumables and fuel inventories to normal levels and the storage of flotation concentrate to be sold during 2016. Operational cash flow decreased by seven per cent as compared to the six months ended 30 June 2015, reflecting an increase in income tax paid.

Investing activities

In the first six months of 2016, the Group used in investing activities US$114 million, which is 3 per cent higher than in the six months ended 30 June 2015.

The Group's main development project, Natalka, saw a 116 per cent growth in capital expenditure in the first six months ended 30 June 2016 to US$82 million, due to a further increase in construction works, including work on the crushing circuit and tailings thickener, as well as the circulating pump and slurry pump stations.

The Group substantially increased capital expenditure at Olimpiada to US$33 million, as a significant part of the construction work to reconfigure the Titimukhta mill was carried out for the first six months of 2016. As of now, construction and installation works have been completed, as part of the mill's reconfiguration to process higher grades from Olimpiada. The launch of a new production circuit is planned at the end of 2016.

Capital expenditure at Blagodatnoye was US$9 million in the first six months ended 30 June 2016, an increase of 125 per cent over the six months ended 30 June 2015, primarily due to the implementation of projects to upgrade and expand the mill to 8.0 mtpa of ore processing volumes, including the launch of an additional crushing circuit at the pre-cyanidation flotation stage, as well as the installation of several screening units at the gravitation circuit. In addition, the Company continued working on the design related to the heap leach project.

At Kuranakh, capital expenditure increased significantly to US$12 million in the first six months ended 30 June 2016, as compared to the first six months ended 30 June 2015, mainly due to the launching of projects to increase equipment productivity and preparation works related to heap leach installation. Due to the increased mining activity at Kuranakh, the mining fleet renovation, which the Company initiated, also contributed to the increase in capital expenditure in the first six months of 2016.

Capital expenditure at Alluvials increased to US$11 million due to higher exploration activity as well as the ongoing worn-out equipment replacement programme.

As a result of the projects described above, the Company's cash utilised in investing activities decreased by 3 per cent to US$114 million in the first six months ended 30 June 2016 as compared to the first six months ended 30 June 2015.

Financing activities

Cash flow utilised in financing activities totalled US$758 million in the six months ended 30 June 2016 as compared to US$290 million in the six months ended 30 June 2015.

On 10 March 2016, the Company approved the purchase of 909,873,900 of its own ordinary shares from its shareholders. On 24 June 2016, the Company approved an additional purchase of 33,170,029 of its own ordinary shares from its shareholders. On 11 March 2016 and 27 June 2016, the Company executed share buyback transactions in the total amount of US$3,237 million. The purchased shares were cancelled immediately after the share buybacks.

The share buyback transactions were financed by a US$2,500 million seven-year credit facility, which the Group obtained from PJSC Sberbank.

Capital expenditures, acquisitions of subsidiaries and stripping activity asset

The following table shows the Group's capital expenditures by project for the period indicated and the percentage change.

	Six months ended 30 June		
(in millions of U.S. dollars)	***2016***	***2015***	***Change (%)***
Natalka	82	38	116
Olimpiada	33	10	230
Blagodatnoye	9	4	125
Verninskoye	6	8	(25)
Alluvials	11	3	267
Kuranakh	12	2	500
Exploration	3	1	200
Other (including power projects)	29	30	(3)
Total	**185**	**96**	**93**

Other areas of investing activities included interest received, bank deposits movements and loans settlement, proceeds from the disposal of a subsidiary and payment for the currency collars, as well as other less significant cash inflows, which together amounted to a US$26 million inflow in the first six months ended 30 June 2016, as compared to a US$36 million inflow in the first six months ended 30 June 2015.

Dividends

In September 2016, the board of directors of PJSC Polyus approved a new dividend policy, pursuant to which PJSC Polyus will, subject to applicable requirements of Russian law for dividends to be paid out of net profit determined in accordance with Russian accounting standards, pay dividends on a semi-annual basis in an amount of 30 per cent of the EBITDA for the applicable reporting period. Payment will be calculated on the basis of the consolidated financial statements of PJSC Polyus in accordance with IFRS requirements, provided that the net debt/adjusted EBITDA ratio for the last 12 months based on the consolidated financial statements of PJSC Polyus is lower than 2.5x.

Should the net debt/adjusted EBITDA ratio for the last 12 months increase to higher than 2.5x, the board of directors of PJSC Polyus will exercise discretion on dividends, taking into account the Group's financial position, free cash flow, outlook and macro environment.

The board of directiors of PJSC Polyus may consider the possibility of payment of special dividends, subject to the PJSC Polyus' liquidity position, capital expenditure requirements, free cash flows and leverage.

The new dividend policy intends to provide key stakeholders with visibility on the dividend distributions and aims to balance the appropriate cash returns to equity holders with the requirement of maintaining a balanced and sound financial position.

The board of PJSC Polyus anticipates considering a recommendation for a first dividend in accordance with the new dividend policy in the first half of 2017 based on the annual consolidated financial results of the second half of 2016.

Contingent Liabilities

Capital commitments

The Group's contracted capital expenditure commitments as at 30 June 2016 amounted to US$40 million.

Operating leases

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 2062.

Future minimum lease payments due under non-cancellable operating lease agreements as of 30 June 2016 were as follows:

	US$ million
Due within one year	3
From one to five years	9
Thereafter	19
Total	**31**

Discussion of Results of Operations for the Years Ended 31 December 2015 and 2014

The following table shows a summary of the Group's consolidated income statement for the periods indicated and the percentage change from year to year.

(in millions of U.S. dollars, unless otherwise indicated)	***Year ended 31 December*** *2015*	*2014*	*Change (%)*
Gold sales	2,159	2,197	(2)
Other sales	30	42	(29)
Total revenue	**2,189**	**2,239**	**(2)**
Cost of gold sales	(876)	(1,174)	25
Cost of other sales	(26)	(33)	21
Gross profit	**1,287**	**1,032**	**25**
Gross profit margin	59%	46%	13 ppts
Selling, general and administrative expenses	(166)	(183)	9
Other expenses, net	(2)	(20)	90
Reversal of impairment	22	17	29
Operating profit	**1,141**	**846**	**35**
Finance costs	(48)	(26)	85
Interest income on bank deposits	59	31	90
Gain / (loss) on derivative financial instruments and investments, net	12	(934)	101
Foreign exchange gain, net	149	123	21
Profit before income tax	**1,313**	**40**	**3183**
Income tax expense	(194)	(222)	13
Profit /(loss)	**1,119**	**(182)**	**715**
Profit / (loss) for the year attributable to:			
Shareholders of the Company	1,033	(164)	730
Non-controlling interests	86	(18)	578
Earnings / (loss) per share (U.S. Cents), basic[1]	34	(5)	780
Earnings / (loss) per share (U.S. Cents), diluted[1]	34	(5)	780

Note:

1. There are no financial instruments or any other instances which could cause an antidilutive effect on the earnings / (loss) per share calculation.

Adjusted EBITDA

Adjusted EBITDA has been calculated by management based on information derived from the Financial Statements. The following table sets out a reconciliation of the Group's Adjusted EBITDA for the years ended 31 December 2015 and 2014:

(in millions of U.S. dollars, unless otherwise indicated)	***Year ended 31 December*** *2015*	*2014*	*Change (%)*
Profit / (loss) for the year	**1,119**	**(182)**	**715**
Income tax	194	222	(13)
Foreign exchange gain	(149)	(123)	21
Loss / (gain) on derivative financial instruments and investments, net	(12)	934	(101)
Interest income on bank deposits	(59)	(31)	90
Finance costs	48	26	85
Depreciation and amortisation	128	182	(30)
Reversal of impairment	(22)	(17)	29
Long-term incentive plan	7	-	N.M.[1]

(in millions of U.S. dollars, unless otherwise indicated)	Year ended 31 December 2015	2014	Change (%)
One-off professional services (delisting expenses)	15	-	N.M.
Loss on property, plant and equipment disposal	(1)	-	N.M.
Adjusted EBITDA	**1,268**	**1,011**	**25**
Adjusted EBITDA margin (%)	58	45	13 ppts

Note:

1. Not material.

The Group's Adjusted EBITDA increased by 25 per cent to US$1,268 million in 2015 from US$1,011 million in 2014, with the Adjusted EBITDA margin improving 13 per cent to 58 per cent. This increase was mainly due to strict cost control measures, the weaker rouble against the U.S. dollar, higher sales volumes and the positive effect from the SPPP amounting to US$116 million.

Total Cash Costs

The following table shows the Group's TCC and TCC per ounce sold for the years ended 31 December 2015 and 2014. TCC and TCC per ounce sold have been calculated by management based on information derived from the Financial Statements.

(in millions of U.S. dollars, unless otherwise indicated)	Year ended 31 December 2015	2014	Change (%)
Cost of gold sales	**876**	**1,174**	**(25)**
– property, plant and equipment depreciation	(126)	(174)	(28)
– provision for annual vacation payment	(1)	1	(200)
– employee benefit obligations cost	(4)	(1)	300
– change in allowance for obsolescence of inventory	-	(14)	N.M.[1]
+ non-monetary changes in inventories(2)	4	3	33
TCC	**749**	**989**	**(24)**
Gold sales ('000 ounces)	1,768	1,691	5
TCC (US$ per ounce sold)	**424**	**585**	**(28)**

Notes:

1. Not material.

2. "Non-monetary changes in inventories" is a calculation to estimate the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

The Group's TCC per ounce decreased by 28 per cent to US$424 per ounce in 2015 from US$585 per ounce in 2014. As a result of the weaker rouble against the U.S. dollar, higher production and sales volumes, and a positive impact from cost savings programmes, all mines demonstrated year-over-year cost improvements, despite persistent pressures from inflation.

Titimukhta achieved the biggest cost reduction in 2015, decreasing its costs by 48 per cent as compared to 2014, to US$498 per ounce, with a number of mining and processing improvements implemented during the year, including a switch to selective processing.

At the Group's largest mines, Olimpiada and Blagodatnoye, TCC fell by 23 per cent and 22 per cent, respectively, as compared to 2014, as a result of the lower labor costs, as well as lower costs related to materials, spares, and fuel. The rouble depreciation against the U.S. dollar and the full-scale rollout of the TOE programme at the Krasnoyarsk assets also had a positive impact on costs.

Verninskoye decreased its TCC by 30 per cent as compared to 2014, to US$417 per ounce, due to both positive operational performance and lower costs. The main positive contributing factor on production was a 6.7 per cent increase in recoveries, which reached the design target parameter of 86 per cent. The biggest cost reductions were in materials, electricity, and fuel, driven by the rouble devaluation and efficiency initiatives, which helped offset the negative impact of higher expenses on reagents and explosives.

Alluvials achieved the least cost reduction among the Group's assets in 2015, lowering costs by 21 per cent as compared to 2014, to US$582 per ounce, due to a decline in grades at some mining areas. To partially offset this, the amount of sands washed increased, which led to a rise in fuel, materials, and spare parts costs. However, the weaker rouble against the U.S. dollar and lower contractors' expenses helped mitigate the effect of lower grades.

At Kuranakh, TCC were down by 31 per cent as compared to 2014, to US$598 per ounce, owing to cost reductions on labor, electricity, fuel, and materials. This was achieved through the sustained rollout of operating efficiency programmes and improvements in processing which, in addition to cost cutting, helped increase recovery by 1.6 per cent as compared to 2014 to 88.4 per cent. The rouble depreciation and optimisation of personnel expenses also had a positive effect on TCC.

All-In Sustaining Costs

The following table shows the Group's AISC and AISC per ounce sold for the years ended 31 December 2015 and 2014 and the percentage change from year to year.

	Year ended 31 December		
(in millions of U.S. dollars, unless otherwise indicated)	***2015***	***2014***	***Change (%)***
Total TCC	**749**	**989**	**(24)**
+ Selling, general and administrative expenses	166	183	(9)
Less: amortisation and depreciation	(3)	(4)	(25)
+ research expenses and other sustain expenses	1	-	N.M.[1]
+ stripping activity asset additions	104	109	(5)
+ sustaining capital expenditures	51	99	(48)
+ unwinding of discounts on decommissioning liabilities	4	4	-
+ provision for annual vacation payment	1	(1)	(200)
+ employee benefit obligations cost	4	1	300
+ change in allowance for obsolescence of inventory	-	14	(100)
Total AISC	**1,077**	**1,394**	**(23)**
Gold sold ('000 ounces)	1,768	1,691	5
AISC (US$ per ounce sold)	**610**	**825**	**(26)**

Note:

1. Not material.

The Group's AISC per ounce decreased by 26 per cent to US$610 per ounce in 2015 from US$825 per ounce in 2014. The lower AISC was driven by the decrease in TCC, as well as lower selling, general and administrative expenses and sustaining capital expenditure. The latter declined by 48 per cent to US$51 million in 2015 from US$99 million in 2014.

Gold Sales

The following table shows the results and breakdown of the Group's gold sales for the years ended 31 December 2015 and 2014 and the percentage change from year to year.

Gold Sales	*Year ended 31 December* 2015	*Year ended 31 December* 2014	*Change (%)*
Gold sales (US$ millions)	2,159	2,197	(2)
Gold sales ('000 ounces)	1,768	1,691	5
Average realised gold price (excluding effect of SPPP) (US$ per ounce)	1,155	1,275	(9)
Average realised gold price (including effect of SPPP) (US$ per ounce)	1,221	1,300	(6)
Average London afternoon gold price fixing (US$ per ounce)[1]	1,160	1,266	(8)
Premium of average selling price (including effect of SPPP) over average London afternoon gold price fixing (US$ per ounce)	61	34	79

Note:

1. Source: London Bullion Market Association.

The following table shows the results and breakdown of the Group's gold production for the years ended 2015 and 2014 and a percentage change from year to year.

Production of Gold ('000 ounces)	*Year ended 31 December* 2015	*Year ended 31 December* 2014	*Change (%)*
Refined Gold Production			
Krasnoyarsk region			
Olimpiada mine	743	726	2
Blagodatnoye mine	425	394	8
Titimukhta(1)	102	93	10
Poputninskoye	2	-	N.M.[2]
Irkutsk region			
Verninskoye	161	146	10
Alluvials	168	190	(12)
Republic of Sakha (Yakutia) region			
Kuranakh	145	137	6
Refined gold	**1,746**	**1,686**	**4**
Gold in flotation concentrate	17	10	70
Total gold produced	**1,763**	**1,696**	**4**

Notes:

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

2. Not material.

The Group's revenue from gold sales decreased by two per cent to US$2,159 million in 2015 from US$2,197 million in 2014, as a result of a decrease in realised gold prices, notwithstanding higher sales volumes. In 2015, gold sales volumes increased by five per cent to 1,768 thousand ounces. However, the average realised gold price in 2015 amounted to US$1,221 per ounce, a six per cent decrease from 2014. The Group benefited from the SPPP, which was launched by the Group in March 2014 and set the price floor for a significant amount of gold sold. The positive effect of the SPPP on the 2015 average selling price amounted to US$66 per ounce, with the average London afternoon gold pricing fixing falling by eight per cent to US$1,160 per ounce in 2015. The Group's 2015 average selling price was US$61 per ounce, five per cent higher than the average London afternoon gold pricing fixing for the period, compared to a US$34 per ounce premium in 2014. Mine-by-mine gold sales were broadly in line with the production performance of each asset, with no serious delays in sales volumes at the Group's operations in 2015.

Cost of gold sales

The following table shows the components of the Group's cost of gold sales for the years ended 31 December 2015 and 2014 and the percentage change from year to year.

	Year ended 31 December		
(in millions of U.S. dollars)	***2015***	***2014***	***Change (%)***
Labor	239	320	(25)
Consumables and spares	205	281	(27)
Tax on mining	140	154	(9)
Fuel	74	131	(44)
Power	35	44	(20)
Outsourced mining services	12	19	(37)
Other	60	71	(15)
Cash operating costs	**765**	**1,020**	**(25)**
Depreciation and amortisation of operating assets	126	174	(28)
Increase in gold-in-process and refined gold inventories	(15)	(20)	(25)
Cost of gold sales	**876**	**1,174**	**(25)**

The Group's cash operating costs decreased by 25 per cent to US$765 million in 2015 from US$1,020 million in 2014. The cost of the Group's gold sales decreased to US$876 million in 2015 from US$1,174 million in 2014, representing a 25 per cent decrease year-on-year. The major contributors to the overall decrease were the decrease in labor, consumables and fuel expenses. A US$94 million positive effect from the TOE programme, as well as the impact of operational optimisation initiatives and the weaker rouble against the U.S. dollar contributed to the cost decrease and helped offset the increase in variable costs (resulting from higher production and sales volumes) and inflation.

Labor expenses, which represented 31 per cent of the Group's total cash operating costs in 2015, decreased by 25 per cent to US$239 million in 2015 from US$320 million in 2014, primarily due to the rouble depreciation against the U.S. dollar and a decrease in headcount. As all the Group's labor expenses are denominated in roubles, rouble depreciation was a key factor in declining labor costs. This was partially compensated by the annual salary indexation.

Consumables and spares' consumption expenses, which represented 27 per cent of the Group's total cash operating costs in 2015, decreased by 27 per cent to US$205 million, due to the optimisation of the consumption of materials across the Group, the implementation of cost reduction programmes, including the TOE programme, and operational efficiencies. These factors, coupled with management's efforts to improve procurement, helped mitigate an increase in the prices of major consumables and spare parts.

Fuel costs, which represented 10 per cent of the Group's total cash operating costs in 2015, decreased by 44 per cent to US$74 million in 2015 from US$131 million in 2014, due to improvements in procurement and resulting lower purchase prices, as well as a decrease in transportation costs at Krasnoyarsk's business unit and the effect of a weaker rouble against the U.S. dollar.

Power costs, which represented five per cent of the Group's total cash operating costs in 2015, decreased by 20 per cent to US$35 million. Power costs were negatively impacted by annual tariffs indexation and overall higher production volumes, which were offset by optimisation measures and a weaker rouble against the U.S. dollar.

The cost of outsourced mining services declined 37 per cent to US$12 million, primarily as a result of cost reduction at Alluvials.

Other costs declined by 15 per cent to US$60 million as a result of the rouble weakening, as well as a decrease in insurance, rent, repair and maintenance expenses.

Cost of other sales

Cost of other sales includes, in addition to electricity costs, payroll costs, expenses on fuel and materials, depreciation and some other costs related to non-mining activities. Cost of other sales was US$26 million in 2015, as compared to US$33 million in 2014.

Selling, general and administrative expenses

The following table sets forth the selling, general and administrative expenses of the Group for the years ended 31 December 2015 and 2014 and the percentage change from year to year.

	Year ended 31 December		
(in millions of U.S. dollars)	***2015***	***2014***	***Change (%)***
Salaries	103	124	(17)
Taxes other than mining and income taxes	12	22	(45)
Professional services	31	16	94
Amortisation and depreciation	3	4	(25)
Other	17	17	-
Total	**166**	**183**	**(9)**

The Group's selling, general and administrative expenses decreased by nine per cent to US$166 million in 2015 from US$183 million in 2014, primarily due to expense optimisation measures and the effects of a weaker rouble against the U.S. dollar. The major component of selling, general and administrative expenses continued to be salaries, which declined by 17 per cent to US$103 million in 2015. In 2015, expenses for professional services increased by 94 per cent to US$31 million, mostly as a result of the costs involved in the delisting of the Company from the London Stock Exchange.

Other expenses

Other expenses were US$2 million in 2015, as compared to US$20 million in 2014.

Reversal of impairment

The Group recorded a net reversal of impairment of US$22 million in 2015, as compared to a net reversal of impairment of US$17 million in 2014. The 2015 net reversal of impairment was the result of a reversal of impairment of the mine under development and exploration and evaluation assets at Kuranakh, partially offset by impairment of inventories at Natalka.

Following the announcement on 13 November 2014 regarding the reduced reserves identified at Natalka, the Group considered the carrying value of the associated costs capitalised in the balance sheet principally within "mine under development". A detailed discounted cash flow model was used to consider whether the value held is impaired, which concluded that no impairment was required.

An impairment test was performed as of 31 December 2015.

There are a number of subjective factors that are necessarily incorporated into such a review, both operational and financial, using the best evidence available. The values derived are particularly sensitive to the assumptions regarding the planned mining operations and flowsheet and the financial assumptions for the RUB/US$ exchange rate, gold price and discount rates.

The operational considerations reflect the most likely and optimal updated mining plan developed using the revised JORC reserves estimate with the advice of the Group's mining consultants. The financial assumptions include significant judgements associated with forecast gold prices determined at a volatile time for our markets.

The key long-term assumptions that were used in the impairment testing were a weighted average long-term gold price of US$1,270 per ounce, an exchange rate of 74.5 roubles to the U.S. dollar and a post-tax discount rate of approximately 10 per cent. The assumptions were provided in real terms. The impairment test is particularly sensitive to the assumption for the RUB/US$ exchange rate, gold price and discount rate. An impairment would be required:

- if the rouble strengthened to above 59.6 roubles to the U.S. dollar; or
- if the gold price decreased below US$1,076 per ounce; or
- if the discount rate increased above 15.3 per cent.

During the year ended 31 December 2015, certain previously impaired items were requested for use in the construction of the Natalka mine and, therefore, a reversal of impairment for US$19 million was made.

See note 8 to the 2015 Financial Statements.

Finance costs and interest income on bank deposits

The following table sets forth the components of financial and investment activity for the years ended 31 December 2015 and 2014 and the percentage change from year to year.

	Year ended 31 December		
(in millions of U.S. dollars)	***2015***	***2014***	***Change (%)***
Interest on borrowings	134	100	34
Gain on exchange of interest payments under cross currency swap	(39)	(16)	144
Gain on exchange of interest payments under interest rate swaps	(13)	(4)	225
Unwinding of discounts on site restoration, decommissioning and environmental liabilities	4	4	-
Other	2	2	-
Sub-total finance cost	**88**	**86**	**2**
Interest capitalised in the cost of Mine under development and Capital construction-in progress	(40)	(60)	(33)
Total finance cost expensed	**48**	**26**	**85**

The Group's total finance costs were US$48 million in 2015, as compared to US$26 million in 2014. Capitalised interest related to the Natalka project fell by 33 per cent year-on-year, to US$40 million, as construction works at the mine were temporarily scaled down in 2015. Capitalised interest amounted to US$40 million in 2015, as compared to US$60 million in 2014. Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps) amounted to US$82 million in 2015, as compared to US$80 million in 2014, representing a three per cent increase from 2014. The increase in interest payments resulted from an increase in the average interest rate to four per cent and from the payment of US$4 million of consent fees paid to the bondholders of the 2020 Eurobonds to provide the flexibility for a potential Group restructuring involving a change in the issuer of the 2020 Eurobonds and/or a change in the parent company of the Group, and to amend certain related covenants, and from higher gross debt.

Interest income on bank deposits was US$59 million in 2015, as compared to US$31 million in 2014, as a result of an increase of the average interest rate, as well as larger cash deposits.

Gain / (loss) on derivative financial instruments and investments, net

Gain on derivative financial instruments and investments, net was US$12 million in 2015, as compared to a loss of US$934 million in 2014. The following table sets forth the components of the gain on derivative financial instruments and investments, net for the years ended 31 December 2015 and 2014:

	Year ended 31 December	
(in millions of U.S. dollars)	***2015***	***2014***
Gain / (loss) on currency collars	53	(594)
Revaluation loss on cross currency swaps	(106)	(403)
Gain on initial exchange of cross currency swaps	-	34
Revaluation gain on ineffective part of the revenue stabiliser under Tranches 1 and 2	19	15
Revaluation gain on ineffective part of the revenue stabiliser under Tranche 3	45	-
Revaluation gain on interest rate swap	2	9
Other	(1)	5
Total	**12**	**(934)**

Revenue stabiliser

In March 2014, the Group initiated the SPPP, comprised of a series of zero-cost Asian gold collars ("**revenue stabiliser**") and gold forward contracts.

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

During the year ended 31 December 2015, the Group successfully completed the restructuring of Tranches 1 and 2 of the revenue stabiliser programme and started to sign agreements under Tranche 3. Restructurings of Tranches 1 and 2 resulted in the close out of the fourth year options and lowering barriers on the remaining options for the first three years.

As a result of Tranche 1 of the revenue stabiliser, the Group is able to ensure a minimum weighted average price of US$1,383 per ounce for 300 thousand ounces of gold output annually during the first three years of the revenue stabiliser programme, provided that the gold price does not fall below US$921 per ounce. The Group benefits from price increases until the gold price reaches US$1,634 per ounce, at which point, the weighted average price is capped at US$1,518 per ounce. In the fourth year of the revenue stabiliser programme, the Group is able to ensure a minimum weighted average price of US$1,107 per ounce for the price-protected amount of 420 thousand ounces, provided that the gold price does not fall below US$900 per ounce. Additionally, in the fourth year, the Group will have an obligation to sell 420 thousand ounces of gold at US$1,551 per ounce should the gold price exceed US$1,750 per ounce.

As a result of Tranche 2 of the revenue stabiliser, the Group is able to ensure a minimum weighted average price of US$1,359 per ounce for 120 thousand ounces of gold annually output during the first three years of the revenue stabiliser programme, provided that the gold price does not fall below US$950 per ounce. During the first three years, the Group benefits from price increases until the gold price reaches US$1,525 per ounce, in which case the weighted average price is capped at US$1,425 per ounce. In the fourth year of the revenue stabiliser programme, the Group is able to ensure a minimum weighted average price of US$1,100 per ounce for the price-protected amount of 360 thousand ounces, provided that the gold price does not fall below US$900 per ounce. Additionally, in the fourth year of the revenue stabiliser programme, the Group will have an obligation to sell 360 thousand ounces of gold at US$1,500 per ounce should the gold price exceed US$1,650 per ounce.

During the year ended 31 December 2015, the Group entered into several new revenue stabiliser agreements under the Tranche 3 of the revenue stabiliser programme. Under the agreements, the Group is able to ensure a minimum weighted average price of US$1,232 per ounce for 280 thousand ounces of gold annually output during the first three years of the revenue stabiliser programme, provided that the gold price does not fall below US$900 per ounce. During the first three years, the Group benefits from price increases until the gold price reaches US$1,450 per ounce, in which case the weighted average price is capped at US$1,350 per ounce. In the fourth year of the revenue stabiliser programme, the Group is able to ensure a minimum weighted average price of US$971 per ounce for the price-protected amount of 840 thousand ounces, provided that the gold price does not fall below US$921 per ounce. Additionally, in the fourth year, the Group will have an obligation to sell 840 thousand ounces of gold at US$1,391 per ounce should the gold price exceed US$1,591 per ounce.

The revenue stabiliser options are exercised quarterly in equal amounts.

Tranches 1 and 2 of the revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the cash flow hedge revaluation reserve within consolidated statement of changes in equity, whilst the remaining change in the fair value of US$19 million gain is reflected in the consolidated statement of profit or loss (gain of US$15 million in the year ended 31 December 2014). See note 10 to the 2015 Financial Statements.

During the year ended 31 December 2015, under Tranches 1 and 2, US$115 million was recognised in the cash flow hedge revaluation reserve within consolidated statement of changes in equity (US$132 million in the year ended 31 December 2014), and following the sale of the hedged volume of gold and the exercise of certain options, US$91 million was subsequently reclassified to gold sales within the consolidated statement of profit or loss (US$35 million in the year ended 31 December 2014).

Tranche 3 is accounted at fair value through profit and loss. Gains resulting from the change in its fair value totalled US$45 million in 2015.

Gold forward

During the year ended 31 December 2014, the Group entered into financing contracts to sell a total of 310 thousand ounces of gold monthly in equal quantities over a period of two years starting from 1 July 2014 and ending on 30 June 2016 at a fixed price of US$1,321 per ounce.

The gold forwards (thousand ounces) are exercised in the following years:

		Years ended 31 December	
	2016	***2015***	***2014***
Forward agreements	77.5	155.0	77.5
Exercised	-	(155.0)	(77.5)
Outstanding as of 31 December	**77.5**	**-**	**-**

The gold forward contract is designated as a cash flow hedge. Any change in the forward fair value is recognised in cash flow hedge revaluation reserve within the consolidated statement of changes in equity. During the year ended 31 December 2015, US$15 million was recognised in the cash flow hedge revaluation reserve within the consolidated statement of changes in equity (US$36 million in the year ended 31 December 2014) and following the sale of the hedged amount of gold, US$25 million was reclassified from the cash flow hedge revaluation reserve within the consolidated statement of changes in equity into gold sales within the consolidated statement of profit or loss (US$6 million in the year ended 31 December 2014).

Currency collars

During the year ended 31 December 2014, in order to economically hedge its rouble denominated expenses, the Group simultaneously purchased put options and sold call options for the total amount of US$1,900 million, allocated monthly as follows:

	2015	***2014***
Volume of option agreements (in millions of U.S. dollars)	1,500	400
Exchange rates for puts, RUB/US$	37.47	36.83
Exchange rates for calls, RUB/US$	40.38	40.06

During the year ended 31 December 2015, all remaining options matured and resulted in a gain of US$53 million (loss US$594 million in the year ended 31 December 2014). No currency collars options remained as of 31 December 2015.

Cross currency swaps

Rouble denominated credit facilities with fixed interest rate

In April 2014, the Group signed a five-year RUB 36 billion credit facility agreement with Sberbank. The interest rate for this credit facility is 10.35 per cent. The revenue of the Group is linked to U.S. dollars as the gold price is denominated in U.S. dollars. The Group entered into a number of cross currency swaps with leading Russian banks to economically hedge interest payments and the exchange of principal amounts.

Under one series of the cross currency swap agreements, the Group pays to the banks a quarterly three-month LIBOR plus margin of 2.47 per cent in U.S. dollars and receives from the banks 10.35 per cent in roubles; and at maturity (9 April 2019), the Group will exchange the related principal amounts by paying US$1,023 million and receiving RUB 35,999 million.

Under another series of the cross currency swap agreements, the Group pays to the banks a quarterly six-month LIBOR plus margin of 4.45 per cent in U.S. dollars and receives from the banks 12.1 per cent in roubles; and at maturity (6 July 2021), the Group will exchange principal amounts by paying US$173 million and receiving RUB 10 billion.

Russian bonds

In July 2015, the Group placed RUB 15 billion in bonds. To economically hedge interest payments and principal amounts exchange for these Russian bonds, the Group entered into cross currency swaps with leading Russian banks for a total amount of RUB 10 billion. Under the cross currency swap agreements, the Group will semi-annually pay to the banks six-month LIBOR plus margin of 4.45 per cent in U.S.

dollars and receive from the banks 12.1 per cent in RUB; and at maturity (16 July 2021), the Group will exchange the principal amounts by paying US$173 million and receiving RUB 10 billion.

Under 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 which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps for the year ended 31 December 2015 resulted in a revaluation loss of US$106 million (loss US$403 million in the year ended 31 December 2014). The gain on the exchange of interest payments in the amount of US$39 million is recognised within the finance cost (US$16 million in the year ended 31 December 2014).

Interest rate swaps

In the first half of 2014, the Group entered into an interest rate swap agreement with leading Russian banks, under which the Group pays semi-annually and until 29 April 2020 three-month LIBOR plus 3.55 per cent in U.S. dollars and receives 5.625 per cent in U.S. dollars in respect of a US$750 million nominal amount. The purpose of this swap is to decrease the effective interest rate for the 2020 Eurobonds. 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 them at fair value, which was determined using a discounted cash flow valuation technique.

During the year ended 31 December 2015, gain on changes in the fair value of the interest rate swaps in the amount of US$2 million is recognised in the consolidated statement of profit or loss (gain US$9 million in the year ended 31 December 2014). The gain on the exchange of interest payments in amount of US$13 million is recognised within the finance cost (gain of US$4 million in the year ended 31 December 2014).

The following table sets forth the valuation and hedge accounting of the Group's derivative financial instruments as of 31 December 2015:

(in millions of U.S. dollars)	*Asset*	*Liability*	*Fair value recorded in balance sheet*	*Profit & loss (income) charge*	*Other comprehensive loss (income)*
Revenue stabiliser	200	-	200	155	24
Gold forwards	20	-	20	25	(10)
Cross-currency collars	-	-	-	53	-
Cross-currency swaps	-	(509)	(509)	(67)	-
Interest rate swaps	11	-	11	15	-
Total	**231**	**(509)**	**(278)**	**181**	**14**

Foreign exchange gain

The Group's foreign exchange gain in 2015 amounted to US$149 million, as compared to US$123 million in 2014, representing an increase of 21 per cent. The increase was due to the effect of revaluation of U.S. dollar-denominated bank deposits, as the functional currency of the subsidiaries of the Group is roubles.

Income tax expense

The Group's income taxes amounted to US$194 million in 2015, as compared to US$222 million in 2014, representing a 13 per cent year-on-year decrease. The reason for the decrease was that the profit before tax in 2014 was substantially affected by losses on derivative financial instruments and investments.

Summary of performance results by business units for the years ended 31 December 2015 and 2014

The following tables show the Group's performance results by business unit for the years ended 31 December 2015 and 2014.

	Year ended 31 December 2015						
(in millions of U.S. dollars, unless otherwise indicated)	*Gold sales*	*Gold sold ('000 ounces)*	*Production ('000 ounces)*	*Adjusted EBITDA*	*TCC per ounce of gold sold (US$ per ounce)*	*AISC per ounce of gold sold (US$ per ounce)*	*Capital expenditures*
Krasnoyarsk	1,611	1,293	1,272	1,007	399(1)	566(2)	58
Irkutsk alluvial	191	168	168	76	582	725	5
Irkutsk ore	189	161	161	115	417	535	21
Yakutia Kuranakh	165	144	145	70	598	748	10
Magadan	–	–	–	–	–	–	111
Exploration	3	2	–	3	694	–	7
Capital construction	–	–	–	1	–	–	53
Unallocated	–	–	–	(4)	–	–	3
Total	**2,159**	**1,768**	**1,746**	**1,268**	**424**	**610**	**268**

Note:

1. Calculated as weighted average of the relevant TCC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$416 million for Olimpiada, US$345 million for Blagodatnoye, US$498 million for Titimukhta.

2. Calculated as weighted average of the relevant AISC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$609 million for Olimpiada, US$444 million for Blagodatnoye, US$745 million for Titimukhta.

	Year ended 31 December 2014						
(in millions of U.S. dollars, unless otherwise indicated)	*Gold sales*	*Gold sold ('000 ounces)*	*Production ('000 ounces)*	*Adjusted EBITDA*	*TCC per ounce of gold sold (US$ per ounce)*	*AISC per ounce of gold sold (US$ per ounce)*	*Capital expenditures*
Krasnoyarsk	1,602	1,219	1,213	822	541(1)	785(2)	84
Irkutsk alluvial	234	190	190	70	735	952	17
Irkutsk ore	186	146	146	89	594	728	38
Yakutia Kuranakh	175	136	137	50	868	992	6
Magadan	-	-	-	(5)	-	-	308
Exploration	-	-	-	(5)	-	-	6
Capital construction	-	-	-	(3)	-	-	54
Unallocated	-	-	-	(7)	-	-	12
Total	**2,197**	**1,691**	**1,686**	**1,011**	**585**	**825**	**525**

Note:

1. Calculated as weighted average of the relevant TCC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$541 million for Olimpiada, US$442 million for Blagodatnoye, US$956 million for Titimukhta.

2. Calculated as weighted average of the relevant AISC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$854 million for Olimpiada, US$561 million for Blagodatnoye, US$1,183 million for Titimukhta.

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales during the years ended 31 December 2015 and 2014. Realised gains on derivatives of US$116 million were included within gold sales in 2015 (US$41 million in 2014).

Krasnoyarsk business unit (Olimpiada, Blagodatnoye and Titimukhta mines)

In 2015, the Krasnoyarsk business unit sold 1,293 thousand ounces of gold, as compared to 1,219 thousand ounces of gold sold in 2014. Sales volumes exclude gold produced from the Poputninskoye deposit, where trial mining was launched in 2015. Total gold production increased to 1,272 thousand ounces of gold, as compared to 1,213 thousand ounces of gold in 2014. Total gold produced represents refined gold output together with gold contained in concentrate.

Irkutsk alluvial business unit (alluvial deposits)

In 2015, the Irkutsk alluvial business unit sold 168 thousand ounces of gold, as compared to 190 thousand ounces of gold sold in 2014. Gold production declined to 168 thousand ounces of gold, as compared to 190 thousand ounces of gold in 2014. The reason for the decrease in gold production was a decline in grades at certain production units in the first six months of 2015.

Irkutsk ore business unit (Verninskoye mine)

In 2015, the Irkutsk ore business unit sold 161 thousand ounces of gold, as compared to 146 thousand ounces of gold sold in 2014. The amount of gold produced at the Verninskoye mine was similarly 161 thousand ounces in 2015, as compared to 146 thousand ounces of gold in 2014. This growth was achieved through a planned significant increase in recoveries, as the Verninskoye plant reached its design recovery level of 86 per cent, up from the average of 79 per cent in 2014.

Yakutia Kuranakh business unit (Kuranakh mine)

In 2015, the Yakutia Kuranakh business unit sold 144 thousand ounces of gold, as compared to 136 thousand ounces of gold sold in 2014. Gold production increased to 145 thousand ounces of gold produced in 2015, as compared to 137 thousand ounces of gold in 2014. The six per cent increase from 2014 was due to higher recoveries (up 1.6 per cent year-on-year) and increased processed ore volumes (up two per cent year-on-year).

Review of Financial Sustainability and Solvency for the years ended 31 December 2015 and 2014

Analysis of statement of financial position items

The table below shows key items from the Group's consolidated statement of financial position at 31 December 2015 and 2014.

(in millions of U.S. dollars)	*31 December* 2015	2014
ASSETS		
Non-current assets		
Property, plant and equipment	2,023	2,351
Derivative financial instruments and investments	212	172
Inventories	184	227
Deferred tax assets	46	47
Other non-current assets	8	3
Total non-current assets	**2,473**	**2,800**
Current assets		
Inventories	296	440
Derivative financial instruments and investments	20	-
Deferred expenditures	13	13
Other receivables	14	11
Advances paid to suppliers and prepaid expenses	18	16
Taxes receivable	63	48
Bank deposits	–	269
Cash and cash equivalents	2,039	1,217
Total current assets	**2,463**	**2,014**
TOTAL ASSETS	**4,936**	**4,814**
EQUITY AND LIABILITIES		
Equity attributable to shareholders of the Company(1)	1,714	1,474
Non-controlling interests	163	146
TOTAL EQUITY	**1,877**	**1,620**
Non-current liabilities		
Site restoration, decommissioning and environmental obligations	32	49
Borrowings	2,147	1,723
Derivative financial instruments	509	423
Deferred tax liabilities	133	150
Other non-current liabilities	21	22
Total non-current liabilities	**2,842**	**2,367**
Current liabilities		
Borrowings	38	90
Derivative financial instruments	–	547
Trade, other payables and accrued expenses	150	154
Taxes payable	29	36
Total current liabilities	**217**	**827**
TOTAL LIABILITIES	**3,059**	**3,194**
TOTAL EQUITY AND LIABILITIES	**4,936**	**4,814**

Note:

1. Equity attributable to shareholders of the Company includes share capital, additional paid-in capital, cash flow hedge revaluation reserve, translation reserve and retained earnings.

Borrowings

As of 31 December 2015, the Group's total borrowings (excluding liabilities arising from derivative financial instruments) amounted to US$2,185 million from US$1,813 million at the end of 2014. Only two per cent of total borrowings (US$38 million) was short-term, with the balance long-term, thus reflecting the Group's comfortable liquidity position. The US$746 million in Eurobonds and RUB 10 billion (US$137 million) in Russian bonds accounted for a large proportion of the debt. Bank loans accounted for 60 per cent of the debt portfolio, dominated by the credit facility from Sberbank for RUB36 billion, which was obtained in April 2014 and due in 2019.

The following table sets forth the components of the Group's total borrowings as of 31 December 2015 and 2014:

		31 December	
	Nominal rate%	***2015***	***2014***
Credit facilities with financial institutions nominated in US$ with variable interest rates	US$ LIBOR + margins ranging from 0.55% to 4.95%	785	365
2020 Eurobonds	5.625%	746	745
Credit facilities with financial institutions nominated in RUB with fixed interest rates	10.35%	461	596
Notes due in 2025 (Russian bonds) with noteholders' early repayment option in 2021	12.1%	137	–
Letters of credit with deferred payments terms with variable rates	Cost of fund (COF) + 2.7%, Euribor +1.8%, US$ LIBOR + 2.35%	38	107
Credit facilities with financial institutions nominated in RUB with variable interest rates	Central bank rate + 2.3%	18	–
Sub-total		**2,185**	**1,813**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(38)	(90)
Long-term borrowings		**2,147**	**1,723**

The Company and subsidiaries of the Group from time to time obtain credit facilities from different financial institutions and issue notes.

Unused credit facilities

In 2014, the Guarantor entered into a five-year RUB 40,000 million credit line with VTB Bank to fund its general corporate purposes. As of 31 December 2015 and 31 December 2014, the amount of unused credit facilities was RUB 40,000 million (equivalent to US$549 million and US$711 million, respectively, at the RUB / U.S. Dollar exchange rate in effect at the end of relevant year).

In 2015, CJSC TaigaEnergoStroy entered into an eleven year RUB 6,054 million credit line with Gazprombank to fund deployment of Razdolinskaya-Tayga power grid construction. As of 31 December 2015, credit facilities in the amount of RUB 4,707 million (US$65 million at the RUB / U.S. Dollar exchange rate in effect at the end of the year) were unused.

Other matters

The Guarantor has guaranteed liabilities of all the companies in the Group for all outstanding borrowings.

There were a number of financial covenants under several loan agreements in effect as of 31 December 2015, according to which certain subsidiaries of the Company and the Company itself are limited:

- in the distribution of their assets (the Group is not allowed to divest more than 10 per cent of its assets in any form of transaction without prior consent of the banks; this limitation is applicable to the most significant subsidiaries of the Group);
- in its right to dispose of the controlling share in certain significant subsidiaries of the Group; and
- in the transfer of non-core assets between certain subsidiaries of the Group.

The Group was in compliance with all these covenants as of 31 December 2015.

The following table sets forth the currency breakdown of the Group's total borrowings as of 31 December 2015 and 2014:

(*in millions of U.S. dollars*)	***2015***	***2014***
EUR	13	69
RUB	616	596
US$	1,556	1,148
Total	**2,185**	**1,813**

The following table sets forth the debt maturity schedule of the Group's total borrowings as of 31 December 2015:

Due in	***(in millions of U.S. dollars)*[1]**
2016	38
2017	258
2018	418
2019	578
2020	762
2021+	144

Note:

1. The debt maturity breakdown is based on actual maturities and excludes US$13 million of bank commissions included in borrowings, in accordance with IFRS.

Cash and cash equivalents and bank deposits

As of 31 December 2015, the Group's cash and cash equivalents amounted to US$2,039 million, an increase of 68 per cent from US$1,217 million as of 31 December 2014. Bank deposits within cash and cash equivalents include deposits with original maturity of less than three months or repayable on demand without loss on principal amounts denominated in RUB and US$. During the year ended 31 December 2015, the Group modified certain bank deposit agreements so that as of 31 December 2015, all of the deposits were available on demand and presented under cash and cash equivalents. Thus, the overall total cash position was at US$2,039 million as of 31 December 2015, as compared to US$1,486 million as of 31 December 2014, representing a 37 per cent increase.

The Group's cash position is comprised primarily of U.S. dollars, as revenue is fully linked to the U.S. dollar-denominated gold price, while the rouble exchange rate is subject to significant volatility. The following table sets forth the currency composition of cash, cash equivalents and bank deposits as of 31 December 2015 and 2014:

(in millions of U.S. dollars)	Year ended 31 December 2015	2014
RUB	104	63
US$	1,935	1,406
EUR	–	17
Total	**2,039**	**1,486**

Cash flow analysis

The following table sets forth the main components of the Group's consolidated cash flow statement for the years ended 31 December 2015 and 2014.

(in millions of U.S. dollars)	Year ended 31 December 2015	2014
Consolidated cash flow information		
Net cash generated from operating activities	1,076	866
Net cash utilised in investing activities	(487)	(774)
Net cash generated from financing activities	269	393
Net increase/(decrease) in cash and cash equivalents	**858**	**485**
Cash and cash equivalents at beginning of the year	1,217	809
Effect of foreign exchange rates on cash and cash equivalents	(36)	(77)
Cash and cash equivalents at end of the year	**2,039**	**1,217**

Operating activities

Net cash generated from operating activities increased to US$1,076 million in 2015 from US$866 million in 2014. The increase was in line with the strong EBITDA, driven by lower costs, higher sales volumes, a positive contribution from the SPPP and the weaker rouble against the U.S. dollar. Strict control over working capital resulted in a further release of US$42 million in 2015, after a US$30 million release during 2014.

Investing activities

The Group used US$487 million in investing activities in 2015, as compared to US$774 million in 2014. The decline in cash used in investing activities was principally the result of a decrease in capital expenditures and because there was only US$74 million decrease in bank deposits as compared to a US$475 million decline in 2014, due to lower investment in the Natalka project, strict control over expenses and maintenance capital expenditures.

Natalka, the main development project of the Group, saw a 64 per cent decline in capital expenditures in 2015, to US$111 million, due to the rouble depreciation and a decision to slow down the development of Natalka after a reassessment of the deposit's reserves in the second half of 2014. In March 2015, the Group partially resumed construction work at Natalka, which mainly related to works inside the production units and buildings and on the pilot plant. In December 2015, the construction of the main crushed ore conveyor was completed. Other areas of construction during 2015 included the tailings thickener, the ore crushing and conveyor complex, a 110 kV power line, the main stepdown substation, as well as circulating pump and slurry pump stations.

The Group spent US$39 million on Olimpiada, a 30 per cent decrease from 2014, due to the rouble depreciation and a number of development projects that began in 2013 (including the automation of the mill) being completed in 2014. The biggest projects at Olimpiada in 2015 were initial works to reconfigure the Titimukhta mill and preparations for connecting it to the new Razdolinskaya-Tayga grid.

At Blagodatnoye, capital expenditure fell by 24 per cent from 2014 to US$13 million, primarily as a result of the rouble devaluation. The main capital expenditure project at the mine in 2015 was upgrading and expanding the Blagodatnoye mill.

Capital expenditure at Kuranakh rose by 67 per cent from 2014 to US$10 million, primarily due to the deployment of projects to increase equipment productivity and preparation works related to heap leach installation.

The main project in the Others category was the construction of the Razdolinskaya-Tayga electricity grid in the Krasnoyarsk region, which is scheduled for launch in 2017.

Financing activities

Cash flow generated from financing activities totalled US$269 million in 2015, a 32 per cent decrease from 2014. The main reason for the decrease was that proceeds from borrowings exceeded debt repayments. The 2015 result includes payment of the regular 2014 dividend, in the amount of US$184 million, while in 2014 the dividend payment was US$500 million.

Capital expenditures, acquisitions of subsidiaries and stripping activity asset

The following table shows the Group's capital expenditures by project for the years ended 31 December 2015 and 2014 and the percentage change from year to year.

	Year ended 31 December		
(in millions of U.S. dollars)	***2015***	***2014***	***Change (%)***
Natalka	111	310	(64)
Olimpiada	39	56	(30)
Blagodatnoye	13	17	(24)
Verninskoye	21	38	(45)
Alluvials	5	17	(71)
Titimukhta	1	6	(83)
Kuranakh	10	6	67
Exploration	7	6	17
Other (including power projects)	61	69	(12)
Total	**268**	**525**	**(49)**

Other areas of investing activities included interest received, bank deposit movements and movements from derivatives, which together amounted to a US$166 million outflow in 2015, as compared to a US$210 million outflow in 2014. The Peleduy-Mamakan grid was completed at the end of 2015 with total actual capital expenditure of RUB 3.5 billion.

Dividends

On 10 April 2015, the Company's Board of Directors adopted a new dividend policy. The Company will pay 30 per cent of its adjusted net profit as a regular dividend. The Company will also consider paying a special dividend, subject to the Company's financial position, free cash flow, leverage, and outlook. In line with the adopted dividend policy, the Board recommended a final dividend of US$6.08 per ordinary share, or US$184 million in total for the year ended 31 December 2014, which amounts to 30 per cent of adjusted net income for the year 2014. The proposed final dividend and its payment date were approved by the shareholders at the Annual General Meeting held on 15 May 2015.

Contingent Liabilities

Capital commitments

The Group's contracted capital expenditure commitments as at 31 December 2015, amounted to US$30 million (US$23 million as at 31 December 2014).

Operating leases

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 2060.

Future minimum lease payments due under non-cancellable operating lease agreements at 31 December 2015 were as follows:

	US$ million
Due within one year	4
From one to five years	18
Thereafter	17
Total	**39**

Discussion of Results of Operations for the Years Ended 31 December 2014 and 2013

The following table shows a summary of the Group's consolidated income statement for the periods indicated and the percentage change from year to year.

(In millions of U.S. dollars)	*Year ended 31 December* *2014*	*2013*	*Change (%)*
Gold sales	2,197	2,259	(3)
Other sales	42	70	(40)
Total revenue	**2,239**	**2,329**	**(4)**
Cost of gold sales	(1,174)	(1,347)	13
Cost of other sales	(33)	(47)	30
Gross profit	**1,032**	**935**	**10**
Gross profit margin	46%	40%	6 ppts
Selling, general and administrative expenses	(183)	(226)	19
Other expenses, net	(20)	(15)	(33)
Reversal of impairment/(impairment losses)	17	(472)	104
Operating profit	**846**	**222**	**281**
Finance costs	(26)	(14)	(86)
Interest income on bank deposits	31	27	15
Loss on derivative financial instruments and investments, net	(934)	(5)	(18,580)
Foreign exchange gain	123	4	2,975
Profit from continuing operations before income tax	**40**	**234**	**(83)**
Income tax expense	(222)	(91)	(144)
(Loss) / profit from continuing operations	**(182)**	**143**	**(227)**
Profit from discontinued operations	-	6	(100)
(Loss) / profit for the year	**(182)**	**149**	**(222)**
Loss) / profit for the year from continuing operations attributable to:			
Shareholders of the Company	(164)	134	(222)
Non-controlling interests	(18)	9	(300)
	(182)	**143**	**(227)**
Profit for the year from discontinued operations attributable to:			
Shareholders of the Company	-	6	-
Non-controlling interests	-	-	-
	-	6	-
(Loss) / earnings per share (U.S. Cents) from continuing operations, basic and diluted[(1)]	(5)	4	(225)
Earnings per share (U.S. Cents) from discontinued operations, basic and diluted[(1)]	-	-	-

Notes:

1. There are no financial instruments or any other instances which could cause an antidilutive effect on the earnings per share calculation.

Adjusted EBITDA

Adjusted EBITDA has been calculated by management and has not been independently verified by the Group's auditors. The following table sets out a reconciliation of the Group's Adjusted EBITDA for the years ended 31 December 2014 and 2013:

(In millions of U.S. dollars)	*Year ended 31 December* 2014	2013	*Change (%)*
(Loss) / profit from continuing operations	**(182)**	**143**	**(227)**
Income tax	222	91	144
Foreign exchange gain	(123)	(4)	2,975
Loss on derivative financial instruments and investments, net	934	5	18,580
Interest income on bank deposits	(31)	(27)	15
Finance costs	26	14	(86)
Depreciation and amortisation	182	214	(15)
(Reversal of impairment) / impairment losses	(17)	472	N.M.[1]
Loss on property, plant and equipment disposal	-	2	(100)
Adjusted EBITDA	**1,011**	**910**	**11**
Adjusted EBITDA margin (%)	45	39	6 ppts

Notes:

1. Not material.

The Group's Adjusted EBITDA increased by 11 per cent to US$1,011 million in 2014 from US$910 million in 2013, with the Adjusted EBITDA margin improving 6 per cent to 45 per cent. This increase was mainly due to strict cost control measures, the weaker local currency and the positive effect from the SPPP amounting to US$41 million.

Total Cash Costs (TCC)

The following table shows the Group's TCC and TCC per ounce sold for the years ended 31 December 2014 and 2013. TCC and TCC per ounce sold have been calculated by management and have not been independently verified by the Group's auditors.

(In millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December* 2014	2013	*Change (%)*
Cost of gold sales	**1,174**	**1,347**	**(13)**
– property, plant and equipment depreciation	(174)	(209)	(17)
– provision for annual vacation payment	1	(1)	N.M.[1]
– employee benefit obligations cost	(1)	(5)	(80)
– change in allowance for obsolescence of inventory	(14)	3	N.M.
+ non-monetary changes in inventories[(2)]	3	18	(83)
TCC	**989**	**1,153**	**(14)**
Gold sales ('000 ounces)	1,691	1,631	4
TCC (US$ per ounce sold)	**585**	**707**	**(17)**

Notes:

1. Not material.

2. "Non-monetary changes in inventories" is a calculation to estimate the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

The Group's TCC decreased by 17 per cent to US$585 per ounce in 2014 from US$707 per ounce in 2013. All mines, with the exception of Titimukhta, contributed to the overall cost decrease, reflecting the implementation of cost-reduction initiatives, a weaker rouble and higher production volumes, offset by accelerating inflation. The most significant unit cost reduction in the reporting period occurred at Verninskoye (down 32 per cent year-on-year), primarily due to the rouble devaluation and economies of scale as the mine reached its throughput design parameters at the end of 2013 and operated at nameplate capacity throughout 2014, boosting its gold output by 64 per cent year-on-year. The decline was also due to through improvements in the processing flow and substantial progress in recoveries. TCC at Alluvials also declined, down 16 per cent year-on-year, as a number of high-cost mining areas were idled, while stripping works were optimised and mining expenses at remote locations were reduced. The cost reduction initiatives at Titimukhta were offset by lower grades and ore processing volumes, leading to a 4 per cent year-on-year increase in TCC. Cost reductions at Olimpiada, Blagodatnoye and Kuranakh came from the optimisation of mining and processing works, lower unit consumption rates, declines in maintenance costs and reagents' prices, the reorganisation of procurement logistics and headcount optimisation.

All-In Sustaining Costs (AISC)

The following table shows the Group's AISC and AISC per ounce sold for the years ended 31 December 2014 and 2013. AISC and AISC per ounce sold have been calculated by management and have not been independently verified by the Group's auditors.

	Year ended 31 December		
(In millions of U.S. dollars, unless otherwise indicated)	***2014***	***2013***	***Change (%)***
Total TCC	**989**	**1,153**	**(14)**
+ Selling, general and administrative expenses	183	226	(19)
Less: amortisation and depreciation	(4)	(4)	-
+ research expenses and other sustain expenses	-	2	N.M.[1]
+ stripping activity asset additions	109	38	187
+ sustaining capital expenditures	99	210	(53)
+ unwinding of discounts on decommissioning liabilities	4	5	(20)
+ provision for annual vacation payment	(1)	1	N.M.
+ employee benefit obligations cost	1	5	(80)
+ change in allowance for obsolescence of inventory	14	(3)	N.M.
Total AISC	**1,394**	**1,633**	**(15)**
Gold sold ('000 ounces)	1,691	1,631	4
AISC (US$ per ounce sold)	**825**	**1,002**	**(18)**

Note:

1. Not material.

The Group's AISC per ounce decreased by 18 per cent to US$825 per ounce in 2014 from US$1,002 per ounce in 2013. The lower AISC was driven by the decrease in TCC, as well as lower selling, general and administrative expenses and sustaining capital expenditures. The latter dropped 53 per cent to US$99 million in 2014, but this was partially offset by increased stripping activity asset additions, which were up 187 per cent in 2014 due to large-scale stripping works at Olimpiada.

Gold Sales

The following table shows the results and breakdown of the Group's gold sales for the years ended 31 December 2014 and 2013 and the percentage change from year to year.

	Year ended 31 December		
Gold Sales[2]	***2014***	***2013***	***Change (%)***
Gold sales (US$ millions)	2,197	2,259	(3)
Gold sales (thousand troy ounces)	1,691	1,631	4
Average realised gold price (excluding effect of SPPP) (US$ per ounce)	1,275	1,385	(8)
Average realised gold price (including effect of SPPP) (US$ per ounce)	1,300	1,385	(6)
Average London afternoon gold price fixing (US$ per ounce)[1]	1,266	1,411	(10)
Premium / (discount) of average selling price (including effect of SPPP) over / (under) average London afternoon gold price fixing (US$ per ounce)	34	(26)	N.M.[1]

Note:

1. Not material.

2. Source: London Bullion Market Association.

The following table shows the results and breakdown of the Group's gold production for the years ended 2014 and 2013 and a percentage change from year to year.

	Year ended 31 December		
Production of Gold ('000 ounces)	***2014***	***2013***	***Change (%)***
Refined Gold Production			
Krasnoyarsk Region			
Olimpiada mine	726	691	5
Titimukhta[1]	93	131	(29)
Blagodatnoye mine	394	395	-
Irkutsk Region			
Alluvial deposits	190	205	(7)
Verninskoye	146	89	64
Republic of Sakha (Yakutia)			
Kuranakh mine	137	138	-
Refined gold	**1,686**	**1,650**	**2**
Gold in flotation concentrate	10	2	400
Total gold produced	**1,696**	**1,652**	**3**

Notes:

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

The Group's revenue from gold sales decreased by 3 per cent to US$2,197 million in 2014 from US$2,259 million in 2013, as a result of lower gold prices, offset in part by higher sales volumes, which increased by 4 per cent to 1,691 thousand ounces. The average realised gold price in 2014 amounted to US$1,300 per ounce, a 6 per cent decrease from 2013. The Group benefited from the SPPP, which was launched by the Group in March 2014 and set the price floor for a significant amount of gold sold. The positive effect of the SPPP on the 2014 average selling price amounted to US$25 per ounce, with the average London afternoon gold pricing fixing falling by 10 per cent to US$1,266 per ounce in 2014. The

Group's 2014 average selling price was US$34 per ounce higher than the average London afternoon gold pricing fixing for the period, compared to a US$26 per ounce discount in 2013. Mine-by-mine gold sales were broadly in line with the production performance of each asset, with no serious delays in sales volumes at the Group's operations in 2014.

Other sales

Other sales include the sale of electricity, fuel, transportation, handling and storage services and rent services, and were US$30 million in 2015, as compared to US$42 million in 2014.

Cost of gold sales

The following table shows the components of the Group's cost of gold sales for the years ended 31 December 2014 and 2013.

	Year ended 31 December		
(*In millions of U.S. dollars*)	***2014***	***2013***	***Change (%)***
Labor	320	386	(17)
Consumables and spares	281	359	(22)
Tax on mining	154	166	(7)
Fuel	131	184	(29)
Power	44	58	(24)
Outsourced mining services	19	26	(27)
Other	71	89	(20)
Cash operating costs	**1,020**	**1,268**	(20)
Depreciation and amortisation of operating assets	174	209	(17)
Increase in gold-in-process and refined gold inventories	(20)	(130)	(85)
Cost of gold sales	**1,174**	**1,347**	(13)

The Group's cash operating costs decreased by 20 per cent to US$1,020 million in 2014 from US$1,268 million in 2013. The major contributors to the overall decrease were declines in labor, consumables and fuel expenses. The Group's cost reduction initiatives and the weakening rouble against the U.S. dollar contributed to the decline of each cost item, offset by an increase in expenses caused by higher sales volumes in 2014.

Labor expenses, which represented 31 per cent of the Group's total cash operating costs in 2014, decreased by 17 per cent to US$320 million, primarily due to the deployment of a headcount optimisation programme, changes in bonus payments at the Krasnoyarsk Business Unit, an increase in the engagement of third-party contractors at Alluvials' remote locations and stringent control over salaries across all operations.

Consumables and spares' consumption expenses, which represented 28 per cent of the Group's total cash operating costs in 2014, decreased by 22 per cent to US$281 million, due to optimisation of the bio-oxidation process at Olimpiada, stabilisation of mill processing rates and reagents' consumption at Verninskoye and reduction of purchase prices for major consumables (cyanide, grinding balls and activated carbon) at the Krasnoyarsk Business Unit and Kuranakh, as well as a Group-wide reassessment of planned maintenance and repair work.

Fuel costs, which represented 13 per cent of the Group's total cash operating costs in 2014, decreased by 29 per cent to US$131 million, due to lower transportation volumes at Alluvials following idling at several high-cost mining areas and a decrease in transportation volumes at Kuranakh and Titimukhta as a result of lower mining volumes.

Power costs, which represented 4 per cent of the Group's total cash operating costs in 2014, decreased by 24 per cent to US$44 million. Power costs were negatively impacted by an annual tariffs indexation and higher ore processing volumes at Verninskoye, offset by a reduction of the consumption of self-generated high-cost diesel power.

Outsourced mining services, which represented 2 per cent of the Group's total cash operating costs in 2014, comprised sand washing at Alluvials and rock mass transportation at Kuranakh, both of which were reduced due to the optimisation of mining volumes at these mines.

Other costs declined as a result of the rouble weakening, as well as the optimisation of logistics and lower rent, security and utilities expenses.

Cost of other sales

Cost of other sales was US$33 million in 2014, as compared to US$47 million in 2013.

Selling, general and administrative expenses

The following table sets forth the selling, general and administrative expenses of the Group for the years ended 31 December 2014 and 2013 and the percentage change from year to year.

	Year ended 31 December		
(*In millions of U.S. dollars*)	***2014***	***2013***	***Change (%)***
Salaries	124	151	(18)
Taxes other than mining and income taxes	22	25	(12)
Professional services	16	21	(24)
Amortisation and depreciation	4	5	(20)
Other	17	24	(29)
Total	**183**	**226**	**(19)**

The Group's selling, general and administrative expenses decreased by 19 per cent to US$183 million in 2014 from US$226 million in 2013, primarily due to management's efforts to reduce expenses and the effects of the weaker rouble. In particular, a material reduction was accomplished in professional services, which declined by 24 per cent to US$16 million in 2014. Part of previously outsourced professional services at Verninskoye and Alluvials were substituted by in-house expertise, while administrative logistics were optimised at Kuranakh. The major component of selling, general and administrative expenses continued to be salaries, which declined by 18 per cent to US$124 million in 2014. In addition to a positive effect from a weaker rouble, the reduction was achieved through the optimisation of management compensations across the Group, as well as the closure of administrative units at Alluvials' remote locations.

Other expenses, net

Other expenses, net, were US$ 20 million in 2014, as compared to US$15 million in 2013.

Reversal of impairment / (impairment losses)

The Group recorded a net impairment gain of US$17 million in 2014, as compared to an impairment loss of US$472 million in 2013. The 2014 net impairment gain was the result of a reversal of impairment of mining assets, stripping activity asset, construction-in-progress and stockpiles at Kuranakh, partially offset by impairment of the mine under development at Natalka and construction-in-progress at Krasnoyarsk.

Following the announcement on 13 November 2014 regarding the reduced reserves identified at Natalka, the Group considered the carrying value of the associated costs capitalised in the balance sheet principally within mine under development. A detailed discounted cash flow model was used to consider whether the value held is impaired, which concluded that no impairment was required.

There are a number of subjective factors that are necessarily incorporated into such a review, both operational and financial, using the best evidence available. The values derived are particularly sensitive to the assumptions regarding the planned mining operations and flowsheet and the financial assumptions for the RUB/US$ exchange rate, gold price and discount rates.

The operational considerations reflect the most likely and optimal updated mining plan developed using the revised JORC reserves estimate and with the advice of the Group's mining consultants, and incorporate screening techniques including photometric separation. The financial assumptions include significant judgements associated with forecast gold prices determined at a volatile time for our markets. For instance, the rouble has varied between 36 roubles to the U.S. dollar in August 2014 to 69 roubles to the U.S. dollar in January 2015, and gold prices have been above US$1,800 per ounce and below US$1,200 per ounce over the past four years.

The key long term assumptions that were used in the impairment testing were a weighted average long term gold price of US$1,294 per ounce, an exchange rate of 68 roubles to the U.S. dollar and a post-tax discount rate of approximately 9 per cent. The assumptions were provided in real terms. The impairment test is particularly sensitive to the assumption for the RUB/US$ exchange rate, gold price and discount rate. An impairment would be required:

- if the rouble strengthened to above 55 roubles to the U.S. dollar; or
- if the gold price decreased below US$1,114 per ounce; or
- if the discount rate increased above 14 per cent.

See note 10 to the Notes to the 2014 Financial Statements.

Finance costs and interest income on bank deposits

The following table sets forth the components of financial and investment activity for the years ended 31 December 2014 and 2013 and the percentage change from year to year.

	Year ended 31 December		
(*In millions of U.S. dollars*)	***2014***	***2013***	***Change (%)***
Interest on borrowings	100	43	132
Gain on exchange of interest payments under cross currency swap	(16)	-	-
Gain on exchange of interest payments under interest rate swaps	(4)	-	-
Unwinding of discounts on site restoration, decommissioning and environmental liabilities	4	5	(20)
Other	2	-	-
Sub-total finance cost	**86**	**48**	**79**
Interest capitalised in the cost of Mine under development and Capital construction-in progress	(60)	(34)	(76)
Total finance cost expensed	**26**	**14**	**86**

The Group's total finance costs were US$26 million in 2014, as compared to US$14 million in 2013. Capitalised interest amounted to US$60 million in 2014, as compared to US$34 million in 2013. Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps) amounted to US$80 million in 2014, as compared to US$43 million in 2013. The increase in interest payments resulted from higher gross debt, while the average interest rate was down to 3 per cent, as compared to 4.4 per cent in 2013, primarily as a result of the effect from cross-currency and interest rate swaps.

Interest income on bank deposits was US$31 million in 2014, as compared to US$27 million in 2013.

Loss on derivative financial instruments and investments, net

Loss on derivative financial instruments and investments, net was US$934 million in 2014, as compared to US$5 million in 2013. The following table sets forth the components of the loss on derivative financial instruments and investments, net for the years ended 31 December 2014 and 2013.

	Year ended 31 December	
(*US$'000, unless otherwise indicated*)	***2014***	***2013***
Revaluation loss on currency collars	(547)	-
Revaluation loss on cross currency swaps	(403)	-
Realised loss on currency collars	(47)	-
Gain on initial exchange of cross currency swaps	34	-
Revaluation gain on ineffective part of the revenue stabiliser	15	-
Revaluation gain on interest rate swap	9	-
Other	5	(5)
Total	**(934)**	**(5)**

In March 2014, the Group initiated the SPPP, comprised of a series of zero cost Asian gold collars ("**revenue stabiliser**") and gold forward contracts.

Revenue stabiliser

The revenue stabiliser component represents a series of zero-cost Asian barrier collar agreements to purchase put options and to sell call options with "knock-out" and "knock-in" barriers. Initially, revenue stabiliser agreements are recognised at cost, with subsequent revaluation to fair value using the Monte Carlo simulation method.

The revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in cash flow hedge revaluation reserve within equity, while the remaining change in fair value is reflected in the profit and loss statement.

During the year ended 31 December 2014, under Tranches 1 and 2, US$132 million was recognised in the cash flow hedge revaluation reserve within equity and following the sale of the hedged volume of gold and the exercise of certain options US$35 million then subsequently reclassified to gold sales within the consolidated statement of profit or loss.

Forward contracts

Under the forwards component, the Group has entered into financing contracts to sell a total of 310 thousand ounces of gold over a period of two years, starting 1 July 2014 and ending on 30 June 2016, in equal amounts of 155 thousand ounces per year at a fixed price of US$1,321 per ounce.

The positive effect from gold forward contracts in 2014 totalled US$6 million, as gold traded below the fixed contract price of US$1,321per ounce. The combined effect of gold-linked derivatives (revenue stabiliser and forward contracts) amounted to US$41 million.

Currency collars

During the year, in order to reduce the adverse effects from changes in the exchange rate of the RUB against the U.S. dollar, the Group simultaneously purchased put options and sold call options for a total amount of US$1,900 million, allocated monthly as follows:

	Year ended 31 December	
(*In millions of U.S. dollars, unless otherwise indicated*)	***2015***	***2014***
Volume of option agreements	1,500	400
Exchange rate for put options (RUB/US$)	37.47	36.83
Exchange rate for call options (RUB/US$)	40.38	40.06

The majority of operating and capital expenses of the Group are rouble denominated. The currency collars were mostly entered in April-May 2014, when the spot rouble stood at around RUB35/US$ and the intention was partially to remove the risks of rouble strengthening and thus protect the earning capability of the Group during a period of heavy investments and substantial cash outflows, including the Natalka project, and to ensure balance sheet stability.

Contrary to the Group's and consensus expectations, the rouble lost materially in value in the second half of 2014. The combination of sanctions imposed on the Russian economy related to the Ukrainian conflict and the steep fall in the oil price, from US$108 per barrel in July 2014 to US$58 per barrel at year-end, caused a substantial decline in the value of the rouble, whose rate fell from RUB33/US$ at the beginning of 2014 to RUB58/US$ at the year end, or 43 per cent.

As a result of the currency-collar transactions, the Group is not fully benefitting from the rouble devaluation at the cash flow level. Currency collars do not qualify as hedges under IFRS, but represent effective economic hedges on the cash flow in the opinion of management.

The negative effect from the collars in 2014 amounted to US$47 million. The expected negative effect of the collars in 2015 (reflecting income that could have been received by the Group due to the weaker rouble, but which will not be received as exposure to the rouble was partially hedged) was recorded as a revaluation loss on currency collars in the gain/loss on derivatives, and amounted to US$547 million.

From 2016, the Group is fully unhedged with regard to the rouble and is expected to benefit fully from the rouble devaluation.

Cross-currency swaps

In April 2014, the Group signed a five-year RUB 36 billion credit facility agreement with Sberbank. The interest rate for this credit facility is 10.35 per cent. The revenue of the Group is linked to U.S. dollars, as the gold price is denominated in this currency. The Group entered into a number of cross-currency swaps with leading Russian banks to economically hedge interest payments and the exchange of principal amounts. According to the cross-currency swaps the Group will pay banks quarterly three-month LIBOR plus 2.32 per cent in U.S. dollars and receive from the banks 10.35 per cent in roubles; and upon maturity (9 April 2019) the Group will exchange principal amounts, paying in U.S. dollars and receiving roubles.

The positive effect from the swaps in 2014 reached US$16 million, with the negative impact from the significant rouble depreciation in the fourth quarter of 2014 being more than offset by the lower obtained rate (effective U.S. dollar interest rate of 2.70 per cent, compared to the initial 10.35 per cent rouble rate). This was recorded as a gain on the exchange of interest payments under crosscurrency swaps in finance costs.

Under IAS 39 the swaps were not eligible to be designated as hedges, although management believes them to be perfect economic hedges.

The Group accounted for these derivatives at fair value, which was determined using a discounted cash flow valuation technique. Changes in the fair value of the swaps are recognised in gain/loss on derivatives, and investments as revaluation loss on cross-currency swaps in the amount of US$403 million. However, this is fully offset by the reduction in the underlying rouble liability of the Sberbank facility and hence has no cash flow implications for the Group.

Interest rate swap

In the first half of 2014, the Group entered into an interest rate swap agreement with banks, under which the Group will pay semi-annually and until 29 April 2020 three-month LIBOR plus a Margin of 3.55 per cent in U.S. dollars in respect of the US$750 million Eurobonds nominal amount, while receiving 5.625 per cent in U.S. dollars. The purpose of this swap was to decrease the effective interest rate for the 2020 Eurobonds issued in 2013.

The positive effect from the swap in 2014 amounted to US$4 million, as the effective interest rate on the 2020 Eurobonds resulted in a rate of 3.83 per cent, compared to the fixed 5.625 per cent obtained at the Eurobonds' placement. This was recorded as a gain on the exchange of interest payments under interest rate swaps in finance costs.

The following table sets forth the valuation and hedge accounting of the Group's derivative financial instruments as of 31 December 2014:

(In millions of U.S. dollars)	***Notional***	***Asset***	***Liability***	***Fair value recorded in balance sheet***	***Profit & loss (income)***	***Other comprehensive income***
Revenue stabiliser	-	132	(20)	112	(50)	(97)
Gold forwards	-	30	-	30	(6)	(30)
Cross-currency collars	1,900	-	(547)	(547)	594	-
Cross-currency swaps	1,023	-	(403)	(403)	353	-
Interest rate swaps	750	9	-	9	(13)	-
Total	**3,673**	**171**	**(970)**	**(799)**	**878**	**(127)**

See note 18 to the Notes to the 2014 Financial Statements.

Foreign exchange gain

The Group's foreign exchange gain in 2014 amounted to US$123 million, as compared to US$4 million in 2013. The increase was due to the effect of revaluation of U.S. dollar-denominated bank deposits and debt, as the functional currency of the Group is roubles, and the capitalization of foreign exchange loss on U.S. dollar-denominated loans for Natalka construction.

Income tax expense

The Group's income taxes amounted to US$222 million in 2014, as compared to US$91 million in 2013. The principal reason for this increase was the US$185 million allowance for deferred tax assets on derivatives, due to the recognition of several taxes as non-recoverable. For a reconciliation of the income taxes calculation see note 13 to the Notes to the 2014 Financial Statements.

Summary of performance results by business units for the years ended 31 December 2014 and 2013

The following tables show the Group's performance results by business unit for the years ended 31 December 2014 and 2013.

	Year ended 31 December 2014						
(In millions of U.S. dollars, unless otherwise indicated)	***Gold sales***	***Ounces of gold sold in thousands***	***Production ('000 ounces)***	***Adjusted EBITDA***	***TCC per ounce of gold sold (US$ per ounce)***	***AISC per once of gold sold (US$ per ounce)***	***Capital expenditures***
Krasnoyarsk	1,602	1,219	1,213	822	541[1]	785[2]	84
Irkutsk alluvial	234	190	190	70	735	952	17
Irkutsk ore	186	146	146	89	594	728	38
Yakutia Kuranakh	175	136	137	50	868	992	6
Magadan	-	-	-	(5)	-	-	308
Exploration	-	-	-	(5)	-	-	6
Capital construction	-	-	-	(3)	-	-	54
Unallocated	-	-	-	(7)	-	-	12
Total	**2,197**	**1,691**	**1,686**	**1,011**	**585**	**825**	**525**

Note:

1. Calculated as weighted average of the relevant TCC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$541 million for Olimpiada, US$442 million for Blagodatnoye, US$956 million for Titimukhta.

2. Calculated as weighted average of the relevant AISC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$854 million for Olimpiada, US$561 million for Blagodatnoye, US$1,183 million for Titimukhta.

	Year ended 31 December 2013[1]					
(In millions of U.S. dollars, unless otherwise indicated)	***Gold sales***	***Ounces of gold sold in thousands***	***Production ('000 ounces)***	***Adjusted EBITDA***	***TCC per ounce of gold sold (US$ per ounce)***	***Capital expenditures***
Krasnoyarsk	1,669	1,198	1,217	772	633[2]	217
Irkutsk alluvial	277	205	205	80	880	18
Irkutsk ore	122	89	89	37	869	59
Yakutia Kuranakh	191	139	138	29	1,085	16
Magadan	-	-	-	-	-	1,024
Exploration	-	-	-	6	-	20
Capital construction	-	-	-	(9)	-	68
Unallocated	-	-	-	(5)	-	18
Total	**2,259**	**1,631**	**1,649**	**910**	**707**	**1,440**

Note:

1. AISC numbers per business unit not provided as not available for the relevant period.

2. Calculated as weighted average of the relevant TCC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$666 million for Olimpiada, US$479 million for Blagodatnoye, US$920 million for Titimukhta.

Krasnoyarsk business unit (Olimpiada, Blagodatnoye and Titimukhta deposits)

In 2014, the Krasnoyarsk business unit sold 1,219 thousand ounces of gold, as compared to 1,198 thousand ounces of gold sold in 2013. Gold production declined slightly, to 1,213 thousand ounces of gold, as compared to 1,217 thousand ounces of gold in 2013, with Olimpiada's 5 per cent increase offset by a 29 per cent decline at Titimukhta. Volumes of ore mined declined at Olimpiada while stripping volumes increased, as a result of the beginning of extensive stripping works in mid-2014, which will last until the end of 2015. Titimukhta production decreased due to lower mined grades and the use of the process plant to treat third party material.

Irkutsk alluvial business unit (alluvial deposits)

In 2014, the Irkutsk alluvial business unit sold 190 thousand ounces of gold, as compared to 205 thousand ounces of gold sold in 2013. Gold production declined to 190 thousand ounces of gold, as compared to 205 thousand ounces of gold in 2013, as a result of a planned idling of several high-cost mining areas.

Irkutsk ore business unit (Verninskoye mine)

In 2014, the Irkutsk ore business unit sold 146 thousand ounces of gold, as compared to 89 thousand ounces of gold sold in 2013. The amount of gold produced at the Verninskoye mine was similarly 146 thousand ounces in 2014, as compared to 89 thousand ounces of gold in 2013, as the mine reached its nameplate throughput capacity.

Yakutia Kuranakh business unit (Kuranakh mine)

In 2014, the Yakutia Kuranakh business unit sold 136 thousand ounces of gold, as compared to 139 thousand ounces of gold sold in 2013. Gold production likewise remained flat, with 137 thousand ounces of gold produced in 2014, as compared to 138 thousand ounces of gold in 2013.

Review of Financial Sustainability and Solvency for the years ended 31 December 2014 and 2013

Analysis of statement of financial position items

The table below shows key items from the Group's consolidated statement of financial position at 31 December 2014 and 2013.

	Year ended 31 December	
(In millions of U.S. dollars)	*2014*	*2013*
ASSETS		
Non-current assets		
Property, plant and equipment	950	1,506
Capital construction-in-progress	189	278
Mine under development(1)	1,102	1,573
Exploration and evaluation assets	110	175
Derivative financial instruments and investments	172	2
Inventories	227	295
Deferred tax assets	47	-
Other non-current assets(2)	3	-
Total non-current assets	**2,800**	**3,829**
Current assets		
Inventories	440	702
Deferred expenditures	13	16
Other receivables	11	27
Advances paid to suppliers and prepaid expenses	16	28
Taxes receivable	48	250
Bank deposits	269	48
Cash and cash equivalents	1,217	809
Total current assets	**2,014**	**1,880**
TOTAL ASSETS	**4,814**	**5,709**
EQUITY AND LIABILITIES		
Equity attributable to shareholders of the Company(3)	1,474	3,679
Non-controlling interests	146	275
TOTAL EQUITY	**1,620**	**3,954**
Non-current liabilities		
Site restoration, decommissioning and environmental obligations	49	69
Borrowings	1,723	937
Derivative financial instruments	423	-
Deferred tax liabilities	150	134
Other non-current liabilities	22	33
Total non-current liabilities	**2,367**	**1,173**
Current liabilities		
Borrowings	90	269
Derivative financial instruments	547	-
Trade, other payables and accrued expenses	154	260
Taxes payable	36	53
Total current liabilities	**827**	**582**
TOTAL LIABILITIES	**3,194**	**1,755**
TOTAL EQUITY AND LIABILITIES	**4,814**	**5,709**

Notes:

1. Mine under development includes only the Natalka mine (Magadan business unit). The reduction in the amount in 2014 is due to the effect of translation to the U.S. dollar presentation currency.

2. The long-term portion of reimbursable value added tax and other non-current assets, capitalised IT costs and deferred expenditures.

3. Equity attributable to shareholders of the Company includes share capital, additional paid-in capital, treasury shares, investments revaluation reserve, translation reserve and retained earnings.

The devaluation of rouble in 2014 resulted in a significant translation loss of US$1,751 million being recorded in the period, which resulted in the Group's net assets reducing by 59 per cent as a result of the presentation of the Group's financial position at the year-end spot rate. Of this amount, US$743 million related to mine under development, US$646 million to property, plant and equipment and the remaining amounts related to working capital accounts, borrowings, capital construction in progress and other items.

Borrowings

As of 31 December 2014, the Group's total borrowings (excluding liabilities arising from derivative financial instruments) amounted to US$1,813 million, a 50 per cent increase over the US$1,206 million at the end of 2013. Only 5 per cent of total borrowings (US$90 million) was short-term, with the balance long-term, thus reflecting the Group's strong liquidity position. The US$750 million in the 2020 Eurobonds continued to account for a large proportion of the debt. Bank loans accounted for 52 per cent of the debt portfolio, dominated by the credit facility from Sberbank for RUB36 billion, which was obtained in April 2014.

The following table sets forth the components of the Group's total borrowings as of 31 December 2014 and 2013:

	Year ended 31 December	
(In millions of U.S. dollars)	***2014***	***2013***
Eurobonds	745	744
ECA financing	14	26
Deferred payments under letters of credit	107	216
Bank loans	947	220
Total	**1,813**	**1,206**

Most of the Group's borrowings were U.S. dollar-denominated, including the U.S. dollar-denominated Eurobonds. The RUB36 billion credit facility from Sberbank obtained in April 2014 was economically hedged through cross-currency swaps. The following table sets forth the currency breakdown of the Group's total borrowings as of 31 December 2014 and 2013:

	Year ended 31 December	
(In millions of U.S. dollars)	***2014***	***2013***
EUR	69	125
RUB	596	-
US$	1,148	1,081
Total	**1,813**	**1,206**

The following table sets forth the debt maturity schedule of the Group's total borrowings as of 31 December 2014:

Due in	*(In millions of U.S. dollars)*[1]
2015	90
2016	38
2017	87
2018	136
2019	710
2020+	764

Note:

1. The debt maturity breakdown is based on actual maturities and excludes US$13 million of bank commissions included in borrowings, in accordance with IFRS.

Cash and cash equivalents and bank deposits

As of 31 December 2014, the Group's cash and cash equivalents amounted to US$1,217 million, an increase of 50 per cent from US$809 million as of 31 December 2013. The amount of bank deposits increased to US$269 million as of 31 December 2014 from US$48 million as of 31 December 2013. Thus the overall total cash position was at US$1,486 million as of 31 December 2014, representing a 73 per cent increase over 2013.

The Group's cash position is comprised primarily of U.S. dollars, as revenue is fully linked to the U.S. dollar-denominated gold price, while the rouble exchange rate is subject to significant volatility. The following table sets forth the currency composition of cash, cash equivalents and bank deposits as of 31 December 2014 and 2013:

	Year ended 31 December	
(In millions of U.S. dollars)	*2014*	*2013*
RUB	63	526
US$	1,406	330
EUR	17	1
Total	**1,486**	**857**

Cash flow analysis

The following table sets forth the main components of the Group's consolidated cash flow statement for the years ended 31 December 2014 and 2013.

	Year ended 31 December	
(In millions of U.S. dollars)	*2014*	*2013*
Consolidated cash flow information		
Net cash generated from operating activities (1)	**866**	**454**
Net cash utilised in investing activities	**(774)**	**(1,023)**
Net cash generated from financing activities (1)	**393**	**461**
Net increase / (decrease) in cash and cash equivalents	**485**	**(108)**
Effect of foreign exchange rates on cash and cash equivalents	(77)	(43)
Cash and cash equivalents at beginning of the year	809	960
Cash and cash equivalents at end of the year	**1,217**	**809**

Note:

1. Net cash generated from operating activities and net cash generated from financing activities as presented above have been adjusted and do not correspond with the information presented in the statements of cash flow for the years ended 2014 or 2013 included in the 2014 Financial Statements, due to the reclassification of interest paid, gain on exchange of interest payments and cross-currency rate swaps from operating activities into financing activities. The amounts reclassified for 2014 and 2013 were 57 million and 32 million, respectively, which increased net cash flow from operating activities and net cash flow utilized in financing activities.

Operating activities

Net cash generated from operating activities increased to US$866 million in 2014 from US$454 million in 2013. The increase in cash from operating activities was the result of both higher operating cash flow (US$1,021 million in 2014, as compared to US$910 million in 2013) and a release of working capital of US$30 million in 2014, as compared to a build-up in working capital of US$284 million in 2013.

Investing activities

The Group used US$774 million in investing activities in 2014, as compared to US$1,023 million in 2013. The decline in cash used in investing activities was principally the result of a decrease in capital expenditures due to lower investment in the Natalka project, strict control over expenses, including development and maintenance capital expenditures, and the depreciation of the rouble. The 2013 amounts also reflected the proceeds from the sale of the Group's operating subsidiaries in Kazakhstan and Kyrgystan (US$291 million, net of cash disposed of US$6 million), which was completed in February 2013.

Financing activities

Cash flow generated from financing activities totalled US$393 million in 2014, as compared to US$461 million in 2013. The decrease in cash flow generated from financing activities was principally due to higher dividend payments and a larger amount of repaid borrowings in 2014, partially offset by the increase of proceeds from borrowings.

Capital expenditures, acquisitions of subsidiaries and stripping activity asset

The following table shows the Group's capital expenditures by project for the years ended 31 December 2014 and 2013.

	Year ended 31 December		
(*In millions of U.S. dollars*)	***2014***	***2013***	***Change (%)***
Natalka	310	1,059	(71)
Olimpiada	56	146	(62)
Blagodatnoye	17	54	(69)
Verninskoye	38	53	(28)
Alluvials	17	18	(6)
Titimukhta	6	2	200
Kuranakh	6	16	(63)
Exploration	6	26	(77)
Other (including power projects)	69	66	5
Total	**525**	**1,440**	**(64)**

The Group spent US$310 million on Natalka in 2014, a decline of 71 per cent from US$1,059 million in 2013. The lower investments were the result of the weaker rouble, a decision to reconsider the Group's options with regard to the project development and the significant slow down in construction work since November 2014. In 2015, the project's operational review was completed.

Spendings on Olimpiada declined by 62 per cent to US$56 million in 2014, as a number of development projects begun in 2013, including the automation of the mill, were completed in the first half of 2014. Blagodatnoye spendings decreased by 69 per cent to US$17 million in 2014. The 2013 amounts included construction of a large dormitory for personnel. Verninskoye spendings declined by 28 per cent to US$38 million in 2014, as major construction works at the mine were completed in 2013. Other projects' capital expenditures remained broadly unchanged year-on-year, as the construction of the Peleduy-Mamakan grid, the major component of this item, continued in 2014.

Contingent Liabilities

Capital commitments

The Group's contracted capital expenditure commitments as at 31 December 2014, amounted to US$23 million (31 December 2013: US$146 million).

Operating leases

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 2060.

Future minimum lease payments due under non-cancellable operating lease agreements at 31 December 2014 were as follows:

	In millions of U.S. dollars
Due within one year	3
From one to five years	8
Thereafter	20
Total	31

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. The following sets forth a discussion of critical accounting judgements and key sources of estimation uncertainty arising in connection with the preparation of the Group's financial statements as of and for the six months ended 30 June 2016.

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;
- determination of functional currency; and
- cash flow hedge designation.

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 in the JORC reports for the Company's deposits are longer than those in 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.

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 production. Determination of this date requires judgement.

Depreciation is calculated based on a 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.

Borrowing costs capitalisation

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset.

Such borrowing costs are capitalised whilst projects are in progress. Natalka mine construction has been restarted in the second half of the 2015 year, and the Group commenced the capitalisation of the related borrowing costs starting from 1 July 2015.

Capitalisation of interest ceases once the asset is complete and available for use. Interest is then charged to the income statement as a depreciation expense over the life of the relevant asset.

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.

Cash flow hedge designation

The Group applies its judgement in identification of the forecast selling price of the expected gold sale for the purpose of calculation of the intrinsic value of the options designated as a cash flow hedge and for hedge effectiveness testing.

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 the tangible 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; and
- interpretation of the tax legislation in accounting for income taxes.

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 licenced properties contain gold resources under the definition of the Russian Resource Reporting Code. A number of licenced 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.

Impairment of tangible assets

The Group reviews the carrying amounts of its tangible assets including mine under development 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 the 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.

There are certain key differences between Russian Resource Reporting Code and JORC estimates. The Russian Resource Reporting Code estimates are constant at the time of the submission to the Russian authorities as part of an agreed mining approach and are generally not (though there are certain exceptions) changed subsequently, whereas the JORC estimates are updated annually. Reflecting the longer time between the estimates there is a greater likelihood of differences in input parameters.

The Russian Resource Reporting Code estimates allocate the "geological" amount of ore and do not incorporate certain other mining parameters including dilution and losses while JORC estimates are based on modifying factors developed at pre-feasibility or feasibility stages. These estimates identify the value of the part of the resources which could be mined with profit. Further, the Russian Resource Reporting Code estimates are limited by wireframes and in some cases this excludes the haloes of lower grade mineralisation that is likely to be mined by open pit means.

As a first approximation only the Russian Resource Reporting Code reserves are reconciled with JORC resources. The effect on the 2015 Financial Statements of the application of a unit of production depreciation methodology based on Russian Resource Reporting Code instead of JORC is also considered to be immaterial by the Group.

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 that which relates 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 other), 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.

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 (inventories expected to be recovered after 12 months) is based on approved mine operating plans.

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.

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 Group's financial position, results of operations and cash flows may be negatively affected.

Quantitative and Qualitative Disclosures about Market Risk

The Group's principal financial liabilities comprise borrowings, derivative financial instruments and investments and trade and other 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, bank deposits, trade and other receivables, derivative financial instruments and investments.

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

Gold price risk

The Group is exposed to changes in the gold price due to its significant volatility. Under the current hedge position, the Group protected roughly a half of projected output in 2016. During 2014, the Group entered into a number of derivative transactions (revenue stabiliser and gold forward agreements) under the SPPP to limit its exposure to future possible fluctuations of gold price.

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 per cent higher/lower during the six months ended 30 June 2016, gold sales for the year would have increased/decreased by US$46 million/US$39 million, respectively (the year ended 31 December 2015: US$134 million/US$138 million; the year ended 31 December 2014: US$181 million/US$175 million).

In February 2016, the Group continued to economically hedge its gold sales by entering into the new revenue stabiliser agreements for an annual amount of 100,000 ounces during the first three years and 300,000 ounces during the fourth year.

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. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's current policy considering the relatively low LIBOR rates is to borrow funds in US$ with floating interest rates. During the years ended 31 of December 2014 and 2015, the Group, in order to align its borrowings with the policy, entered into a number of derivative transactions:

- to swap cash flows under a rouble denominated credit facility with a fixed interest rate of 10.35 per cent into U.S. dollar-denominated cash flows with a floating interest rate of three-month

LIBOR plus 2.47 per cent. The credit facility was initially arranged in RUB with the view to swapping it into a US$ denominated cash flow, because this was more cost effective than obtaining funding directly in U.S. dollars; and

- to swap interest payments under the 2020 Eurobonds from a fixed rate of 5.625 per cent into a floating rate of three-month LIBOR plus 3.55 per cent;
- to swap cash flows under a 10 billion rouble denominated bonds with a fixed coupon of 12.1 per cent into U.S. dollar-denominated cash flows with a floating interest rate of six-month LIBOR plus 4.45 per cent. The bond was initially arranged in RUB with the view to swapping it into a U.S. dollar-denominated cash flow, because this was more cost effective than obtaining funding directly in U.S. dollars.

See note 19 to the 2015 Financial Statements.

If the interest rate was 0.5 per cent higher/lower during the six months ended 30 June 2016 interest expense excluding effect of change in fair value of interest rate and cross currency swaps for the six months ended 30 June 2016 would have increased/decreased by US$8 million (the year ended 31 December 2015: US$8 million; the year ended 31 December 2014: US$5 million).

If interest rates used in calculations of fair values of interest rate and cross currency swaps as at 30 June 2016 would be 0.5 per cent higher/lower, the gain on revaluation would be US$35 million lower/higher, respectively (the year ended 31 December 2015: US$39 million, the year ended 31 December 2015: US$44 million).

0.5 per cent 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 U.S. dollars based on international quoted market prices. The majority of the Group's expenditures are denominated in roubles, and accordingly, operating profits are adversely impacted by appreciation of the roubles against the U.S. dollar. In assessing this risk, management takes into consideration changes in the gold price.

During 2014, the Group entered into a number of derivative agreements, in the form of currency collars, in order to economically hedge its rouble denominated expenses. From 1 January 2016, the Group is fully unhedged and no currency collars remain outstanding. See note 13 to the 2015 Financial Statements.

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:

(in millions of U.S. dollars)	***Six months ended 30 June***		***Year ended 31 December***
	2016	***2015***	***2015***
Assets			
US$	1,588	1,340	2,135
EUR (presented in US$ at closing exchange rate)	2	1	1
Total	**1,590**	**1,341**	**2,136**
Liabilities			
US$	4,846	1,748	2,084
EUR (presented in US$ at closing exchange rate)	12	9	14
Total	**4,858**	**1,757**	**2,098**

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 per cent 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 U.S. dollar or EUR exchange rate had increased by 25 per cent for the six months ended 30 June 2016, the six months ended 30 June 2015 and the year ended 31 December 2015 compared to the rouble as of the end of respective six months or year, the Group would have incurred the following gain/(loss):

(in millions of U.S. dollars)	***Six months ended 30 June***		***Year ended 31 December***
	2016	***2015***	***2015***
Loss / (profit) (U.S. dollar exchange rate compared to RUB)	814	102	(13)
Loss (EUR exchange rate increased compared to RUB)	2	2	3

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 granted, advances paid, trade 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 is incorporated in the fair value of derivative financial instruments at the reporting date. Credit risk incorporated into valuations is based on the quoted counterparty credit default swaps 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 per cent of the total gold sales to four 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. There were no outstanding receivables for gold sales as of 30 June 2016, 31 December 2015 and 30 June 2015.

Gold sales to the Group's major customers are as follows:

	Six months ended 30 June		***Year ended 31 December***
(In millions of U.S. dollars)	***2016***	***2015***	***2015***
VTB Bank	416	198	493
Sberbank	329	250	651
Otkritie Bank	160	338	668
MDM Bank	72	141	166
Other	92	78	181
Gold sales	**1,069**	**1,005**	**2,159**

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 its own credit risk, a proxy credit default swap for the industry is used since the Group does have quoted credit default swaps.

The Group's cash management procedures include medium-term forecasting (a budget approved each financial year and updated on a quarterly basis), short-term forecasting (monthly cash-flow budgets are established for each business unit and a review of each entity's daily cash position is performed using a two-week rolling basis).

Presented below is the maturity profile of the Group's financial liabilities as at 30 June 2016 based on undiscounted contractual payments/(receipts), including interest payments:

	Borrowings		***Trade and other***	
	Principal	***Interest***	***payables***	***Total***
Due in the first year	138	273	175	586
Due in the second year	302	276	-	578
Due in the third year	957	253	-	1,210
Due in the fourth year	810	191	-	1,001
Due in the fifth year	134	143	-	277
Due in the period between sixth to eight years	2,550	111	-	2,661
Total	**4,891**	**1,247**	**175**	**6,313**

INDUSTRY OVERVIEW

Gold has been used for many centuries to store value, as a form of money and to produce jewellery. Until recently, many economies used gold as the basis for international monetary standards, and the Company believes it remains a popular investment tool. Due to its qualities of malleability, ductility, reflectivity, resistance to corrosion and excellent thermal and electric conductivity, gold is also used in a wide variety of industrial and medical applications.

Historically, jewellery has been by far the most important market for gold. In 2015, total demand for gold equalled 4,359 tonnes, the main components of which were jewellery, which accounted for 56 per cent of total demand; bar and coin production, which accounted for approximately 23 per cent; official sector purchases, which accounted for 13 per cent; and industrial demand, which accounted for approximately 8 per cent.

In addition to rings, brooches, necklaces and earrings, people also use gold in the form of gold leaf for decoration and protection and for screen printing (for example, directly onto bone china, earthenware, porcelain and glass surfaces). Gold is also the key component for both "liquid gold", a formulation containing up to 12 per cent gold, which is ideal for decorative applications using brushes, and gold pastes used for screen printing.

Gold is also used as a coinage metal. Apart from gold coins, gold ingots and gold bars, gold is available in many forms, including pure gold and alloys, such as gold flakes, foil gauzes, grain, powders, sheet, sponges, tubes, wires and even single gold crystals.

In recent years, gold catalysts have become increasingly useful in the chemical industry. Many other gold compounds, including neutral gold halides, aurates, gold cyanides, gold oxides, phosphine gold complexes, gold hydroxides and gold nitrates, are available to industrial users.

Gold is also a useful metal for use in electronics owing to its inert nature and other physical properties. Examples of the use of gold in electronics include electrical contacts, bonding wire, solder alloys and electroplating. Gold is also a useful brazing material, and manufacturers use it for coating space satellites, since it reflects infrared light well and is inert.

As an alloy, gold is used extensively for dentistry in gold teeth, dental attachments, inserts and solders and is used increasingly for medical implants in eyes and ears, as well as in many other medically useful wires, tubes, sheets and foils.

The bulk of the gold mined throughout history is still in circulation today in one form or another due to the exceptional physical characteristics and scarcity of gold.

Gold Production

According to Metals Focus' Gold Focus report dated June 2016, in 2015 total gold supply accounted for 4,348 tonnes, including 3,211 tonnes of gold mine production and 1,127 tonnes of gold produced from scrap.

Gold deposits are located throughout the world. In 2015, global gold mine production reached 3,211 tonnes, a 2 per cent increase compared to 2014. The increase in gold mine production was mainly driven by the investments made during the period of high gold prices. The biggest gold producer remained China with a 14 per cent share in global production in 2015. Among the leading producers, the highest percentage growth was in Kazakhstan (+29 per cent), Indonesia (+20 per cent) and Mexico (+18 per cent), mainly due to the ramp-up of recently launched operations. The largest decreases in mine output in 2015 were recorded in Ghana (-11 per cent), Chile (-8 per cent) and Colombia (-6 per cent).

In 2015, Russia maintained its position as the third-largest gold-producing country in the world in terms of production. According to Metals Focus' Gold Focus report dated June 2016, mine production in Russia amounted to 269 tonnes, an increase of one per cent over 2014 levels. To a large extent, the increase was due to production in the largest gold producing region, Krasnoyarsk, which recorded a four per cent gain over 2014. The Group, the largest Russian gold producer contributing 20 per cent of the country's gold output, increased its gold production by 4 per cent in 2015.

The top five gold producers globally, measured by the amount of JORC proven and probable reserves based on the most recent publicly available company reports were: Barrick Gold (92 million ounces), Newmont Mining Corp. (74 million ounces), Newcrest Mining (69 million ounces), the Group (64 million ounces) and AngloGold (52 million ounces). Based on Metals Focus' Precious Metals Investment Focus report dated 26 September 2016 and publicly available reports, the top five gold producers globally, as measured by the amount of gold produced in 2015, were: Barrick Gold (6.1 million ounces), Newmont Mining (5.0 million ounces), AngloGold (3.9 million ounces), Goldcorp (3.5 million ounces) and Kinross Gold Corp (2.6 million ounces).

Supply and Demand

Supply

According to Metals Focus' Gold Focus report dated June 2016, the supply of gold in 2015 decreased by three per cent year-on-year to 4,348 tonnes, as a result of decreased recycled output and a switch to negative net producer hedging, partly offset by higher mine production.

Mine production represents the main source of gold supply, accounting for 74 per cent of the global supply of gold in 2015. Global mine production in 2015 reached an all-time high of 3,211 tonnes, up two per cent year-on-year mainly driven by the investments made during previous years in an environment of higher gold prices.

Another important source of the world's gold supply is scrap, which represented 26 per cent of the global gold supply in 2015. As a result of the decreasing average gold prices, supply of gold from scrap dropped by six per cent to 1,127 tonnes in 2015, which marked the fourth consecutive year of decline after reaching record highs in 2011, when individuals used the opportunity to sell accrued scrap at higher prices.

After an increase in 2014, producer hedging activity turned negative in 2015, with net hedging declining to nine tonnes.

Demand

According to Metals Focus' Gold Focus report dated June 2016, the demand for gold in 2015 decreased by 2 per cent year-on-year to 4,359 tonnes, as all areas except for the net physical investment recorded year-on-year declines.

The jewellery sector remained the largest consumer of gold accounting for 56 per cent in total demand. Consumption of gold by the sector fell by 3 per cent year-on-year to 2,439 tonnes. Similarly to 2014, decline in demand in the jewellery market was mainly attributable to a 7 per cent year-on-year decline in demand from China, one of the leading jewellery manufacturing markets, resulting from a general economic slowdown and an overall change in consumer preferences. The significant decline in demand in Russia, Turkey and the Arab countries were due to the worsening economic environment.

Demand for gold in the industrial sector continued to decline, registering a 4 per cent year-on-year drop mainly due to the persistent trends substituting gold by other metals.

Demand from the official sector remained strong at 566 tonnes, although that represented an increase of 3 per cent over 2014. This support was provided by two large participants, China and Russia, with both seeking to diversify their reserves from the U.S. dollar.

Investment Demand

The investment demand for gold includes the demand for gold bullion, coins, medals and “gold” financial instruments, such as traded index funds and exchange traded funds (“**ETFs**”). According to Metals Focus’ Gold Focus report dated June 2016, in 2015 net physical investments into bars and coins increased by 1 per cent to 1,021 tonnes. As for ETFs, outflows from them continued in 2015 for the third consecutive year, although their quantity was modest at 134 tonnes.

Investment demand in physical bars and coins accounted for 23 per cent of the total global demand for gold and amounted to 1,021 tonnes. The largest contributor to the year-on-year growth in bar and coins investment was China, although that was due to a low-base effect in 2014. North America and Europe also provided notable increases in physical investments in gold, although for different reasons. The U.S. demand picked up mostly due to a decrease in gold price during the summer months, while in Europe, gold buying was attributable to concerns about the prospects of the euro and the European Central Bank’s monetary easing.

Net outflow from ETFs in 2015 amounted to 134 tonnes compared to the outflow of 185 tonnes in 2014, as prices started to stabilise in an attempt to find a bottom.

Pricing and Trading

Unlike most commodities, gold is not consumed, and most above-ground stocks of gold can be brought back to market. As a result, variations in new gold output from mines in any given time period may not have an immediate material impact on the gold price, as the amount of gold produced in any single year represents a small portion of the total potential supply of gold available for sale. During 2014 and 2015, the major factors influencing the gold prices included improving economic expectations in the United States and changes in the U.S. monetary policy, which put significant pressure on gold, restraining investment demand. However, intensifying concerns over the global economic slowdown, loosening of the monetary policy in other major advanced and several emerging economies and increasing geopolitical risks supported the price.

Historical Gold Prices – London afternoon gold price fixing (US$/oz)

Source: World Gold Council www.gold.org

Average Gold Price

Year	***2011***	***2012***	***2013***	***2014***	***2015***
Average gold price (US$/oz)	1,571	1,669	1,411	1,266	1,160

The price of gold has historically been significantly affected by macroeconomic factors, such as interest rates dynamics, inflation, exchange rates, reserve policy and the overall global political and economic situation. Gold is often purchased as a store of value in periods of price inflation and weakening currency.

London is the world's largest pool of gold liquidity, with trading conducted primarily via an over-the-counter format in 400 ounce gold bars with a purity of 9,950 parts per 10,000 or higher. The LBMA fixes the gold price twice daily in London (at 10.30 a.m. and 3.00 p.m.), using prices derived from five fixing members of the LBMA. These price fixings are used as a key indicator for gold market participants around the world. Leading gold futures markets are the COMEX in New York and TOCOM in Tokyo.

After the highly volatile 2013, in 2015 the gold prices started to stabilise with most aspects of supply and demand adjusting to the new lower price environment. Macroeconomic factors, including increasing expectations of a potential increase in interest rates and a stronger U.S. dollar, remained among the key factors affecting the gold price dynamics. In the United States, gold traded lower on the back of its decreasing appeal as an asset class, with lower expected risk from systematic financial instability and continued low inflationary pressures. The gold price usually decreases as higher rates and growing U.S. economy imply better returns from fixed income and equity markets.

Factors affecting the gold price outside the United States included the launch of the European quantitative easing programme in 2015, higher geopolitical tensions and a slowdown in emerging economies resulting in the devaluation of many currencies against the U.S. dollar.

In the first months of 2016 gold prices were highly volatile. They surged from US$1,077/oz to almost US$1,300/oz from January to April on anticipations of fewer interest rates hikes in the U.S., as well as overall stock market instability and volatility owing to the macro issues in the U.S. and China. However, as the data started to indicate certain improvements in the U.S. economy, backed by the rhetoric of the U.S. officials, gold prices retreated during May from their annual highs to the levels slightly above $1,200/oz.

Overview of the Gold Mining Environment in Russia

According to Metals Focus' Gold Focus report dated June 2016, total gold production in Russia (including recycling) increased by 2 per cent in 2015 from 2014 levels and amounted to 304 tonnes. The amount of gold produced by the Group represented approximately 18 per cent of the total Russian gold output in 2015 and 20 per cent of the total Russian mine production, which in 2015 increased by one per cent and reached 268.5 tonnes.

BUSINESS

Overview

The Group is the largest gold mining group in Russia based on ounces of gold produced, according to the Russian Union of Gold Miners, and with 64.3 million ounces of gold in JORC proven and probable reserves, has the fourth largest gold reserves in the world based on the most recent publicly available reports of other gold mining companies. The Group develops and mines hardrock gold and alluvial gold deposits, with its principal deposits in the Krasnoyarsk, Irkutsk, Magadan and Republic of Sakha (Yakutia) regions of Russia. The Group's total gold production in 2015 was 1,763 thousand ounces.

For the six months ended 30 June 2016, the Group had total gold sales of US$1,069 million, total revenue of US$1,082 million and profit for the period of US$494 million, and, as at 30 June 2016, total assets of US$4,962 million and total equity deficit of US$1,013 million. For the six months ended 30 June 2015, the Group had total gold sales of US$1,005 million, total revenue of US$1,019 million and profit before income tax of US$659 million, and, as at 30 June 2015, total assets of US$4,815 million and total equity of US$2,061 million. The Group's Adjusted EBITDA was US$689 million in the first six months of 2016 and US$589 million in the same period in 2015. Total cash cost was US$377 per ounce in the first six months of 2016, and AISC was US$558 per ounce in the first six months of 2016 and US$617 per ounce in the same period in 2015. The Group had negative net assets of US$1,013 million as at 30 June 2016, which resulted from (i) unrealized currency exchange losses in the amount of US$2,732 million, due to the depreciation of the Russian rouble decreasing the U.S. dollar value of the Russian rouble denominated total consolidated assets of PJSC Polyus and its subsidiaries, and (ii) the repurchases of PJSC Polyus's shares by a subsidiary. The Group's negative net assets also resulted from a subsequent repurchase of the Company's shares effected with immediate cancellation of the Company's shares so purchased in the first six months ended 30 June 2016 in the total amount of US$3,237 million.

For the year ended 31 December 2015, the Group had total gold sales of US$2,159 million, total revenue of US$2,189 million, profit for the period of US$1,119 million and, as at 31 December 2015, total assets of US$4,936 million and total equity of US$1,877 million. For the year ended 31 December 2014, the Group had total gold sales of US$2,197 million, total revenue of US$2,239 million and a net loss of US$182 million, and, as at 31 December 2014, total assets of US$4,814 million and total equity of US$1,620 million. The Group's Adjusted EBITDA was US$1,268 million in 2015 and US$1,011 million in 2014. TCC was US$424 per ounce in 2015 and US$585 per ounce in 2014, and AISC was US$610 per ounce in 2015 and US$825 per ounce in 2014.

The Company estimates that the Group's mineral base has a mine life of 36 years.

The table below shows the mineral reserves and resources of the Group according to the JORC Code:

	Ore (million tonnes)	***Grade (g/t)***	***Gold (million ounces)***
Proven and Probable	894.9	2.23	64.3
Measured and Indicated	1,324.9	2.09	88.8
Inferred	580.2	2.06	38.5

The table below shows the gold production figures for the Group's operations.

Production of Gold ('000 ounces)	*Year ended 31 December*			*Six months ended 30 June*	
	2015	***2014***	***2013***	***2016***	***2015***
Krasnoyarsk region					
Olimpiada	743	726	691	332	357
Blagodatnoye	425	394	395	221	186
Titimukhta	102	93	131	40	57
Poputninskoye	2	–	–	4	–
Irkutsk region					
Verninskoye	161	146	89	100	79
Alluvials	168	190	205	33	33
Republic of Sakha (Yakutia) region					
Kuranakh	145	137	138	78	66
Refined gold	**1,746**	**1,686**	**1,650**	**808**	**779**
Gold contained in concentrate	17	10	2	31	5
Total gold produced	**1,763**	**1,696**	**1,652**	**839**	**784**

The Group's major gold deposits in Russia are:

- in the Krasnoyarsk region (representing 60 per cent of the Group's total proven and probable reserves and 73 per cent of the Group's total gold production in 2015 (74 per cent in the first six months of 2016)) – the Olimpiada deposit, which is the largest operating gold mine in Russia according to Metals Focus' Quarterly Gold Mine Cost Service report for the second quarter of 2016, the Blagodatnoye, Titimukhta and Poputninskoye deposits;
- in the Irkutsk region (representing 11 per cent of the Group's total proven and probable reserves and 19 per cent of the Group's total gold production in 2015 (16 per cent in the first six months of 2016)) – the Verninskoye deposit and Alluvials;
- in the Republic of Sakha (Yakutia) region (representing 4 per cent of the Group's total proven and probable reserves and 8 per cent of the Group's total gold production in 2015 (9 per cent in the first six months of 2016)) – the Kuranakh mine; and
- in the Magadan region (representing 25 per cent of the Group's proven and probable reserves) – the Natalka deposit.

History of the Group

In 2002, OJSC MMC Norilsk Nickel ("**Norilsk Nickel**") acquired JSC Polyus, which held various gold mining assets in the Krasnoyarsk region of Russia.

In 2004, JSC Polyus completed the acquisition of a controlling interest in the Russian gold mining companies, OJSC Lenzoloto (in the Irkutsk region of Russia) and JSC Matrosova Mine (in the Magadan region of Russia), and subsequently increased its stake in both companies. Following several restructurings, some of the assets of OJSC Lenzoloto are now held by another Group company, JSC Pervenets.

In August and September 2005, JSC Polyus further expanded its gold mining assets through the acquisition of JSC Aldanzoloto GRK, OJSC YMC and JSC South-Verkhoyansk Mining Company in the Republic of Sakha (Yakutia) region in Russia. As a result of those acquisitions, JSC Polyus increased its production of gold in 2005 to 1.038 million ounces, as compared to 832,000 ounces in 2003, and, in terms of production, JSC Polyus became Russia's largest gold mining company.

In March 2006, Norilsk Nickel transferred all of the shares of JSC Polyus, together with a cash contribution of RUB 10 billion (approximately US$360 million at the time), to PJSC Polyus, a newly formed Russian open joint stock company, as part of a spin-off of Norilsk Nickel's gold mining business.

In May 2006, the shares of PJSC Polyus were admitted to listing and trading on the RTS and MICEX stock exchanges. In July 2006, PJSC Polyus established a Level I American depositary receipt programme, and in December 2006, the American depositary shares evidenced by American depositary receipts ("**ADRs**") representing rights to shares of PJSC Polyus were listed on the Official List of the UKLA and admitted to trading on the London Stock Exchange.

On 9 July 2009, JSC Polyus's subsidiary, Jenington, made a partial offer for the shares of KazakhGold Group Limited ("**KazakhGold**") (previous name of the Company) to shareholders of KazakhGold. The partial offer was declared unconditional on 14 August 2009, following which Jenington became the controlling shareholder of KazakhGold, which held mining assets in Kazakhstan, Kyrgyzstan and Romania.

On 25 July 2011, KazakhGold acquired 89.14 per cent of the issued share capital of PJSC Polyus through a series of transactions, including a private exchange offer by KazakhGold to holders of PJSC Polyus securities, as well as option agreements with Jenington and the principal shareholders of KazakhGold. On 26 July 2011, KazakhGold changed its name to Polyus Gold International Limited. Following a mandatory tender offer by the Company to the remaining shareholders of PJSC Polyus in accordance with Russian law, the Company increased its total interest in the issued share capital of PJSC Polyus to 92.95 per cent. In addition, Jenington acquired ADRs of PJSC Polyus through a private exchange offer and open-market acquisitions to acquire a total interest (in the form of ADRs) of 2.36 per cent in the share capital of PJSC Polyus. The Company purchased the ADRs from Jenington in March 2015.

On 10 May 2012, Jenington completed the sale, in privately negotiated transactions, of 151,607,496 shares of the Company to Chengdong Investment Corporation, a wholly-owned subsidiary of CIC International Co. Ltd., and 50,198,271 shares of the Company and 25,153,897 Level I GDRs to VTB Bank.

On 18 May 2012, the Group completed the sale of its Romanian assets for a total consideration of US$20 million to a British Virgin Islands incorporated holdings company affiliated with SAT & Company JSC.

On 19 June 2012, the entire issued share capital of the Company was admitted to the Premium Listing Segment of the Official List of the UKLA and to trading on the main market of the London Stock Exchange.

On 28 February 2013, the Group completed the sale of its gold mining assets in Kazakhstan and Kyrgyzstan to a consortium consisting of Institute Project B.V., Financial Services B.V. and Folkstand Consortium Limited.

On 22 December 2014, the Company's ordinary shares were admitted to trading on the main market of the Moscow Exchange.

On 1 September 2015, the Board of Directors of the Company received an unsolicited, conditional, and indicative proposal from Sacturino Limited, a wholly-owned subsidiary of Wandle Holdings Limited. The proposal envisaged an offer comprising US$2.97 per share in cash for all the issued and to-be-issued share capital of the Company not already owned or controlled by Sacturino Limited or its affiliates. A cash offer to acquire the issued and to-be-issued share capital of the Company that Sacturino Limited or Wandle Holdings Limited did not already own or have an interest in, at a price of US$2.97 per share (the "**Offer**"), was announced on 30 September 2015. The Offer became wholly unconditional on 4 November 2015 and closed on 17 November 2015. On 3 December 2015, following the completion of the acquisition of the Company by Sacturino Limited, the cancellation of the listing and the admission to trading of the Company's shares from the London Stock Exchange took effect. The Company's ordinary shares were also delisted from the Moscow Exchange. On 17 December 2015, Sacturino Limited completed a mandatory squeeze-out of the Company's shares and, together with Wandle Holdings Limited, acquired 100 per cent of the Company's share capital.

Recent Developments

On 23 December 2015, the Group entered into a joint venture agreement with Polymetal International plc, under which Polymetal International plc will participate in the development of the Group's Nezhdaninskoye gold deposit. Under the joint venture agreement, Polymetal International plc may acquire up to 50 per cent in the joint venture entity holding 100 per cent of JSC South-Verkhoyansk Mining Company through an earn-in mechanism.

On 11 March 2016, LLC Polyus-Invest, an indirect wholly-owned subsidiary of PJSC Polyus, published an Information Memorandum addressed to holders of PJSC Polyus's ordinary shares and ADRs, who were holders of the shares and/or ADRs as at the close of trading on 10 March 2016, on the terms and conditions for the submission of applications to enter into securities purchase agreements, and the entry into securities purchase agreements, in respect of their shares and/or ADRs in an amount not exceeding 33.14 per cent of the shares (which amounted to a total of 61,587,960 shares) and/or, if applicable, 33.14 per cent of the ADRs (which amounted to a total of 3,172,149 ADRs), held by them as at the close of trading on 10 March 2016, subject to the terms, conditions and limitations set forth in the Information Memorandum. The purchase price of the shares and ADRs under the securities purchase agreements was RUB 4,041.19 per share and RUB 2,020.60 per ADR (which totalled approximately US$56.8438 and US$28.422, respectively, at the official exchange rate of the CBR as of 11 March 2016). The purchase price was paid in Russian roubles. The period for submission of applications to enter into securities purchase agreements pursuant to the Information Memorandum commenced on 11 March 2016 and expired at 4:00 p.m. Moscow time on 27 May 2016. As of 27 May 2016, LLC Polyus-Invest entered into securities purchase agreements in respect of 60,518,665 shares of PJSC Polyus, representing in the aggregate 31.75 per cent of PJSC Polyus's share capital. The total purchase price paid by LLC Polyus-Invest constituted RUB 244.567 billion, which is equivalent to US$3.44 billion at the official exchange rate of the CBR as of 11 March 2016. For the purchase of shares, cash available and external financing obtained by the Group was used.

The Company entered into a securities purchase agreement and completed the sale of 60,211,461 shares of PJSC Polyus, representing approximately 31.59 per cent of PJSC Polyus's share capital, to LLC Polyus-Invest for the total purchase price of RUB 243,325 million, which is equivalent to approximately US$3.42 billion. The securities purchase agreement was entered into on 11 March 2016 pursuant to, and on the terms and conditions of, the Information Memorandum. Following completion of such sale, the Company used part of the funds received to repurchase 909,873,900 of its own ordinary shares (representing 30.04 per cent of its issued share capital) from Wandle Holdings Limited and Sacturino Limited, for the total purchase price of US$3.1 billion. The repurchased shares of the Company were cancelled at purchase.

On 30 September 2016, the Company sold 4,476, 853 ordinary shares, representing 2.35 per cent of the share capital in its subsidiary, PJSC Polyus, to its indirect subsidiary, JSC Polyus, which were then transferred by JSC Polyus to LLC Polyus-Invest by way of charter capital contribution. The proceeds of the sale were used to repay loans from JSC Polyus.

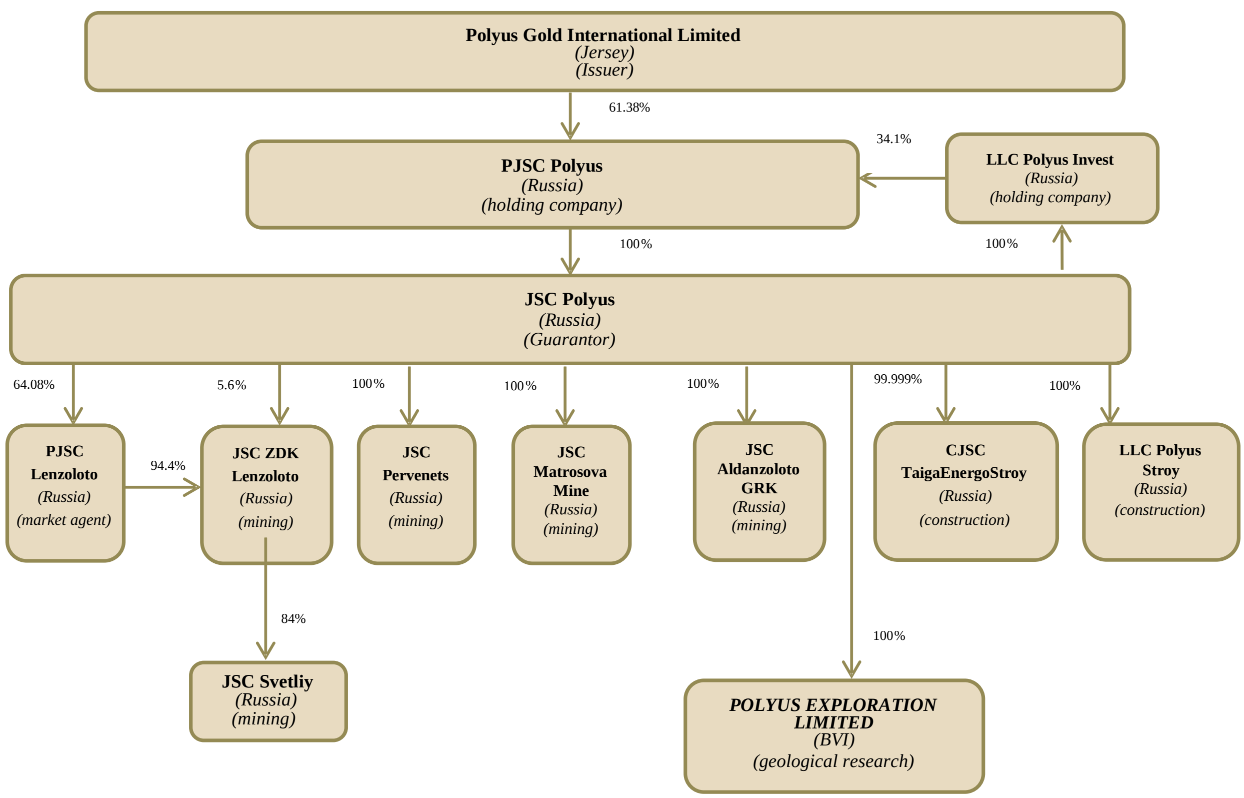
As of 1 May 2016, the competence of the sole executive bodies of the Guarantor and certain of its subsidiaries were transferred to a wholly-owned subsidiary of PJSC Polyus, Management Company Polyus Limited Liability Company ("**MC Polyus LLC**") in order to simplify the management of the Group and for the Group to have a direct operating control over the mining subsidiaries, in addition to a corporate control exercised at the level of shareholders and boards of directors of such subsidiaries. MC Polyus LLC is currently fulfilling the functions of the sole executive bodies of these companies under management agreements entered into among MC Polyus LLC and each of the companies. Members of the senior management of JSC Polyus were transferred to similar positions at MC Polyus LLC and Pavel Grachev has been appointed as General Director of MC Polyus LLC.

On 13 April 2016, listing of PJSC Polyus's shares on the Moscow Exchange was upgraded to Level 1 and, effective from 16 June 2016, the Moscow Exchange approved the inclusion of PJSC Polyus's ordinary shares in the RTS and MICEX indices.

PJSC Polyus continues working on the free float level requirement necessary to fully comply with Level 1 listing requirements of the Moscow Exchange.

Group Structure

The structure chart below sets out the holding structure of the Group's subsidiaries that the Company considers significant (see note 27 to the 2015 Financial Statements) as of 1 June 2016.



Competitive Strengths

The Company believes that the Group benefits from the following principal competitive strengths:

A gold mining group with a highly competitive position in Russia and a strong track record of production

With 2015 production of 1,763 thousand ounces, 64.3 million ounces of proven and probable JORC reserves and 127.3 million ounces of measured, indicated and inferred JORC resources, the Group is the largest gold mining group in Russia based on 2015 production volumes and one of the top four gold companies worldwide by proven and probable JORC reserves, based on the latest reserves and resources statements by gold mining companies. The Group's current producing assets operate with minimal reliance on third-party infrastructure, and, as they have been producing for many years and have significant remaining reserves, provide the foundation for the Group's further gold production in the medium term. Because of its strong operations and current foothold in Russia, the Company believes that the Group is well-positioned to capitalise on existing and future opportunities in the region.

An extensive resource base and defined development pipeline, providing a leading production growth profile from large development assets

Given its comfortable liquidity position and track record of commissioning new mines, the Company believes that the Group is well-positioned to convert its reserve base into gold production. Management expects growth to come from both the expansion of production at the existing mines via debottlenecking process and the start-up of new deposits. Approximately 30 per cent of all the Group's proven and probable JORC reserves are within assets that are currently not in the production phase. The majority of such reserves is expected to start being utilised following the planned commissioning of the Natalka operations by the end of 2017.

Superior cost advantage and ability to withstand gold price volatility

The Group's total cash cost per gold ounce sold ("**TCC/oz**") improved substantially during 2013-2015, moving from the fifth decile of the global cash cost curve to the first decile according to Metals Focus' Quarterly Gold Mine Cost Service report for the second quarter of 2016. Both local currency depreciation and ongoing operational efficiency initiatives contributed to the decrease. As a result, the Group's average TCC/oz and average all-in sustaining cost per gold ounce sold ("**AISC/oz**") are in the first decile of the 2015 global cost curves according to Metals Focus' Quarterly Gold Mine Cost Service report for the second quarter of 2016, which is structurally supported by the Group's bulk open-pit high-grade operations. The Group's TCC/oz continued to demonstrate a strong performance in the first six months of 2016, decreasing by 14 per cent as compared to the first six months of 2015 to US$377/oz, while the Group's AISC improved by 10 per cent as compared to the first six months of 2015 to US$558/oz. As a result, the Group's operational leverage (i.e., sensitivity to gold price fluctuation) has further decreased in comparison to the rest of the global gold mining industry.

Strong expertise in gold mining and project execution in an opportunity-rich mining region

The Group efficiently manages a portfolio of low-cost large-scale open-pit operating mines. Moreover, the Group has a proven track record of project execution, from the initial exploration stage to mining and flowsheet design and development. Specifically, the Group's Blagodatnoye asset is one of the largest Russian exploration projects developed in the last decade, with reserves of 8.2 million ounces at 2.26 g/t. It produced 425 thousand ounces of gold in 2015. Construction of the facility began in 2009 and within two years a gold processing plant was built with a design capacity of 6.0 million tonnes of ore per year on a greenfield site, all the necessary mining and haulage equipment was procured, and roads, warehouses, a camp and a tailings facility were constructed. In addition, the Blagodatnoye Mill-4 has been operating above its nominal throughput capacity since 2011 and an in-depth analysis of the flowsheet revealed the possibility to expand Mill-4 throughput capacity expansion to 8.0 mtpa by upgrading the mill's equipment and debottlenecking the existing flowsheet. The expansion project is currently at the execution stage. Furthermore, the Group is currently executing the Natalka development project, re-launched at the end of 2015 after a thorough revision during 2014-2015. The Group invited international mining and engineering consulting companies to assist with the block-model update and processing flowsheet optimisation during the revision and ongoing control during the project execution. Additionally, the

Group has extensive experience of the existing operations debottlenecking. Kuranakh operations underwent a substantial improvement during 2014-2015. Mining activity was improved by optimisation of ore transportation, logistics and blasting works. Simultaneously, blending of ore fed to the mill, consumption of reagents, new equipment purchases and thickening process were either improved or optimised at the processing stage. These measures allowed improvement of both TCC/oz and recoveries substantially. The Company, therefore, believes that the Group is well-positioned to bring its existing development projects into production. The Group is also well-positioned to take advantage of future opportunities in resource-endowed Russia, as its expertise and track record will provide competitive advantage in bidding for licences and assets.

Strategic Price Protection Programme designed to secure free cash flow generation during the capital expenditure intensive cycle

In March 2014, the Group initiated a Strategic Price Protection Programme (the "**SPPP**"). Under the SPPP, during the year ended 31 December 2014, the Group entered into gold forward contracts to sell a total of 310 thousand ounces of gold monthly in equal quantities over a period of two years starting from 1 July 2014 and ending on 30 June 2016 at a fixed price of US$1,321 per ounce. There are no outstanding balances with regards to gold forwards as of 30 June 2016. The Group has also entered into a series of zero cost Asian gold collars ("**revenue stabiliser**"). The revenue stabiliser represents a series of zero cost Asian barrier collar agreements to purchase put options and sell call options with "knock-out" and "knock-in" barriers. The revenue stabiliser options are exercised quarterly in equal amounts. The main purpose of the SPPP is to protect cash flow from operations during the Group's development strategy execution and to enable the Group to self-fund those projects even in case of a material gold price decrease.

Experienced management team and commitment to corporate governance

The Group believes that the experience of its management team, which was strengthened in late 2013-2014, positions the Group well to maximise the value of its existing operations, development projects and resource base. During that period, a new General Director, Pavel Grachev; new Senior Vice President, Operations, Vladimir Polin; and new Senior Vice President, Finance and Strategy, Mikhail Stiskin, joined the Group. In addition, PJSC Polyus, the Company's subsidiary and the parent company of the Guarantor, has an experienced Board of Directors, including three non-executive independent directors and chaired by an independent director, Edward Dowling.

Strategy

According to Metals Focus' Quarterly Gold Mine Cost Service report for the second quarter of 2016 the Group is the lowest cost top-10 gold producer in the world with a strong growth pipeline and commitment to operational excellence and its social and environmental responsibilities. The Company's current corporate strategy focuses on the following targets:

- ***Strong operational profile***: The Group strives to increase both output and its resource base of profitable ounces in a disciplined manner. The Group maintains its focus on operational excellence at Tier 1 assets, which are long-life, low-cost, high-grade open-pit properties that have scale.
- ***Focus on organic growth***: The Company aims to deliver a sustainable organic high-quality growth by extracting maximum value out of the identified brownfield growth projects and Natalka with high IRRs, while prioritizing a phased approach and carefully managing risks.

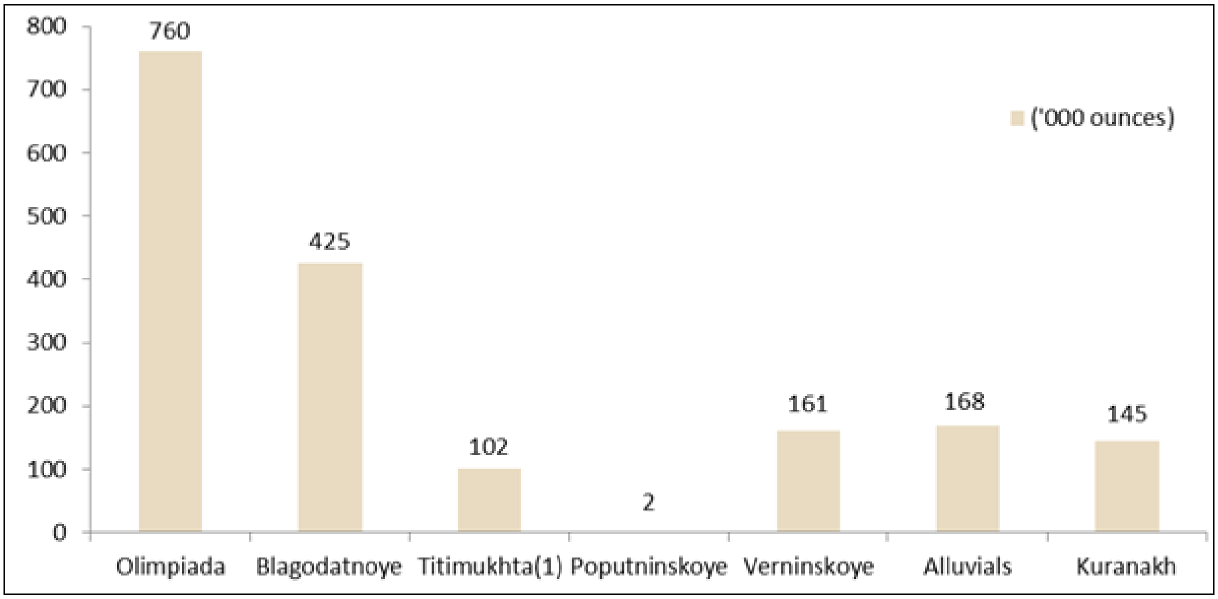
- ***Extensive reserve and resources base***: The Group focuses on the CIS as a home region, which is rich in undeveloped resources, and where the Company can achieve synergies and realize competitive advantages.
- ***Maintaining cost leadership***: The Group continues to identify further cost-cutting opportunities and continue to launch multi-faceted initiatives under the TOE programme. The Group intends to retain its status as one of the lowest-cost gold producers globally.
- ***Continued focus on corporate governance***: Following the changes to the Group's corporate structure, PJSC Polyus became the holding company for the assets of the Group. The Group intends to maintain its disclosure and reporting policy, with a view to adhering to high corporate governance and disclosure standards.
- ***Maintaining stringent health and safety standards***: The Group is committed to the best Health, Safety and Environmental ("**HSE**") practices and continuing implementation of a two-year action plan that commenced in 2015 to ensure full compliance with the ICMM Sustainable Development principles. The Group's ultimate goal is to achieve a zero fatality rate.

Principal Operations

The map below shows the location of the Group's assets, comprising Olimpiada and the five other main production assets, as well as the Natalka development project.

Current Production Assets

The chart below sets forth the breakdown by mine of production in 2015:



1 Including refined gold produced from ore purchased from the third party-owned Veduga mine under an offtake agreement.

See "*Operating and Financial Review — Summary of performance results by business units for the years ended 31 December 2015 and 2014*" for more information.

Krasnoyarsk region

The Group's principal operations in the Krasnoyarsk region are located at the Olimpiada deposit, which, for the first six months of 2016, accounted for 43 per cent (and together with the other production mines of the Krasnoyarsk business unit, 74 per cent) of the Group's total gold production.

The Group acquired licences to additional deposits and fields in the Krasnoyarsk region, including the Titimukhta deposit, which is located close to Olimpiada. The Titimukhta project was launched in 2009.

In 2000, the Group obtained the licence for Blagodatnoye, one of the largest Russian exploration projects in the last 10 years. In 2005, the Group obtained the state registration of the Blagodatnoye reserves, and in November 2007, the Board of Directors of PJSC Polyus approved construction of an open-pit mine to exploit the licence. In 2010, the Group commissioned the plant with a projected capacity of 6 million tonnes of ore per year. For the first six months of 2016, the Blagodatnoye mine accounted for 26 per cent of the Group's total gold production.

Olimpiada deposit

The map below shows the location of Olimpiada, the Group's flagship mine.

The Group's largest producing asset in terms of gold production volumes is the Olimpiada hardrock gold deposit, at which the Group mines and processes refractory sulphide ores. In 2010, the Olimpiada mine completed processing of oxide ores. From the second half of 2014, ore mining at Olimpiada was reduced to a minimum, as a cutback of the pit was initiated. The lower mining volumes at the Olimpiada deposit did not affect the Olimpiada's processing as large stockpiles of ore were created in 2013 and 2014, which are able to feed both mills. In 2015, the Group produced 743 thousand ounces of gold at Olimpiada (separately, 17 thousand ounces of gold contained in concentrate was produced), comprising 43 per cent of the Group's total gold production, representing a 2 per cent increase as compared to 726 thousand ounces of gold in 2014 (gold contained in concentrate totalled 9.7 thousand ounces in 2014). The measures to improve recovery, including automation of processing equipment, enhancement of gravitation, flotation, sorption and adsorption circuits, partial processing of tailings, utilization of more efficient reagents were completed during 2014-2015, which led to an increase in recovery from 75.8 per cent in 2014 to 79.6 per cent in 2015. In the first six months of 2016, the Group produced 363 thousand ounces of gold at Olimpiada, as compared to 357 thousand ounces of gold for the same period in 2015 (including 31.1 thousand ounces of gold contained in concentrate for the first half of 2016).

Mining of ores

The Group extracts ore at Olimpiada through open-pit mining at the Vostochny pit.

The reserves of oxidised ores at the Olimpiada deposit had been fully depleted by the end of 2007, and the Group has been mining only sulphide ore since that date. In 2015, the Group mined 2,777 thousand tonnes of ore with an average gold grade of 2.7 g/t, as compared to 6,005 thousand tonnes of primary sulphide ore with an average gold grade of 3.7 g/t mined in 2014. In the first six months of 2016, the Group mined 3,372 thousand tonnes of ore with an average gold grade of 3.3 g/t, as compared to 1,327 thousand tonnes of ore with an average gold grade of 2.6 g/t mined in the same period in 2015.

Processing of ores

The Group transfers the ore it mines at Olimpiada by truck to its processing plant to recover gold for refinement. The Group's main processing facility comprises three processing plants – Mill No. 2, Mill No. 3 and Mill No. 1 – for the processing of ores. The Group closed Mill No. 1, previously used for processing oxidised ores, in August 2008, and modernised it for processing ores from Titimukhta. The modernisation of Mill No. 1 was completed in 2009.

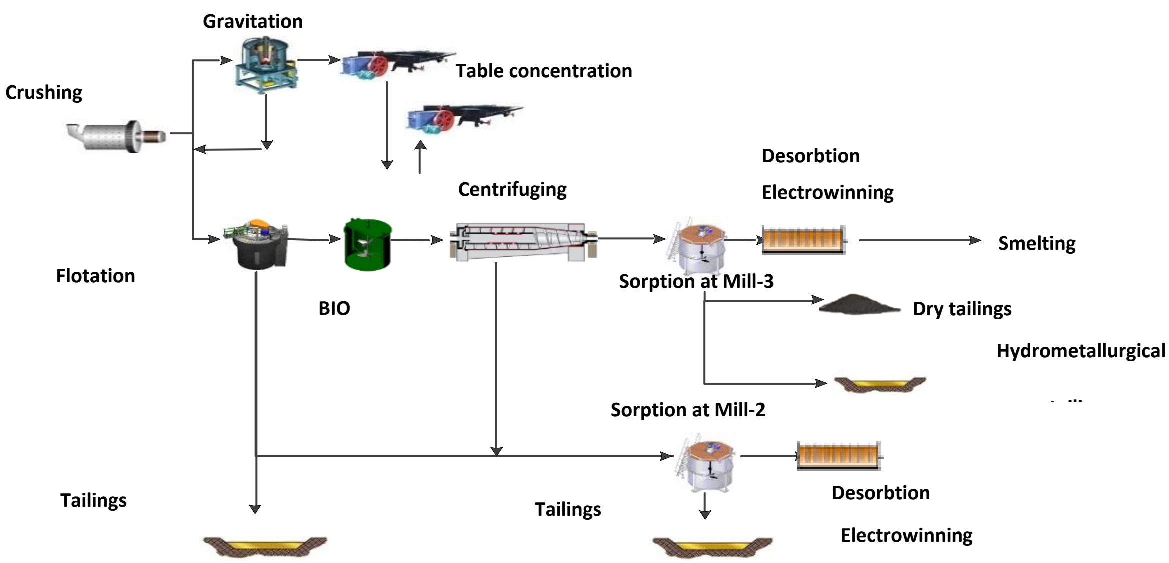
As a result of the depletion of oxidised ores at Olimpiada, the Group transferred ore from the Group's mining operations at the Olenye deposit from Mill No. 1 to Olimpiada for processing at Mill No. 2 and Mill No. 3. The Group stopped mining the Olenye deposit in April 2008, although it continued to transfer and process ore from Olenye until the end of 2009. In 2009, ore from the Olenye deposit was depleted.

The average gold grade in the ore under processing, measured in grams per tonne, was 3.2 in sulphide ores in 2015 (3.0 in the first six months of 2016), compared to 3.4 in 2015 and 3.2 in 2014. This reflects lower grade in stockpiled ore involved in processing during the pit cutback period.

The Group processes sulphide ore at Mill No. 2 and Mill No 3. Mill No. 2 was built in 2001. This plant employs a bio-oxidation process – the oxidation of sulphide minerals by bacterial action – rendering the minerals amenable to leach extraction of the metals contained in the ore. This plant has an annual capacity of three million tonnes of ore.

Mill No. 3 began operations in 2007. This plant also uses bio-oxidation technology to process sulphide ore, and it has an annual capacity of five million tonnes of ore.

Olimpiada Mill No. 2/3 processing flowchart is below.



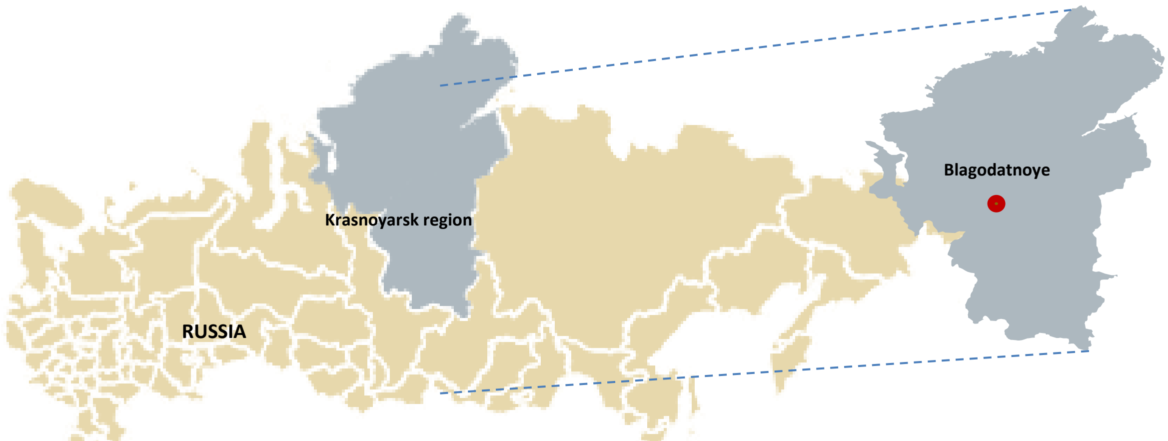
In 2015, the Group processed 9,506 thousand tonnes of sulphide ores at Olimpiada as compared to 8,526 thousand tonnes in 2014, an increase of 11 per cent (both the 2015 and 2014 figures include gold produced from the third party Veduga ore). In the first six months of 2016, the Group processed 5,203 thousand tonnes of ore at Olimpiada as compared to 4,762 thousand tonnes in the same period in 2015, an increase of 9 per cent.

The Group's recovery rate from the sulphide ore processed at Olimpiada increased to 79.6 per cent in 2015 from 75.8 per cent in 2014. That was a result of improving the JSC Polyus's BIONORD® bio-leaching technology, installing additional cooling in 2013, making the facility fully automated by 2014 and installing new bio-oxidation reactor mixers.

In the first six months of 2016, recovery rate increased by one per cent from 79.8 per cent for the first six months of 2015 to 80.8 per cent.

Blagodatnoye deposit

The map below shows the location of Blagodatnoye.

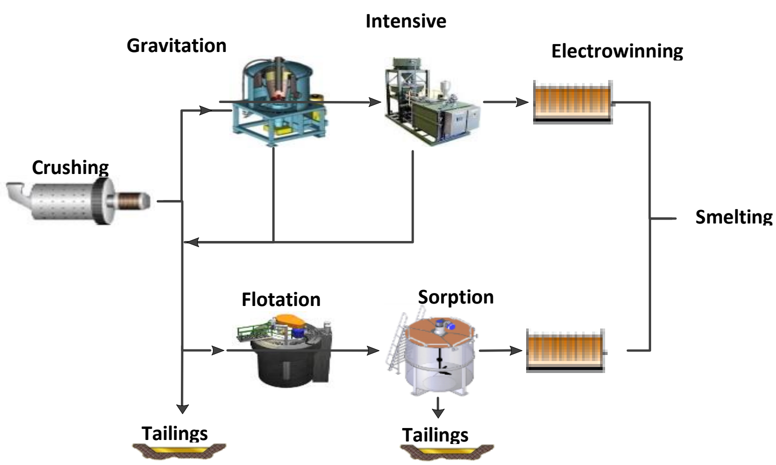


The Blagodatnoye deposit is located 25 kilometres north of the Olimpiada mine. The Group mines the deposit using the open-pit method with surface stockpiling. The plant design capacity is six million tonnes of ore per year.

The proximity of the Blagodatnoye deposit to the Olimpiada mine has allowed the Group to use some of its existing and available social, maintenance and warehousing infrastructure when developing the Blagodatnoye deposit. The Group began construction of the mine in 2007, shortly after approval of the project by the Board. The Group commissioned the mine in July 2010.

The Blagodatnoye Mill No. 4 has been operating above its nameplate capacity of 6 million tonnes per annum ("**mtpa**") since 2011, reaching 7.5 mtpa in 2015. An analysis of the production flowsheet revealed an opportunity to expand the mill's capacity to 8 mtpa at current production lines, without the construction of additional production lines with the implementation of innovative engineering solutions.

Below is the Blagodatnoye Mill No.4 processing flowchart.



During 2015, the Group mined 7,628 thousand tonnes of ore at the Blagodatnoye deposit with an average gold grade of 2.0 g/t and processed 7,512 thousand tonnes of ore at an average gold grade of 2.0 g/t. In 2015, the Group produced 425 thousand ounces of gold at the Blagodatnoye mine, compared to 394 thousand ounces in 2014, representing an 8 per cent increase year-on-year. Ore processed volumes increased by 4 per cent from the same period in 2015, which in turn was due to the increased amount of ore mined.

The Group mined 5,785 thousand tonnes of ore at Blagodatnoye in the first six months of 2016, as compared to 3,823 thousand tonnes in the same period 2015, an increase of 51 per cent. The Group processed 3,822 thousand tonnes of ore at Blagodatnoye in the first six months of 2016, an increase of 8 per cent over the same period in 2015, when the Group processed 3,527 thousand tonnes of ore. Blagodatnoye produced 221 thousand ounces of gold in the first six months of 2016, as compared to 186 thousand ounces of gold produced at Blagodatnoye in the same period in 2015, an increase of 19 per cent. In the first six months of 2016, recovery rate at Blagodatnoye was 88.1 per cent, a 1.4 per cent increase over the first six months 2015.

The Group is completing the construction of a 228 km grid (the Razdolinskaya-Tayga grid) as an essential step towards the development of Krasnoyarsk business unit. The Company believes that the grid is vital for the growth projects at Krasnoyarsk business unit and will connect the Krasnoyarsk business unit with Unified Energy System of Russia, providing them with lower-cost power. The project is estimated to require RUB 6.8 billion in total capital expenditure (excluding VAT). Upon commissioning, the grid will be bought out by the Federal Grid Company (FGC) for the cost of construction plus credit service payments during construction. Payments will be made in tranches over a 10-year period.

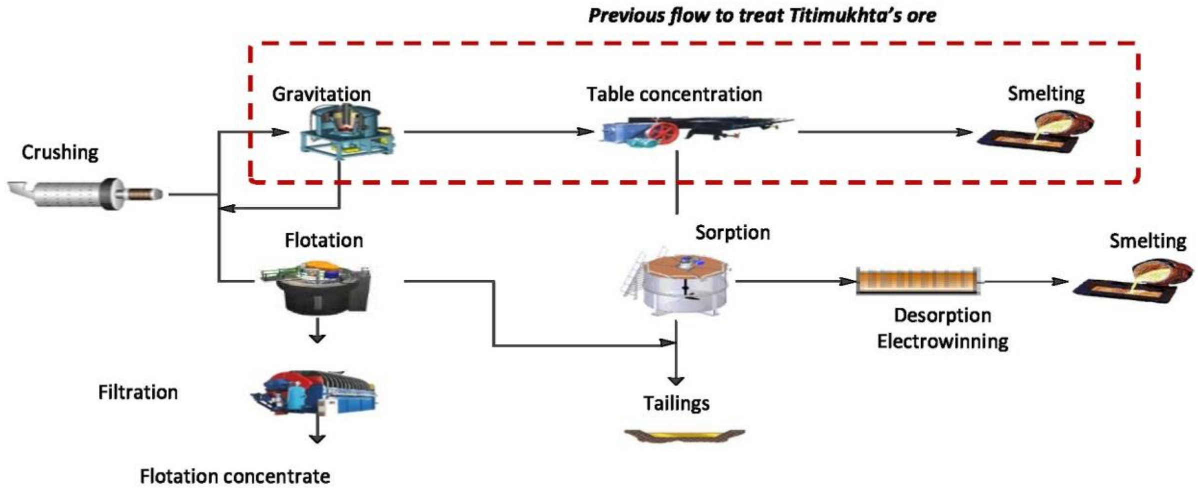
Titimukhta deposit

The map below shows the location of Titimukhta.

The Titimukhta deposit is located in the Severo-Yeniseysky district, nine kilometres from the Olimpiada mine. Proven and probable reserves under JORC were estimated to be 1.3 million ounces as at 31 December 2015.

The close proximity of the Titimukhta deposit to the Olimpiada mine allows the Group to use the Olimpiada mine's facilities for the development of the Titimukhta deposit. As processing of rich oxidised ore from the Olimpiada deposit ended in 2008, the Group used Mill No. 1 at the Olimpiada mine to process ore from the Titimukhta deposit following its reconstruction. The Group began reconstructing Mill No. 1 and delivering mining equipment in 2007, together with the construction of the access road to the deposit. The modernisation of Mill No. 1 was completed in 2009.

Mill-1 processing flowchart is below.



In April 2009, the Titimukhta project was completed and development started. The Group extracts ore at the Titimukhta deposit through open-pit mining. The mine's capacity (using the reconstructed Mill No. 1 of the Olimpiada mine) is 2.2 million tonnes of ore per annum. Mill No. 1 was built in 1996 with an annual capacity of 1.5 million tonnes of ore. Following the plant's modernisation, its potential capacity increased to 2.2 million tonnes of ore per annum. In July 2011, the Group decided to expand the capacity of Mill No. 1 up to 2.4 million tonnes of ore per annum. In December 2011, the Group installed Knelson concentrators at the Titimukhta deposit. In May 2012, the Group announced that it had completed the expansion of capacity to 2.4 million tonnes of ore per annum at Mill No. 1.

During 2015, the Group mined 3,225 thousand tonnes of ore at the Titimukhta deposit with an average gold grade of 1.6 g/t, as compared to 2,242 thousand tonnes with an average gold grade of 1.7 g/t in 2014. The Group also processed 1,514 thousand tonnes of ore (average gold grade of 2.4 g/t) in 2015, which was a decrease from 1,978 thousand tonnes of ore (average gold grade of 1.9 g/t) processed in 2014. In 2015, the Group produced 102 thousand ounces of gold at the Titimukhta deposit, as compared to 93 thousand ounces in 2014 (both the 2015 and the 2014 figures include gold produced from purchased ore from the Veduga mine), an increase of 10 per cent. This growth was primarily as a result of deploying selective processing initiatives, which allowed higher grades of ore to be processed, as well as higher recoveries to be achieved (87.2 per cent in 2015, as compared to 83.7 per cent in 2014).

During the first six months of 2016, the Group mined 412 thousand tonnes of ore at the Titimukhta deposit with an average gold grade of 1.6 g/t, as compared to 3,225 thousand tonnes with an average gold grade of 1.6 g/t in the same period in 2015. The Group also processed 500 thousand tonnes of ore (average gold grade of 2.3 g/t) in the first six months of 2016, which was a decrease from 840 thousand tonnes of ore (average gold grade of 2.3 g/t) processed in the same period in 2015. Ore processed volumes exclude ore from Blagodatnoye processed at the Titimukhta plant and include gold produced from the third party Veduga ore. In the first six months of 2016, the Group produced 40.2 thousand ounces of gold at the Titimukhta deposit, as compared to 57 thousand ounces in the same period in 2015, a 30 per cent decrease as compared to the six months ended 30 June 2015.

The Group has decided to reconfigure the mill to process ores from Olimpiada at the Titimukhta plant. Ores from the Olimpiada deposit can be treated at the Titimukhta mill, with the further sale of concentrate to third parties or the processing of gold flotation concentrate at the bio-oxidation section of the Olimpiada mill.

Razdolinskoye deposit

The map below shows the location of Razdolinskoye.

Razdolinskoye deposit is located approximately 240 km to the south of the Olimpiada mine.

Pilot mining on the largest and, the Company believes, most advanced deposit of the Razdolinskiy ore cluster, the Poputninskoye deposit, produced 2.4 thousand ounces of refined gold in 2015. In the first six months of 2016, the Group produced 4.3 thousand ounces of refined gold (for detailed information see "*Business – Development projects – Razdolinskoye*").

The deposit contains measured and indicated resources of 1.2 million ounces of gold at 3.9 g/t and a total resource of 3.2 million ounces of gold at 3.7 g/t.

The pilot program was launched in the middle of 2015 to confirm the deposit's prospects and define the optimal technology for ore treatment.

Several options are currently being evaluated for Razdolinskoye further development.

Irkutsk region

Alluvials

The map below shows the location of Alluvials.

The Group's alluvial operations are in the Irkutsk region, close to the Verninskoye mine. Current operations comprise various alluvial deposits, from which the Group derived 10 per cent of its total gold production in 2015 (4 per cent in the first six months of 2016).

Stripping is performed by walking excavators and bulldozers, depending on the gold-bearing placer's characteristics. Walking excavators are used in the development of deep-seated deposits. When utilising open-cast mining techniques, gold-washing is performed by different types of jigging equipment. Gold is recovered by gravity separation without the use of chemical agents.

Gold production from alluvial deposits amounted to 168 thousand ounces in 2015, a decrease of 12 per cent from 2014, due to a decline in grades at certain production units in the first six months of 2015. In the first six months of 2016, gold production from alluvial deposits remained at 33 thousand ounces, as compared to the same period in 2015.

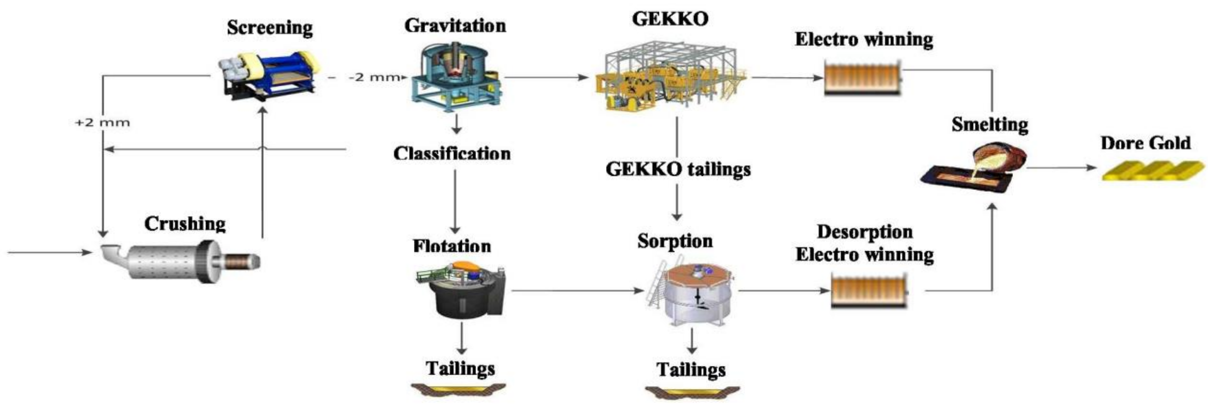
Verninskoye deposit

The map below shows the location of Verninskoye.

The Verninskoye deposit is located in the Bodaibo district of the Irkutsk region, 140 kilometres north of Bodaibo city, close to the Zapadnoye mine. Proven and probable reserves under JORC at the deposit were 3.8 million ounces of gold at an average grade of 2.6 g/t.

The Group's development of the Verninskoye mine began in 2006 with the construction of a camp for the project. In 2008, the Board of Directors of PJSC Polyus approved a feasibility study for the construction of a gold mining facility at the Verninskoye deposit with a capacity of 2.2 million tonnes of ore per annum. Although the Verninskoye mine was commissioned on 30 December 2011, the Group fully commissioned production at Verninskoye only in 2012. Processing is based on gravity concentration, floatation and CIL and has a design capacity of 2.2 mtpa.

Current Verninskoye Mill processing flowchart is below.



The Group mined 3,954 thousand tonnes of ore at Verninskoye in 2015, as compared to 4,716 thousand tonnes in 2014, a decrease of 16 per cent. The Group processed 2,284 thousand tonnes of ore at Verninskoye in 2015, an increase of 4 per cent over 2014 levels when the Group processed 2,203 thousand tonnes of ore. Verninskoye produced 161 thousand ounces of gold in 2015, as compared to 146 thousand ounces of gold produced at Verninskoye in 2014, an increase of 10 per cent.

This growth was achieved through a planned significant increase in recoveries, as the Verninskoye plant reached its design recovery level of 86 per cent, up from the average of 79 per cent in 2014.

The Group mined 1,765 thousand tonnes of ore at Verninskoye in the first six months of 2016, as compared to 2,067 thousand tonnes in the same period in 2015, a decrease of 15 per cent. The Group processed 1,242 thousand tonnes of ore at Verninskoye in the first six months of 2016, an increase of 17 per cent over the same period in 2015, when the Group processed 1,059 thousand tonnes of ore. Verninskoye produced 100 thousand ounces of gold in the first six months of 2016, as compared to 79 thousand ounces of gold produced at Verninskoye in the same period in 2015, an increase of 27 per cent. In the first six months of 2016, the recovery rate at Verninskoye was 87 per cent, a 1.1 per cent increase over the first six months of 2015.

In December 2012, the Group was awarded the contract for the design of the first stage of the Peleduy-Mamakan grid. The purpose of the construction of the Peleduy-Mamakan grid is to eliminate power shortages in the Bodaibo district of the Irkutsk region affecting the Group and to improve the local power grid in the region to ensure a sufficient and more reliable supply of power to Verninskoye in order to enable the Group to expand the mine. After delays to the planned completion of the grid at the end of 2014, which were primarily due to inclement weather, the construction of the grid's first stage was finished in the fourth quarter of 2015. The actual capital expenditures for the Peleduy-Mamakan grid amounted to a total of RUB 3.5 billion.

Republic of Sakha (Yakutia) region

In September 2005, the Group acquired two subsidiaries, JSC Aldanzoloto GRK and JSC South-Verkhoyansk Mining Company, through which it conducts its operations in the Yakutia region. In addition to mining operations at the Kuranakh field, the Group also holds licences for the Nezhdaninskoye field. The Group's mining operations in Yakutia are primarily conducted by its subsidiary, JSC Aldanzoloto GRK, at the Kuranakh group of deposits through open-pit mining, drilling and blasting operations. The Group transports the ore by truck to a central processing plant for recovery into gold using conventional cyanide leaching and resin-in-pulp techniques.

On 23 December 2015, the Group entered into a joint venture agreement with Polymetal International plc, under which Polymetal International plc will participate in the development of the Group's Nezhdaninskoye gold deposit. Under the joint venture agreement, Polymetal International plc may acquire up to 50 per cent in the joint venture entity holding 100 per cent of JSC South-Verkhoyansk Mining Company through an earn-in mechanism.

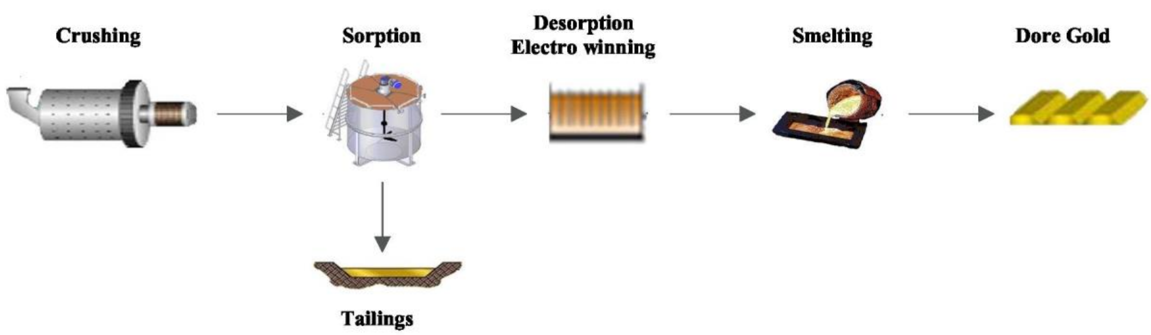
Kuranakh mine

The map below shows the location of Kuranakh.

The Kuranakh mine is located approximately 400 km south of the Yakutia capital city of Yakutsk, 250 km north of the transportation hub of Neryungri and 25 km north of the service centre of Aldan.

Mining is conducted in a series of shallow open pits from which ore is excavated utilizing conventional drill, blast, rope shovel and hydraulic excavator loading and truck haulage technology. The processing plant has been in operation since 1965 and currently employs cyanide leach and resin-in-pulp (RIP) gold recovery technology. The mill is currently operating at 3.8 million tonnes of ore per annum.

Kuranakh Mill processing flowchart is below.



In 2011, the Group initiated an extensive hydrogeological assessment and a de-watering programme. As part of this work, the Group initiated extensive drilling at the Kuranakh field to extend the reserves and to develop an effective strategy to de-water the pits. In addition, the Group tested performance of the Kuranakh processing plant as part of its expansion programme for the mine. The main works on the plant's modernisation were completed in 2012. A heap-leaching facility is planned to be implemented at Kuranakh to process the low-grade and out-of-balance ores of the deposit, which were stockpiled at the deposit during mining operations in previous years.

In 2015, the Group produced 145 thousand ounces of gold at Kuranakh, as compared to 137 thousand ounces of gold in 2014. In 2015, the Group mined 3,996 thousand tonnes of ore at Kuranakh, as compared to 3,991 thousand tonnes in 2014. Processing of ores at Kuranakh increased by 2 per cent and amounted to 3,863 thousand tonnes in 2015, as compared to 3,785 thousand tonnes in 2014. The rise in recoveries was driven by better sorption unit performance and improvements at the agitation tank and in one of the thickeners.

In the first six months of 2016, the Group produced 78 thousand ounces of gold at Kuranakh, as compared to 66 thousand ounces of gold in the same period in 2015. In the first six months of 2016, the Group mined 2,085 thousand tonnes of ore at Kuranakh, as compared to 1,959 thousand tonnes in the same period in 2015, representing an increase of 6 per cent on a year-on-year basis. Processing of ores at Kuranakh increased by 9 per cent and amounted to 2,062 thousand tonnes in the first six months of 2016, as compared to 1,898 thousand tonnes in the same period in 2015.

Reserves and Resources

The Group reports its reserves and resources in accordance with the JORC Code. While the Russian Resource Reporting Code remains in use within the Russian legal environment, for the basis of the Group's accountability to the Russian state, Group reporting on reserves to investors is carried out in accordance with the JORC Code.

For accounting purposes, the estimated economic useful life of the Group's operating mines is based on mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code. The economic useful lives in accordance with the Russian Resource Reporting Code may vary compared to the economic useful lives under the JORC Code.

The following table shows the mineral resources, inclusive of reserves, of the Group's Russian operations as stated in accordance with the JORC Code (based on the most recent audits of the Group's respective reserves):

	Total measured and indicated		
Deposit	***Ore (million tonnes)***	***Grade (g/t)***	***Gold (million ounces of gold)***
Operating mines (JORC 2004)			
Olimpiada	304.3	3.38	33.0
Blagodatnoye	144.3	2.30	10.7
Titimukhta	17.5	3.19	1.8
Verninskoye(1)	75.1	2.55	6.0
Alluvials	63.2	0.74	1.5
Kuranakh	85.3	1.71	4.7
Subtotal operating mines	**689.7**	**2.60**	**57.7**
Mine under development (JORC 2012)			
Natalka(2)	559.0	1.43	25.7
Exploration projects (JORC 2004)			
Chertovo Koryto	50.5	1.84	3.0
Panimba	16.0	2.32	1.2
Razdolinskoye	9.8	3.94	1.2
Subtotal exploration projects	**76.3**	**2.21**	**5.4**
Total	**1,324.9**	**2.09**	**88.8**

Notes:

1. Includes the Smezhny deposit.

2. Reserves and resources estimate as at 23 February 2015.

Inferred Resources

Deposit	***Ore (million tonnes)***	***Grade (g/t)***	***Gold (million ounces of gold)***
Operating mines (JORC 2004)			
Olimpiada	160.3	2.78	14.3
Blagodatnoye	11.6	1.94	0.7
Titimukhta	1.6	1.72	0.1
Verninskoye(1)	110.1	1.95	6.9
Alluvials	3.3	0.90	0.1
Kuranakh	7.8	1.35	0.3
Subtotal operating mines	**294.6**	**2.37**	**22.5**
Mine under development (JORC 2012)			
Natalka(2)	218.0	1.58	11.1
Exploration projects (JORC 2004)			
Chertovo Koryto	2.1	1.64	0.1
Panimba	24.4	1.79	1.4
Razdolinskoye	17.6	3.50	2.0
Medvezhy Zapadny	23.5	1.83	1.4
Subtotal exploration projects	**67.5**	**2.24**	**4.9**
Total	**580.2**	**2.06**	**38.5**

Notes:

1. Includes the Smezhny deposit.

2. Reserves and resources estimate as at 23 February 2015.

Proven and Probable Reserves

Deposit	*Ore (million tonnes)*	*Grade (g/t)*	*Gold (million ounces of gold)*
Operating mines (JORC 2004)			
Olimpiada	274.6	3.29	29.1
Blagodatnoye	113.2	2.26	8.2
Titimukhta	10.2	4.00	1.3
Verninskoye[(1)]	46.6	2.55	3.8
Alluvials	42.8	0.66	0.9
Kuranakh	53.9	1.38	2.4
Subtotal operating mines	**541.4**	**2.63**	**45.7**
Mine under development (JORC 2012)			
Natalka[(2)]	319.0	1.58	16.2
Exploration project (JORC 2004)			
Chertovo Koryto	34.5	2.12	2.4
Total	**894.9**	**2.23**	**64.3**

Notes:

1. Includes the Smezhny deposit.

2. Reserves and resources estimate as at 23 February 2015.

The table below shows the estimated mine life, exploration potential and/or duration of commercial activities for the Group's Russian licences:

Existing Operations	*Estimated Mine Life* [(1)]	*Year of the Expiration of the Existing Licences*
Olimpiada	38 years	2024
Blagodatnoye	19 years	2022
Titimukhta	13 years	2023
Verninskoye	24 years	2025
Alluvials	5 years	2015-2029
Kuranakh	17 years	2015-2024

Mine under development	*Estimated Expiration Potential* [(1)]	*Year of the Expiration of the Existing Licences*
Natalka	-	2036
Chertovo Koryto	-	2020
Bamskoye	-	2030
Nezhdaninskoye	-	2021
Poputninskoye	-	2025
Panimba	-	2029

Note:

1. The calculation of the estimated mine life and exploration potential assume the receipt of any necessary licences or approvals upon expiry of the current licences and approvals. See *"— Licences"*.

The Company believes that the Group will be able to extend the life of the mine at Olimpiada through the consolidation of the existing pits or the development of underground mining to exploit the large ore body.

Gold production and refining

The Group's gold production primarily comprises the mining and processing of ores at hardrock mines. Its main production facilities are located at the Olimpiada deposit. In addition, the Group extracts gold from the alluvial deposits of its subsidiary, Lenzoloto. Refining of the Group's doré and slime gold is performed at independent refinery plants which are included by the LBMA in its list of refining companies that meet "Good Delivery" standards.

The tables below show the quantities of ore mined, ore processed and gold produced by the Group for the periods indicated.

	Year ended 31 December			*Six months ended 30 June*	
Ore Mined ('000 tonnes or as noted)	***2015***	***2014***	***2013***	***2016***	***2015***
Krasnoyarsk/Olimpiada mine					
Ore mined	2,777	6,005	11,597	3,372	1,327
Average grade in ore mined (g/t)	2.67	3.68	3.6	3.3	2.6
Krasnoyarsk/Blagodatnoye deposit					
Ore mined	7,628	7,392	6,840	5,785	3,823
Average grade in ore mined (g/t)	1.97	2.00	2.1	2.0	1.9
Krasnoyarsk/Titimukhta deposit					
Ore mined	3,225	2,242	2,514	412	1,614
Average grade in ore mined (g/t)	1.58	1.66	2.0	1.6	1.6
Irkutsk/Verninskoye deposit					
Ore mined	3,954	4,716	4,934	1,765	2,067
Average grade in ore mined (g/t)	2.09	1.90	2.0	2.2	2.0
Yakutia/Kuranakh mine					
Ore mined	3,996	3,991	4,146	2,085	1,959
Average grade in ore mined (g/t)	1.31	1.27	1.4	1.3	1.3
Total	**21,785(1)**	**24,346**	**30,031**	**13,524**	**10,790**

Note:

1. Includes volumes of ore mined at the Poputninskoye deposit.

	Year ended 31 December			*Six months ended 30 June*	
Ore Processed ('000 tonnes or as noted)	***2015***	***2014***	***2013***	***2016***	***2015***
Krasnoyarsk/Olimpiada mine					
Ore processed	9,506	8,526	7,822	5,203	4,762
Average grade in ore processed (g/t)	3.18	3.6	3.6	3.0	3.4
Recovery (%)	79.6	75.9	74.5	80.8	78.6
Krasnoyarsk/Blagodatnoye deposit					
Ore processed[1]	7,512	7,251	6,755	3,822	3,527
Average grade in ore processed (g/t)	1.99	2.0	2.0	2.1	1.9
Recovery (%)	87.8	88.0	88.3	88.1	86.7
Krasnoyarsk/Titimukhta deposit					
Ore processed[2]	1,514	1,978	2,466	500	840
including purchased ore from the Veduga mine		248.7	74.8	0	96
Average grade in ore processed (g/t)	2.43	1.9	1.9	2.3	2.3
Recovery (%)	87.2	83.7	85.2	85.2	87.3
Irkutsk/Verninskoye deposit					
Ore processed	2,284	2,203	1,626	1,242	1,059
Average grade in ore processed (g/t)	2.63	2.7	2.5	2.7	2.7
Recovery (%)	86.1	79.4	70.8	87.0	85.9
Yakutia/Kuranakh mine					
Ore processed	3,863	3,785	3,811	2,062	1,898

Ore Processed ('000 tonnes or as noted)	*Year ended 31 December*			*Six months ended 30 June*	
	2015	***2014***	***2013***	***2016***	***2015***
Average grade in ore processed (g/t)	1.32	1.3	1.4	1.3	1.3
Recovery (%)	88.4	86.8	84.0	88.4	88.3
Irkutsk/Alluvial deposits					
Sand washed (thousand m^3)	9,370	9,139	10,107	2,069	2,626
Average grade (g/m^3)	0.56	0.6	0.6	0.7	0.54
Total (excluding sands washed)	**24,740[(3)]**	**23,743**	**22,480**	**12,914**	**12,085**

Notes:

1. Excludes ores from Blagodatnoye processed at the Titimukhta plant, but including gold produced from the third party-owned Veduga ore.

2. Includes the ore from Blagodatnoye processed at the Titimukhta plant.

3. Includes volumes of ore processed at the Poputninskoye deposit.

Production of Gold ('000 ounces)	*Year ended 31 December*			*Six months ended 30 June*	
	2015	***2014***	***2013***	***2016***	***2015***
Krasnoyarsk region					
Olimpiada mine[(1)]	743	726	691	332	357
Blagodatnoye mine	425	394	395	221	186
Titimukhta[(1)]	102	93	131	40	57
Poputninskoye	2	-		4	
Irkutsk region					
Verninskoye	161	146	89	100	79
Alluvials	168	190	205	33	33
Republic of Sakha (Yakutia) region					
Kuranakh	145	137	138	78	66
Refined gold	**1,746**	**1,686**	**1,650**	**808**	**779**
Gold in flotation concentrate	17	10	2	31	5
Total gold produced	**1,763**	**1,696**	**1,652**	**839**	**784**

Note:

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

In 2015, the Group mined 21.8 million tonnes of ore, as compared to 24.3 million tonnes of ore in 2014. This decrease was primarily due to lower mining volumes at Olimpiada, where large-scale stripping works began in the middle of 2014 and are expected to be completed in 2016. This decrease did not affect Olimpiada's processing volumes, as large stockpiles of ore were created in 2015 and 2014. The Group processed 24.7 million tonnes of ore in 2015, as compared to 23.7 million tonnes of ore in 2014. The major increase came from Verninskoye, where ore processed volumes increased as the mine operated at its nameplate throughout capacity during the year. The Group produced 1,763 thousand ounces of gold in 2015, as compared to 1,696 thousand ounces of gold in 2014, as compared to 1,652 thousand ounces of gold in 2013, representing, on a year-on-year basis, an increase in production of 4 per cent in 2015 and 3 per cent in 2014. This increase stemmed from higher output at the Group's flagship Olimpiada mine and the debottlenecking of other facilities.

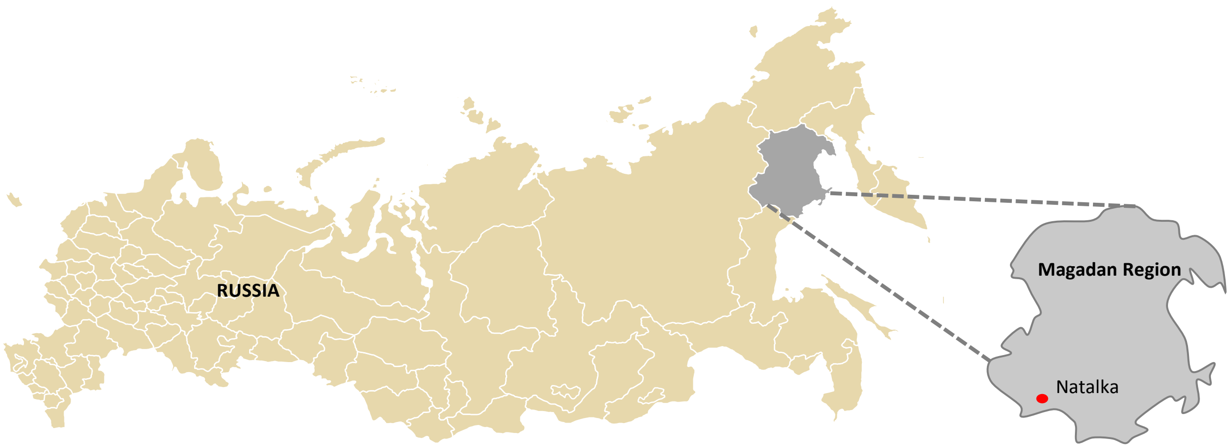
In the first six months of 2016, the Group mined 13,524 thousand tonnes of ore, as compared to 10,790 thousand tonnes of ore in the same period in 2015, primarily as a result of the cutback at Olimpiada. The Group processed 12,914 million tonnes of ore in the first six months of 2016, as compared to 12,086 thousand tonnes of ore in the same period in 2015, primarily as a result of a 9 per cent increase at Olimpiada. The Group produced 839 thousand ounces of gold in the first six months of 2016, as compared to 784 thousand ounces of gold in the same period in 2015, representing an increase in production of 7 per cent, as a result of higher volumes from Olimpiada, Blagodatnoye, Verninskoye and Kuranakh.

Development Projects

The Group's development projects are summarised below.

Natalka

The map below shows the location of Natalka.



The Group conducts its operations in the Magadan region through its subsidiary, JSC Matrosova Mine, which holds a licence for the Natalka deposit located 390 kilometres northwest of Magadan in the Omchak river basin. The deposit was discovered in 1944 and used to be developed as the underground mine before 2004. It is one of the largest development projects in the gold mining industry globally. The current licence for the deposit is valid until 31 December 2036.

The initial Natalka mineral resource and ore reserve estimate was based on a 2011 resource block model. Mining works at Natalka commenced in early 2013, in accordance with the existing licence agreement. As ore mined during 2013 showed a substantial deviation in gold content from the mineral resource block model, in December 2013 the Group decided to resequence the Natalka project and to postpone the commissioning of the Mill. The Group initiated a review of the resource block model to ensure the incorporation of all newly available information. As a result, Micromine developed a new block model, which demonstrated high consistency with the actual mining and verification drilling. An updated JORC report was prepared by Micromine and AMC in February 2015. According to the consultants, channel sampling information comprising approximately 60 per cent of the existing resource database and derived from historical Soviet-era underground samples dating back as far as 1945 had significant location errors, caused by coordinate conversions and poor quality control support, which resulted in a systematic positive bias.

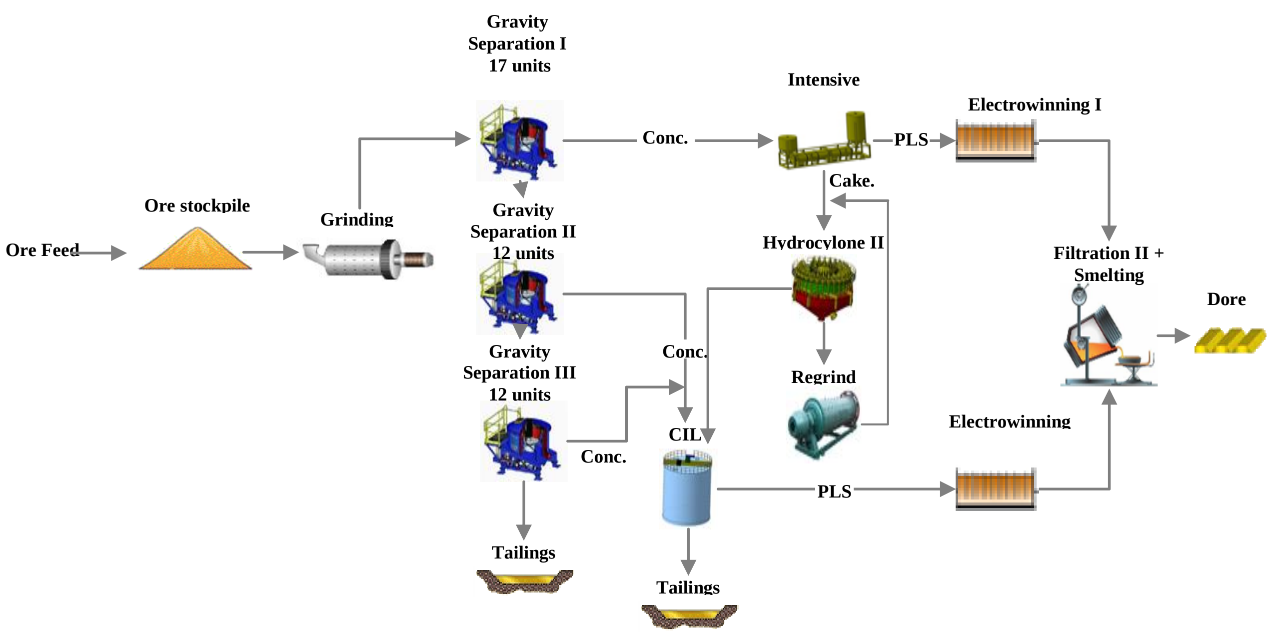
Under the new block model, Natalka's measured, indicated and inferred resources amounted to 36.8 million ounces of gold at 1.5 g/t, compared to 59.7 million ounces at 1.71-1.74 g/t as per the previous estimates, which is equal to a 38 per cent reduction in the deposit resources. Proven and probable reserves total 16.2 million ounces of gold at 1.6 g/t, compared to 31.6 million ounces at 1.6 g/t as per previous estimates, which corresponds to a 49 per cent contraction in the deposit reserves.

In the meantime, the Company continued to test various flowsheet options at the pilot plant as well as to implement initiatives aimed at optimization of future production, including improving blasting methods and ore grade control.

As a result of the optimisation, the flotation circuit was excluded from the Natalka flowsheet. Results of the pilot plant program and laboratory testing of the core samples variability (performed by SGS) provided the evidence that Natalka ore is highly responsive to gravity technology treatment. The Company's engineering team and its engineering consultant, Hatch, believe that the project's economic indicators will benefit from processing the ore through the gravitation circuit only versus the gravitation-flotation flowsheet, due to the lower processing costs, while leaving floatation circuit installation as a potential longer-term development option, depending on the results of technological mapping of the deeper horizons of the Natalka ore body.

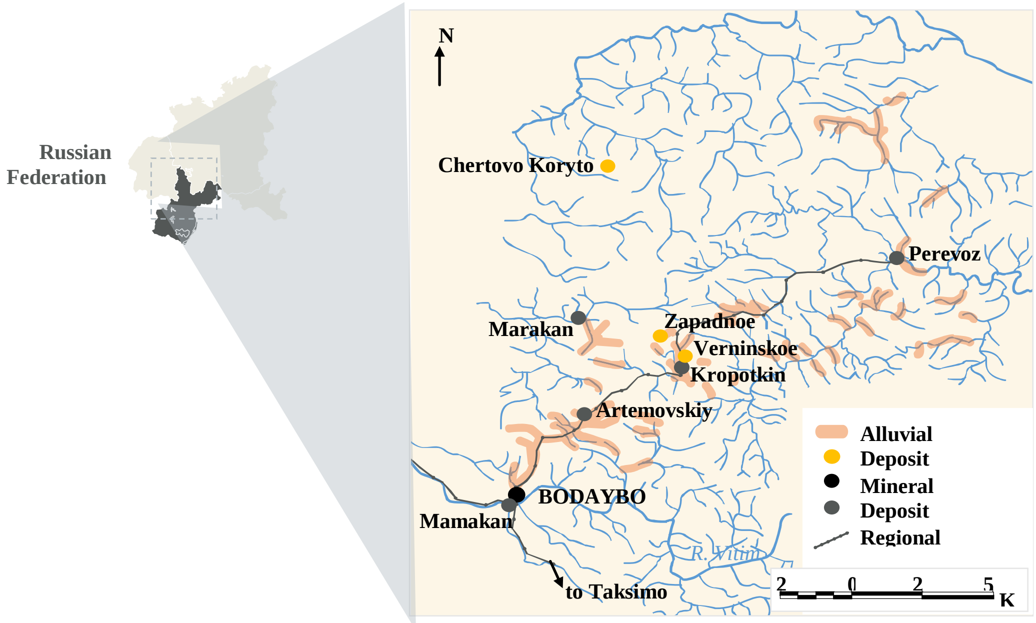
The Group anticipates commissioning of the Natalka project in late 2017. In September 2016, JSC Matrosova Mine signed an agreement to receive a state subsidy in the amount of RUB 9,947 million from the Ministry of Development of the Far East of the Russian Federation to finance the construction of the power grid to ensure sufficient power supply for the Natalka project. JSC Matrosova Mine's obligations in connection with the construction of the power grid are secured by a guarantee from JSC Polyus, extended in favour of the Ministry of Development of the Far East of the Russian Federation.

Below is the Natalka plant flowsheet.



Chertovo Koryto

The map below shows the location of Chertovo Koryto.



The Chertovo Koryto deposit is located in a remote area of Irkutsk, approximately 200 km north-east of Bodaybo. The deposit lies in an area of very high relief where several gold rich placer deposits used to be mined.

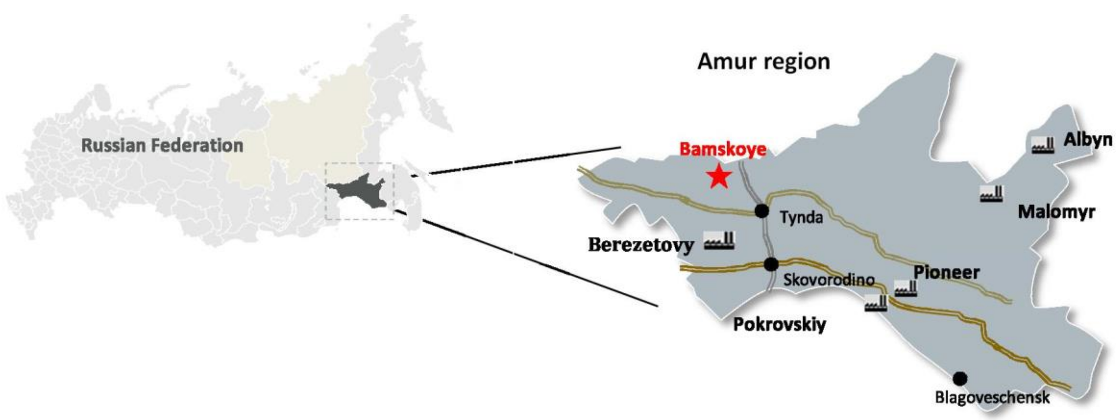
Ore was mined from both placer deposits and the open pit and processed at a pilot processing plant on a seasonal basis between 2003 and 2007. The deposit contains total P&P reserves of 2.4 million ounces at 2.1 g/t and a total resource of 3.1 million ounces at 1.8 g/t.

A scoping study is currently being developed for the Verninskoye, Zapadnoye and Chertovo Koryto deposits, which will include a detailed development concept for these deposits. Chertovo Koryto is an important component in joining the Group's assets in the Irkutsk region into one production hub.

International mining consultants, AMC and Lycopodium, have been involved into optimization and engineering studies.

Bamskoye

The map below shows the location of Bamskoye.



Bamskoye is located 120 km away from the large regional centre, Tynda; 75 km away on a year-round road to the Khorogochi rail station.

Bamskoye is a high grade, open-pittable deposit with low stripping ratio and simple metallurgy. Current reserves are estimated at 3.5 million ounces according to Russian Standards (GKZ).

Between 2005 and 2011, the Group completed the first stage of exploration of the Bamskoye deposit and submitted the relevant feasibility report. The second stage of the exploration programme was initiated in late 2015 and will continue until 2017.

The licence is valid until April 2030. Approval from the Russian Government with a detailed schedule of works was received in May 2015. An application to carry out exploration and mining works at Bamskoye was filed with the state authorities in the first quarter of 2013 and the Group received the relevant permission in August 2014. See "*Risk Factors — Risks Associated with the Group's Business and the Gold Mining Industry — The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary contracts, licences and permits, including subsoil licences, or fails to comply with the terms of its contracts, licences and permits – Specific requirements of the Russian Federation*".

Razdolinskoye

The map below shows the location of Razdolinskoye.

Razdolinskoye deposit is located approximately 240 km south of the Olimpiada mine.

Pilot mining on the largest and, the Company believes, most advanced deposit of the Razdolinskiy ore cluster, resulted in 2.4 thousand ounces of refined gold being produced in 2015. In the first six months of 2016, the Group produced 4.3 thousand ounces of refined gold from Poputninskoye deposit ore.

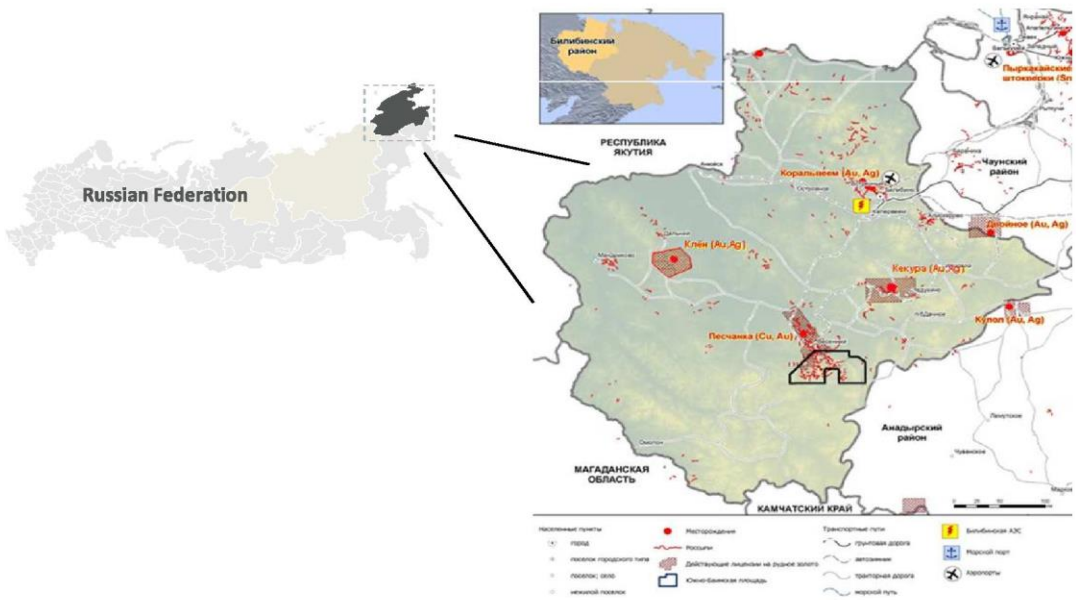
The deposit contains measured and indicated resources of 1.2 million ounces of gold at 3.9 g/t and a total resource of 3.2 million ounces of gold at 3.7 g/t.

The pilot program was launched in the middle of 2015 to confirm the deposit's prospects and define the optimal technology for ore treatment.

Several options are currently being evaluated for Razdolinskoye further development.

Burgakhchany

The map below shows the location of Burgakhchany.



Burgakhchany is a porphyry copper deposit (gold, copper, molybdenum) located in Chukotka Autonomous Okrug.

In 2011, the Group started the prospecting and evaluation stage at Burgakhchany; expected resources (according to preliminary expert forecasts) are estimated at 7.7 million ounces of gold with an option of an additional 1.9 million ounces.

Nezhdaninskoye

The map below shows the location of Nezhdaninskoye.

Nezhdaninskoye is one of the largest gold deposits in Russia and is located in the north-east of Yakutia. Mineralisation at the mine is double refractory and there is a significant presence of preg-robbing carbonaceous material.

It is a 180 ktpa mine, which has been operated from 1975 to 2005, before being inactive and placed in care and maintenance.

The Group acquired Nezhdaninskoye in 2006. The deposit contains total reserves of 20.3 million ounces of gold at a grade of 5.1 g/t, according to Russian Standards (GKZ).

In December 2015, Polyus entered into a joint venture with Polymetal under which Polymetal will participate in advancing the development of Nezhdaninskoye. Polymetal can acquire up to 50 per cent in the joint venture through an earn-in mechanism over two stages:

- Stage 1: Polymetal will contribute US$18 million (US$10 million to Polyus and US$8 million invested in the project) in exchange for a 15.3 per cent interest in the joint venture.
- Stage 2: Polymetal will contribute US$72 million to earn up to a 50 per cent interest in the joint venture; proceeds will be used to finance the construction and ramp-up of the underground mine and processing plant.

Strategic Asset Review

In 2014, the Group commenced a comprehensive review of its assets, with a view to monetising its substantial resource base, identifying additional low-risk growth opportunities and optimising its development pipeline. In March 2015, the Company commenced the Strategic Asset Review Programme to develop low-risk, low-cost brownfield projects. The review resulted in a number of medium-scale initiatives at its core assets at the Krasnoyarsk, Irkutsk and Yakutia business units, with the potential to deliver up to 350 thousand ounces per annum (not including the Natalka project) of incremental gold production. The Group expects its total gold production in 2016 to be in the range of 1.87-1.90 million ounces. The Group expects its production levels to further increase in 2017, allowing it to produce more than 2 million ounces and marking another year of production growth. In the mid-term, the Group's annual production target is at least 2.7 million ounces of gold to be achieved by 2020. Achievement of these targets projections depends on many factors, including market conditions, successful implementation of our development and expansion projects, and various operational and other risks described elsewhere in this Prospectus. Under the Strategic Asset Review Programme, the anticipated brownfield projects are expected to include:

- the Krasnoyarsk business unit is to remain the growth platform of the Company, with four major projects identified: reconfiguration of the Mill-1 to process higher-grade ore from Olimpiada deposit; BIOX capacity expansion at the Olimpiada Mill-2/3; expansion of the Blagodatnoye mill; and the introduction of heap leaching at Blagodatnoye;
- at Verninskoye, the Group is planning to increase the capacity of the mill;
- at Kuranakh, the Group is considering commissioning a heap leach operation as well as increasing existing throughput capacity of the Kuranakh Mill.

As of now, the reconfiguration of Mill-1 is largely completed, with the mill being expected to start processing Olimpiada sulphide ore at the end of 2016. The throughput capacity at the Verninskoye Mill has already achieved 2.5 million tonnes annualised run rate and the Group is now implementing initiatives to stabilise the throughput run rate by the end of 2016 in order to proceed with further capacity expansion.

Krasnoyarsk

The Olimpiada, Blagodatnoye and Titimukhta deposits contain approximately 38.6 million ounces of gold in proven and probable reserves under JORC, which makes Krasnoyarsk the largest gold mining operation in Russia by reserves. Given its size, the potential for further discoveries in the area and the established infrastructure, the Group believes that the Krasnoyarsk operations will continue to be its main growth platform along with the Natalka project.

Four major growth opportunities have been identified at Krasnoyarsk to date:

- reconfiguration of Mill-1 processing plant in order to treat higher-grade ore from Olimpiada combined with an increase in the plant's throughput capacity to 3 million tonnes of ore per year compared to the current 2.4 million tonnes;
- BIOX capacity expansion at the Olimpiada Mill-2/3 as existing BIOX capacities are not sufficient to process the whole amount of flotation concentrate following both the debottlenecking initiatives at Mill-2/3 and reconfiguration of Mill-1;
- implementation of heap leaching at Blagodatnoye to treat stockpiled and in situ low-grade ore; and
- debottlenecking and upgrading of the Blagodatnoye mill, sustainably increasing the throughput from 6 to 8 million tonnes per annum.

At the Titimukhta mill, construction and installation works have been completed, as part of the mill's reconfiguration to process higher grades from Olimpiada. The launch of a new production circuit is planned at the end of 2016. At the Blagodatnoye mill, part of the initiatives was already implemented, the detailed design of expanded grinding and flotation stages was completed and equipment contracting commenced. The Group has engaged engineering consultancy companies to assist in executing a heap leaching pre-feasibility study at Blagodatnoye. The aims of this study are to assess potential processing options and identify optimal operating parameters. A pilot plant installation is in progress at Blagodatnoye.

Verninskoye

Given its current reserves to production ratio of 28, the Verninskoye resource base allows for a significant expansion of its processing capacity. To this end, the Group is evaluating a number of options, which will result in the increase of the annual throughput from the existing 2.2 million tonnes to 3.0 million tonnes per annum and above. In the second quarter of 2016, the Group achieved annualized throughput capacity of 2.5 million tonnes. The Group is now implementing initiatives to stabilize the achieved throughput run in order to proceed with further capacity expansion. In addition, the Group, in cooperation with independent consultants, is evaluating various options of potential for the Irkutsk mining hub, uniting Verninskoye, Chertovo Koryto and Zapadnoye reserve base.

Kuranakh

The Group has developed a comprehensive multi-step program for the Kuranakh operations upgrade and started its implementation. This follows operational efficiency initiatives to lower production costs in mining, processing and electricity supply areas. The contracted equipment delivery is under way, while preparatory construction and installation works have been launched.

In addition to its ore reserves of 2.6 million ounces at an average grade of 1.4 g/t, the Kuranakh deposit contains a significant amount of low-grade ore with an average grade of 0.7-0.8 g/t. The Group is considering the introduction of heap leaching to process over 50 million tonnes of this low-grade material.

The Group is planning to expand the throughput capacity from 3.8 to at least 5.0 million tonnes per annum.

Natalka

At Natalka, the Company's largest greenfield project, the Group completed the review of the mineral resource and ore reserve estimates for the deposit, which now amount to 16.2 million ounces of proven and probable reserves and 36.8 million ounces of measured, indicated and inferred mineral resources. During 2015, the Group worked on an operational review and optimization of the project, which will be completed in 2016. The Group anticipates commissioning of the Natalka project by the end of 2017.

As a result of optimization, the flotation circuit was excluded from the Natalka flowsheet. Results of the pilot plant program and laboratory testing of the core samples variability (performed by SGS) provided the evidence that Natalka ore is highly responsive to gravity technology treatment. The Company's engineering team and its engineering consultant, Hatch, believe that the project's economic indicators will benefit from processing the ore through the gravitation circuit only versus the gravitation-flotation flowsheet, due to the lower processing costs, while leaving floatation circuit installation as a potential longer-term development option, depending on the results of technological mapping of the deeper horizons of Natalka ore body.

Exploration Projects

The Group is evaluating optimal development options for Chertovo Koryto, Bamskoye, Razdolinskoye and Panimba, with a view to minimise capital spending while reducing construction risks. The Group views these assets as both prospective and attractive.

Total Operational Efficiency Programme (TOE Programme)

In 2014, as part of its focus on operational excellence and cost discipline, the Group launched the TOE Programme to streamline the implementation of capital expenditure-light operational improvements across its business. In 2015, the TOE Programme was rolled out across all of the Group's production units, including auxiliary units. A total of 310 initiatives have been launched since 2014. The TOE Programme delivered a US$94 million positive impact on the Group's earnings in 2015. The Group expects further improvements in 2016 and beyond.

Polyus Project

The Group carries out project design and engineering centrally through LLC Polyus Project. As of 30 June 2016, there were 149 specialists of LLC Polyus Project involved in designing and engineering works for the Group, including designing of industrial plants and equipment, preparation of project documentation, engineering, surveying land plots and general project planning. LLC Polyus Project is also responsible for preparing project documentation on demolition, dismantlement and shut-down of buildings and construction projects, inspection of environmental and fire controls and the ongoing inspection of various construction projects of the Group. LLC Polyus Project is currently involved in modernisation works at the Olimpiada, Titimukhta and Blagodatnoye mines. LLC Polyus Project is also the general design contractor for JSC Matrosova Mine (Natalka), JSC Aldanzoloto GRK (Kuranakh) and JSC Pervenets (Verninskoye).

Transportation

The Group's produced doré gold is accumulated as unfinished product at special stocks maintained at the Olimpiada mine (including doré gold produced at the Blagodatnoye and Titimukhta mines), Verninskoye mine and Kuranakh mine. Slime gold from the Group's Alluvials operations is accumulated at four special stocks of the Group's subsidiary, JSC ZDK Lenzoloto. The doré gold/slime gold is transported on armoured vehicles from the storage facilities either directly to the refinery (in case of the Olimpiada mine) or to local airports (Bodaibo, Irkutsk region, or Neryungri, Yakutia region) from where it is flown to state-owned refinery plants. The transportation is handled by armed guards, either employed by the Group, with support from local police departments, or hired armed guards from companies which provide professional services in handling and deliveries of valuable cargoes (such as Rosincas of the CBR, the Courier Communications Central Board or Joint-Stock Company "**Special Transportation Services**"). Rosincas is a subsidiary of the CBR, which provides encashment services on the territory of the Russian Federation. The Courier Communication Central Board is the federal state unitary enterprise providing a number of services including reception, processing, storage and delivery of confidential correspondence and valuable cargoes. Shipments are insured with reputable Russian insurance companies.

Refining

Refining of the Group's doré/slime gold is performed at independent refining plants. The Group outsources the refining of gold that it produces to OJSC Krastsvetmet and, through JSC Aldanzoloto GRK, to JSC Prioksky Plant of Non-Ferrous Metals. Both refiners are included by the LBMA in its list of refining companies that meet "Good Delivery" standards. In addition to OJSC Krastsvetmet and JSC Prioksky Plant of Non-Ferrous Metals, there are six other refining plants in Russia which are included in the LBMA's Good Delivery list. The Group may consider, in the future, entering into agreements with one or more of these plants. Doré gold produced at the Olimpiada, Blagodatnoye and Titimukhta mines and slime gold from the alluvial operations is processed at OJSC Krastsvetmet and doré gold produced at the Kuranakh mine is processed at both OJSC Krastsvetmet and JSC Prioksky Plant of Non-Ferrous Metals.

Sales

Sales of gold by the Group are made through JSC Polyus, which sells gold produced by its Krasnoyarsk business unit, as well as gold produced by its subsidiaries at the other business units as their agent. The Company believes that this centralised sales system improves the pricing terms that the Group is able to obtain for its products.

The table below shows the Group's total sales of gold for the periods indicated. All such sales during this period were made to the domestic market.

Amount ('000 ounces) Year ended 31 December			***Average realised gold price[(1)] (US$/ounce) Six months ended 30 June***	
2015	***2014***	***2013***	***2016***	***2015***
1,768	**1,691**	**1,631**	**1,223**	**1,202**

Note:

1. Average realised gold price excludes effect of SPPP. See note 13 to the 2015 Financial Statements.

The Russian authorities regulate the sale of gold in Russia and sales may be made to licenced commercial banks or under an export licence obtained from the Russian Ministry of Industry and Trade. Over 90 per cent of the Group's gold was sold to four Russian banks (MDM Bank, Otkritie, Sberbank and VTB) in the six months ended 30 June 2016. The Group's Russian subsidiaries did not export gold in 2015, 2014 and 2013 or in the first six months of 2016 due to more favourable contract terms with Russian banks. Sales of gold to Russian commercial banks are governed by the Group's sales policy. Most of the Group's sales are made at prices based on LME prices, with the remainder executed through the Group's SPPP. The SPPP was initiated by the Group in March 2014 and is comprised of a series of zero cost Asian gold collars and gold forward contracts aimed at increasing the certainty of a material proportion of the Group's cash flow in light of gold price volatility. See note 13 to the 2015 Financial Statements. The Group's average gold sales prices were US$1,155 per ounce in 2015, US$1,275 per ounce in 2014, US$1,385 per ounce in 2013 and US$1,223 per ounce and US$1,202 per ounce for the first six months of 2016 and 2015, respectively.

Except for the sale of 10 thousand ounces in floatation concentrate by Olimpiada in 2014, the sale of 14 thousand ounces in floatation concentrate and the export of 1.3 tonnes of precious metals through an agency agreement with Otkritie in 2015, the Group sells gold in its domestic market primarily to Russian commercial banks in individual transactions under stand-by master agreements. The prices for these sales are based on the LME price (London morning and to a lesser extent afternoon gold price fixing) at the time of delivery. Payment for gold is made in roubles at the applicable rate of exchange of the rouble and the U.S. dollar, typically with advance payment or immediate payment terms. The gold is sold ex-works at the refinery and title and risk to the gold transfers to the customer at the warehouse of the refining plant (primarily, OJSC Krastsvetmet and JSC Prioksky Plant of Non-Ferrous Metals).

Although the prices quoted on the international commodities markets determine the price of gold in both the Russian and international markets, subject to the SPPP, there may be some variations in the pricing terms available in those markets as a result of variations in the discounts and premiums that the Group agrees with its customers to reflect transportation, insurance and other costs.

Research and Development and Exploration

The Group carries out research, exploration and development activities in support of its core activities. The Group's exploration expenses in 2015 amounted to US$7 million (US$3 million for the first six months of 2016), as compared to US$6 million in 2014.

The Group established its research and development centre in 2004 in the city of Krasnoyarsk to support its exploration, mining and ore processing activities. The centre employed 68 researchers and other staff on average throughout 2015. The centre uses technologically advanced instruments, including an atomic-emission spectrometer, a spectrophotometer and an atomic-absorption spectrometer, and comprises the following laboratories:

- Mineralogical laboratory, which studies ores from the deposits to which the Group holds licences to optimise exploration, production and ore processing. This laboratory accumulates data on mineral and chemical composition, the structural and textural features of bed-rocks and ores and the behaviour of ores during processing and gold extraction rates.
- Geomechanics and engineering laboratory, which develops technologies for mining, mine engineering and mine construction. Its activities include the study of the physical and technological properties of rocks and soils and the evaluation of the stability of pit benches and walls. This laboratory is developing a proprietary database to record the physical and technological parameters of ores and rocks from the deposits to which the Group holds licences.
- Biotechnology laboratory, which develops technologies and carries out complex research on improving the biotechnological schemes for processing gold-loaded ores and concentrates received from them. They are also engaged in the study and use of associations of microorganisms for the industrial problems of bio-oxidation gold-loaded ores and concentrates;

improving research techniques and the operative control of processes of bio-oxidation of mineral raw materials; improving production schedules for bio-oxidation of mineral raw materials; introducing developed biotechnologies in manufacture; studying optimum technological parameters of processes for bio-oxidation of ores and concentrates; and carrying out trials and industrial tests on the basis of technological parameters and bio-oxidation modes.

- Ore-processing laboratory, which is one of the core divisions of the research and development centre. It develops flotation, gravitational enrichment, magnetic separation, concentration, filtration and other technologies for ore processing.
- Hydrometallurgy laboratory, which develops complex ore processing technologies and equipment utilising leaching, absorption and thermal treatment. This laboratory also develops new absorption chemicals and alternative non-cyanide leaching agents, as well as waste treatment and refinement technologies.
- Analytical laboratory, which specialises in the evaluation of the gold and precious metal content in ores, ore concentrates and ore treatment products, as well as the development of precise measurement technologies.
- In addition, the Group has a laboratory of pyrometallurgical processes. This laboratory focuses on the development of technologies for thermal ore treatment to minimise the impact on the environment of those operations.

Sustainable development

The Group is committed to aligning with the ICMM Sustainable Development Framework. ICMM was established in 2001 to advance the metals and mining industry's commitment to sustainable development. ICMM brings together 23 mining and metals companies, as well as 34 national and regional mining associations and global commodity associations. In 2013, the Group commenced the ICMM membership application process. As part of this application for membership, an independent consultant carried out a strategic review of the policies and practices of the Group to analyse and assess the degree of current alignment with ICMM's principles, position statements and reporting and assurance requirements. On 29 June 2015, the Company joined ICMM. The Company is the first company from Eastern Europe and the CIS to earn membership in ICMM, which demonstrates the Group's commitment to responsible and sustainable development in the metals and mining industry, as well as providing an opportunity to interact with all the other member companies and improve best practices.

To check and verify implementation and adherence to the ICMM Sustainable Development Framework, the Group routinely implements a number of audit and assurance activities. Since 2012, the Group has been working with the internal team and a wide range of internationally established consultancies to review and verify current performance. For example, since 2012 the Group has completed:

- Risk Assessment: whereby each business unit and site contributed to regular risk assessments, which inform the Group's understanding of material risks across the business and included consideration of sustainability aspects.
- ICMM Gap Analysis: whereby each operation has contributed to a strategic review of Company policies and practices to identify gaps relative to the ICMM Sustainable Development Framework and the actions that are needed to address those gaps.
- HSE Management System Audits: annual audits undertaken by a third-party consultant as part of the Company's commitment to continuous improvement and certification of existing ISO 14001 and OHSAS 18001 EHS Management Systems.

- Legal Compliance Audits: completed by local regulators and/or the Group's Legal Department, Internal Control department and HSE Department to check and verify compliance with applicable laws and regulations.
- Anti-Corruption Reviews: targeted audits and investigations to check and verify compliance with the Group's Anti-Corruption Policy and anticorruption laws.

The Group seeks to strengthen its sustainability management system through its governance framework. The Group has developed a new set of sustainability standards and policies, which complies with the requirements and recommendations of both the ICMM and the International Financial Corporation ("**IFC**"), and has introduced principles and procedures to address key aspects of sustainability, including social and environmental impact assessments, the sustainable use of natural resources, human rights and community engagement.

The Group produces an annual Sustainability Report in accordance with the GRI G4 guidelines, which is independently verified. For the Group, sustainability reporting serves to reinforce its culture of commitment to responsible mining at all levels. The Group acknowledges the importance of responsible environmental and social data disclosure, and as a member of the ICMM endorses the organisation's sustainability principle 10, and implements effective and transparent engagement, communication and independently verified reporting arrangements with its stakeholders.

Environmental stewardship

The Group strives to minimise both relevant consumption rates and the environmental impact of its operations and comply with the industry best practices and requirements. In 2015, the HSE department was strengthened, and the position of Head of the Environmental Office was also established.

Environmental issues are assessed by the Group's environmental personnel and a number of working groups on site. The Group has invested in new technologies and equipment to reduce the environmental impact of its operations. The majority of the Group's mining sites and professional services have established Environmental Management Systems. The Group's integrated HSE management system continued to be enhanced in 2015, with a further two business units certified under ISO 14001 and OHSAS 18001. As a result, all of the Group's mines now comply with these standards. The Group continues to improve its integrated management system based on ISO 14001 and OHSAS 18001 requirements.

The Group has various initiatives for raising environmental awareness among employees, including publishing informational materials on environmental topics in its corporate newspaper. In 2015, as in 2014, the Group organised a list of mandatory environmental training sessions. The Group actively supports public environmental volunteering: during 2015, the Yakutia Kuranakh business unit's employees participated in several environmental events, including "Green spring – 2015", "Green Russia" and "International Environment Day". The Group views environmental reporting and awareness-raising programmes to be a necessary part of managing environmental performance, facilitating the early prevention of environmental incidents, as well as increased awareness of environmental issues and protection.

The Group is dedicated to continuous improvement and to addressing various environmental challenges, including efficient water treatment, climate change adaptation, waste management and others. The Group has pledged to support and promote the initiatives and values contained within the global agreement on climate change signed at the 2015 United Nations Climate Change Conference, COP 21 in Paris.

The Group's total environmental stewardship expenditures, which include the protection and rational use of natural and water resources, capital investment to environmental stewardship, protection of land resources, waste management and air emissions control, was US$22.06 million in 2015, as compared with

US$55.4 million in 2014. The decrease was primarily due to the depreciation of the rouble against the U.S. dollar.

The Group budgeted approximately RUB 1,140 million and RUB 1,779 million for costs related to compliance with environmental, health and safety requirements for 2016 and 2017, respectively, with figures for 2017 provided on a preliminary basis and being subject to change.

Cyanide neutralisation

As is common with gold industry operations, the Group's gold processing operations currently require significant quantities of cyanide-based chemicals, which potentially present risks to human health and the environment. The Group is seeking to reduce the use of cyanides in its gold extraction processes through the development of alternative technologies, including implementation of cyanide-free leaching. The Group is working on installing an efficient cyanide management system at all business units in accordance with the requirements of the International Cyanide Management Code. This work includes improvement of the cyanide neutralisation facilities, ensuring that all necessary safety precautions are made in cyanide storage and transportation, and engagement of compliant cyanide producers. The Group's standard on cyanide management, which was developed in 2015, covers risks associated with cyanide purchasing and transportation, and sets forth requirements related to these processes which are designed to ensure both human and environmental safety. The standard sets out the requirements for purchasing, transporting, storing, using and neutralising cyanide in accordance with Russian legislation and the International Cyanide Management Code. The Group seeks to have at least one business unit to be certified in compliance with the International Cyanide Management Code in 2018. The Group also focuses on tailings management to optimise related activities and enhance safety. The Group applies tripartite supervision over these activities: design inspection, HSE control and internal audit.

Rational use of natural resources

The Group focuses on the rational use of natural resources and raw materials. Raw materials are repeatedly used, where possible. The Group uses a closed circuit system for the water supply at all of its production units, with up to 91.66 per cent water reused/recycled in the process.

Protection and rehabilitation of land

The Group is actively engaged in the reclamation and rehabilitation of disturbed land. For example, in order to mitigate the environmental impact of its operations, the Group constructed landfills for the disposal of solid consumer waste and a landfill for industrial waste at the Olimpiada, Verninskoye and Kuranakh mines. The Group is required by regulation to develop a closure plan for each mine and to allocate a budget for site rehabilitation in the event of a mine closure. The Group intends to establish and update closure plans for all mines in accordance with Russian legislation and the ICMM guidelines, and conducted a closure workshop in December 2014. Each of the operating subsidiaries of the Group conducts an inventory of affected land plots on an annual basis so that these land plots can be effectively recultivated in the future.

Waste management

More than 99 per cent of all waste generated during production in 2015 was classified as non-hazardous waste from ore-mining and processing operations (Hazard Class IV and V under the applicable Russian categories), including hard rock and tailings, process tailings and coal slag. Hard rock and tailings are removed and disposed of in specially designed and built waste facilities, where their safe storage can be ensured. Domestic and industrial solid waste, slag and cinders are all disposed of at specially constructed waste disposal sites.

At the end of 2015, the Group introduced a solid domestic and industrial waste disposal and neutralisation programme at the Olimpiada site. The programme covers two separate locations for waste recycling (Olimpiada and Blagodatnoye), and will not only allow environmentally safe waste disposal and neutralisation at each mine site, but also provide the necessary conditions to allow the further recycling of various types of waste. The Group also uses recognised good practices for separate waste collection at Olimpiada and, following recent changes in Russian environmental legislation, the Group has aligned its waste operations with the updated regulatory requirements.

The Group is not involved in transportation, import, export or treatment of waste deemed hazardous under the terms of the Basel Convention Annexes I, II, III and VIII.

Water use and water resource protection

The water supply for the Group's utility and production needs is drawn from local surface water bodies and underground sources. The Group targets the efficient and sustainable use of water resources and the establishment of closed water supply systems, enabling the Group to effectively recycle water for its main production processes at its processing plants at the Olimpiada, Kuranakh and Verninskoye mines. Water treatment remains a priority issue for the Group. The Group plans to conduct a water balance assessment at each business unit and is in the process of developing water management and water balance plans for the Olimpiada and Verninskoye mines and updating the existing plan for Natalka. The Group plans to implement an integrated detoxification system that can treat heavy metals, different types of cyanide, sulphates, conductivity, turbidity and other types of contaminants at the Olimpiada mine. Progress was made at the Olimpiada mine site, where new additional sewage treatment facilities are being constructed. After the construction, which is expected to be completed in 2017, additional environmentally efficient water treatment methods will be available. Yakutia Kuranakh business unit, as a representative of Unified State System of Aquatic Resources Environmental Monitoring, implements the Bolshoy Kuranakh river state environmental monitoring programme within its operating area.

Another important challenge for the Group is wastewater disposal and the reduction of disposals of polluting agents into the sewage systems and surface water bodies to acceptable permitted levels. The Group puts necessary controls in place at each of its mines in order to determine and monitor water quality on an ongoing basis.

Protection of air, energy efficiency and emission of greenhouse gases

Key sources of atmospheric emissions in gold ore production include drilling and blasting operations and open-pit equipment. The bulk of harmful emissions consists of suspended substances, such as dust, fuel combustion products and incompletely burned blasting agents, which emit sulphur, nitrogen oxides and carbon monoxide.

To suppress dust levels, open-pit roads and shovel/bulldozer operation areas are watered in the summertime. To reduce or remove gas and dust emissions during blasting, several technologies are used, including using blasting agents with near-zero oxygen balance, blasting the shells with air gaps, neutralising additives for stemming purposes and spraying blasted rock after each blast. To reduce atmospheric emissions at the ore processing stage, various gas purification systems are used, including aspiration systems, battery cyclones, foam gas purifiers and exhaust neutralisers.

The Group pays special attention to air quality at its sites. The Group has retained an independent consultant to conduct a preliminary assessment of ventilation systems and to develop a work plan for subsequent inspection of ventilation systems at Olimpiada processing facilities. The Group has also launched a ventilation and gas cleaning pilot project at its Olimpiada mine.

The Group recognises its responsibility to constructively engage on climate change issues. The Group implemented a climate change policy in 2015 in order to set and annually review GHG emissions controls objectives and targets. The Group's greenhouse gas emissions amounted to 3.29 and 3.25 million tonnes of CO2-e in 2015 and 2014, respectively.

Actual emissions of atmospheric pollutants in 2015 and 2014 throughout the Group's operations in Russia did not exceed the maximum admissible levels.

Health and Safety

The Group is subject to occupational health and safety ("**OHS**") requirements of Russian legislation and international regulations related to occupational health and safety. All of the Group's entities have established commissions performing industrial control over OHS at all facilities. Health and safety management at all of the Group's businesses is overseen centrally by the Group's management.

The Group has also implemented international standards to improve the existing system of health and safety management in accordance with OHSAS 18001 and ISO 14001. The Group continues to work on aligning the integrated HSE management systems at business units with best international practices, with a view to fully implementing an integrated HSE management system by 2018. All of the Group's mining business units are now OHSAS 18001 certified. The Irkutsk ore business unit and Logistics service obtained certification in 2015. The Group plans to obtain OHSAS 18001 certificates for Polyus Stroy and the Magadan business unit (at the construction stage) in the fourth quarter of 2016 to the first quarter of 2017.

As part of the integrated HSE management system implementation, the revision and alignment of key local regulatory frameworks was carried out, including the Health and Safety Policy, Golden Safety Rules, the Incident Root Causes Analysis ("**IRCA**") Standard and the Medical Support Standard. A new Traffic Safety Policy was introduced and a Policy on the Prevention of Alcohol, Drugs and Psychotropic Substances Consumption was approved and implemented at all business units. The Group is planning in 2016 to complete a general review of HSE standards and procedures to bring it into full compliance with OHSAS 18001, ISO 14001, Russian legal requirements and ICMM's principles.

Health and Safety statistics

In 2015, there were 17 lost time injuries resulting in one work-related and one contractor-related fatalities at the Group's facilities, as compared to 20 lost time injuries resulting in four work-related and five contractor-related fatalities at the Group's facilities (14 lost time injuries resulting in 1 work-related and 0 contractor-related fatalities in the first six months of 2016) in 2014. The Group's LTIFR has improved by 40 per cent over the past four years. The Group seeks to develop and implement measures to eliminate violations and prevent the reoccurrence of such incidents in the future.

The following table sets forth a summary of the Group's lost time injuries for the periods indicated.

	Lost time injuries			*Fatalities*		
Business unit	***2015***	***2014***	***2013***	***1H 2016***	***1H 2015***	***2014***
Krasnoyarsk	4	0	5	0	0	0
Irkutsk (alluvial)	2	1	1	0	1	1
Irkutsk (ore)	1	2	1	0	0	0
Yakutia (Kuranakh)	3	2	4	1	0	0
Magadan	0	1	7	0	0	0
Exploration (Nezhdaninskoye)	0	0	0	0	0	0
Services [(1)]	7	14	7	0	0	1
Total	**17**	**20**	**25**	**1**	**1**	**2**

Notes:

1. Polyus Stroy, Polyus Project, Polyus Schit, Polyus Logistics.

All of the Group's business units have health service facilities and perform regular medical checks of employees working in health hazard areas. Medical aid posts are established at all of the Group's business units to carry out a medical inspection on employees before their shift begins, during working hours and at the end of their shift. The Group also provides medical care accessibility, which in practice results in a sufficient quantity of medical units, health centres, first-aid boxes on sites and available ambulances. The Group has developed an emergency medical response plan and established contracts with health care centres and air medical services for all operational business units. In 2015, the Verninskoye mine site obtained a licence to carry out medical examinations (pre-/post-travel), as well as drug and alcohol checks, and the majority of the Group's health management system performance targets were achieved. In 2015, the Group's total expenditure on health and safety was RUB 347.7 million (US$25.3 million at the RUB/U.S. Dollar exchange rate in effect at the end of the year).

The international standard for reporting industrial accidents is the LTIFR. An incident becomes registered as a Lost Time Injury when a worker loses a single shift. In 2015, as a result of the Group's focus on the implementation of its health and safety management systems and the introduction of risk assessment mechanisms, LTIFR continued to decrease to 0.08 in 2015, an 11 per cent decrease as compared to 2014 (though LTIFR increased to 0.13 in the first six months of 2016 as compared to 0.10 for the first six months of 2015). The Group uses a 200,000 man hour denominator in accordance with GRI requirements (Sustainability Reporting Guidelines).

	*LTIFR = LTIs * 200,000 man hours/hours worked*	
Business Unit	***2015***	***2014***
Krasnoyarsk	0.06	0
Irkutsk (alluvial)	0.05	0.02
Irkutsk (ore)	0.05	0.10
Yakutia (Kuranakh)	0.19	0.14
Magadan	0.18	0.10
Exploration (Nezhdaninskoye)	0	0
Polyus Stroy	0.22	0.30
Polyus Logistics	0.09	0.23
Polyus Energy	0.16	0.14
Polyus Schit	0.11	0.12
Polyus Project	0	0
Moscow headquarters	0	0
Total	**0.08**	**0.09**

Health and Safety training

The Group has introduced a health and safety policy and training programmes at all of its business units aimed at detecting and preventing dangerous and hazardous activities at workplaces. New hires undergo safety induction and are appointed a mentor for the duration of their training. All business units conduct regular appraisals of the managers and staff working in industrial and labor safety.

In partnership with DuPont, the Group is planning a two-year safety culture programme with a focus on behaviour-based audits, risk assessment, root-cause analysis and an integrated safety management structure. In 2015, the following training programmes were implemented: leadership and dedication of managers, HSE risk analysis and assessment, accident reporting and IRCA, and behavioural audits. During the year 2015, more than 2,000 employees, including senior management of business units, completed these training programmes.

A Safety Working Group was established in September 2014 and the Group is planning to organise health and safety committees at each business unit in order to facilitate the implementation of the Company's safety culture across the entire Group.

Insurance

The Group has implemented a property risk insurance programme with one-year coverage starting from 1 September 2016 that provides coverage for the replacement of key production equipment, buildings and structures, and for losses resulting from a temporary disruption in production. The policy covers the main business units: JSC Polyus, JSC Pervenets, JSC Aldanzoloto GRK, and Mamakan Hydro Power Plant. The coverage is on an all risks basis, including pollution clean-up, strikes, civil commotions, construction, and damage or collapse of the tailings dam. Significant costs relating to operational property damage, machinery breakdown and business interruption will be covered under the insurance programme over the policy excess limits. Most of the coverage has been placed with the London insurance providers rated A- and higher by S&P. To mitigate the risks of transportation of its valuable cargo, the gold mining companies of the Group have cargo agreements with specialised transport companies that include cargo insurance. Shipments are insured with reputable Russian insurance companies.

Employees

The table below sets out the average number of people employed by the Group as at the dates indicated:

	As at 31 December			*As at 30 June*	
Business unit/location	***2015***	***2014***	***2013***	***2016***	***2015***
Krasnoyarsk business unit	5,545	5,605	5,585	5,377	5,599
Irkutsk alluvial business unit	3,091	2,368	2,810	3,666	3,632
Irkutsk hard rock business unit	1,598	1,600	1,688	1,562	1,632
Yakutia business unit (Kuranakh, Nezhdaninskoye, YaGK)	1,883	1,821	1,891	1,825	1,869
Magadan business unit	784	1,262	1,497	856	641
Services	4,831	4,818	5,939	5,101	4,800
Moscow headquarters	389	337	300	400	350
Total	**18,121**	**17,811**	**19,710**	**18,787**	**18,523**

Corporate Social Responsibility

The Group believes that establishing strong and trusting relationships with local communities and recognising how important this is for the well-being of communities and for fostering regional development are operational priorities, as well as prerequisites for the Group's successful long-term development. The Group has a wide operational geography; consequently, it has an influence on various communities, including indigenous peoples, rural populations and urban residents. The Group is committed to all the communities which it has an impact on, and strives to maximise the positive effects that arise from its activities, while at the same time mitigating negative ones.

In October 2015, a new sponsorship and charity policy was created by the government relations department and adopted by the management of the Group. The policy defines the principles of charitable activities, donations and sponsorship, as well as the priorities and mechanisms for their implementation. The policy was developed in order to standardise the process of implementing and planning charitable activities and to increase their positive impacts on communities. The policy was designed in accordance with best international practices and, in particular, in compliance with ICMM's principles.

Under the policy, the Group prioritises the following charitable and sponsorship activities:

- regional development (social/physical infrastructure development);
- education and science;
- sports and healthy lifestyles;
- ecology and environmental protection;
- support for vulnerable social groups; and
- promoting gold mining industry unions and associations.

Licences

The tables below show the periods and main terms of the principal licences held by the Group. Except as indicated below, the Group believes it has complied with all of the material terms of the licences. Recently, the terms of some of the Group's licences have been updated. Also, documentations for certain licences are currently under review by Rosnedra or will be submitted to Rosnedra by the fourth quarter of 2016. The Company expects that the terms of most of its principal licences will be updated by the end of 2016. For a more detailed description of the updating of licence terms, see "*Regulatory Matters – Subsoil Use and Mining – Subsoil licences*".

Exploration and Production Licences

Facility	***Term of Licence Registration/ re-registration***	***Expiry***	***Periods and main terms***
Krasnoyarsk region			
Blagodatnoye deposit[1]	5.7.2016	1.2.2022	– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects.

[1] Initial terms of the licence have been fulfilled. Updated (actualised) licence terms as of 5 August 2016 do not imply any obligations other than obligations described above.

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
Panimbinskaya block	1.2.2007	1.11.2029	– By 6 December 2010: complete geological study and file report with calculation of reserves. – Commissioning of production capacity for ore mining and processing upon confirmation of reserves. – Prepare project documentation for the development of the licence area upon discovery of mineable reserves. – Design capacity is preliminarily set as 300 kg of gold per annum and may be amended upon the results of the geological study during the preparation of technical design.
Razdolinskaya block[2]	4.7.2007	1.11.2025	– By 1 October 2006: prepare geological study project. – By 1 October 2006: commence geological study. – By 1 April 2007: prepare exploration project (for known gold occurrences). – By 1 October 2009: complete geological study and file report with calculation of reserves and resources. – By 1 October 2009: complete the first stage of exploration and file geological report with calculation of gold reserves. – By 1 April 2010: prepare technical design. – By 1 October 2010: commence construction of mine and infrastructure. – By 1 October 2011: commission mine with a minimum annual production capacity of 500 kg of gold. – By March 31, 2018: complete the second stage of exploration and file geological study report with calculation of reserves. – Not later than 18 months following the state review of reserves: prepare and agree technical design.
Amur region			
Bamskoye gold ore site[3]	4.2.2008	15.4.2030	– By 15 February 2006: prepare geological study project. – By 15 April 2006: commence geological study.

2 Documentation for this licence is currently under review by the Rosnedra for the purposes of actualisation of licence terms.

3 Documentation for this licence is currently under review by the Rosnedra for the purposes of actualisation of licence terms.

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
			– By 15 July 2006: prepare exploration project (within the licence area of the Bamskoye deposit). – By 31 December 2008: complete the first stage of exploration and file report with calculation of gold reserves. – By 15 April 2009: complete geological study and file report with calculation of reserves and resources. – By 25 August 2017: complete the second stage of exploration and file final geological report with calculation of reserves. – Not later than 18 months following submission of documents for the state review of reserves: prepare and agree technical design. – Not later than 24 months following the approval of the technical design: commission mine.
Irkutsk region			
Chertovo Koryto deposit[4]	29.4.2016	1.1.2020	– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects. – By 1 January 2018: commission mine.
Pervenets deposit	10.2.2003	1.6.2020	– Commence works within one year from registration of the licence. – Ensure annual review of gold production level by the government of the Irkutsk region. – By 2010: achieve annual production of 50 kg of gold, subsequently in accordance with technical design of the deposit development.
Verninskoye deposit	19.5.2003	31.12.2025	– Commence works within one year from registration of the licence. – Any and all works in respect of geological study and production are performed in accordance with project designs. Compliance with mining development plans is mandatory. – Not later than six months after the expert review of the reserves: file development project and mining allotment project.

4 Initial terms of the licence have been fulfilled. Updated (actualised) licence terms as of 6 July 2016 do not imply any obligations other than obligations described above.

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
			– Level of production to be defined by annual quota established by the regional administration.
Smezhny area	7.10.2010	10.10.2035	– By 10 August 2011: prepare geological study project. – By 10 October 2011: commence geological study. – By 10 October 2014: complete geological study and file geological project with calculation of reserves and resources. – By 10 April 2015: prepare exploration project. – By 10 October 2015: commence exploration. – By 10 October 2018: complete exploration, prepare feasibility study, and file geological report with calculation of gold reserves. – By 10 October 2019: prepare technical design. – By 10 April 2020: begin construction of mine infrastructure. – By 10 April 2021: commission mine. – By 10 April 2022: achieve full design capacity.
Medvezhy Zapadny	1.12.2011	25.2.2033	– By 25 February 2009: prepare geological study project. – By 25 May 2009: commence geological study. – By 25 February 2011: complete geological study and file geological report with calculation of inferred reserves and resources. – By 25 February 2012: prepare exploration project. – By 25 August 2012: commence exploration.[5] – By 25 August 2014: complete exploration and file geological report with calculation of gold reserves. – By 25 August 2015: prepare and agree technical design. – By 25 February 2016: begin construction of mine infrastructure. – By 25 February 2017: commission mine.

[5] JSC Pervenets, the licenceholder, has not complied with this term of the licence. Please see "*Risk Factors – Risks Associated with the Group's Business and the Gold Mining Industry – The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary contracts, licences and permits, including subsoil licences, or fails to comply with the terms of its contracts, licences and permits*".

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
			– By 25 February 2018: achieve full design capacity.
Republic of Sakha (Yakutia) region			
Nezhdaninskoye[6]	21.7.2016	27.9.2021	– By 31 December 2008: file geological study report with calculation of reserves. – By 31 December 2012: prepare technical design. – By 31 December 2020: commission mine. – Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works and exploration in accordance with geological study projects and/or exploration projects.
Chukotka autonomous region			
East Burgakhchanskaya area[7]	11.1.2011	11.1.2036	– By 11 January 2012: prepare geological study project. – By 11 April 2012: commence geological study. – By 11 January 2018: file geological study report. – By 11 October 2018: prepare exploration project. – By 11 January 2019: commence exploration. – By 11 January 2021: file exploration report. – By 11 July 2022: prepare technical design. – By 11 January 2023: begin construction of mine infrastructure. – By 11 January 2025: commission mine. – By 11 January 2026: achieve full design capacity.
West Burgakhchanskaya area[8]	11.1.2011	11.1.2036	– By 11 January 2012: prepare geological study project. – By 11 April 2012: commence geological study. – By 11 January 2018: file geological study report. – By 11 October 2018: prepare exploration project.

6 Initial terms of the licence have been fulfilled. Updated (actualised) licence terms as of 25 August 2016 do not imply any obligations other than obligations described above.

7 Documentation for this licence is currently under review by the Rosnedra for the purposes of actualisation of licence terms.

8 Documentation for this licence is currently under review by the Rosnedra for the purposes of actualisation of licence terms.

Facility	Term of Licence Registration/ re-registration	Expiry	Periods and main terms
			– By 11 January 2019: commence exploration. – By 11 January 2021: file exploration report. – By 11 July 2022: prepare technical design. – By 11 January 2023: begin construction of mine infrastructure. – By 11 January 2025: commission mine. – By 11 January 2026: achieve full design capacity.
Central Burgakhchanskaya area[9]	11.1.2011	11.1.2036	– By 11 January 2012: prepare geological study project. – By 11 April 2012: commence geological study. – By 11 January 2018: file geological study report. – By 11 October 2018: prepare exploration project. – By 11 January 2019: commence exploration. – By 11 January 2021: complete exploration and file exploration report. – By 11 July 2022: prepare technical design. – By 11 January 2023: begin construction of mine infrastructure. – By 11 January 2025: commission mine. – By 11 January 2026: achieve full design capacity.

Production Licences

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
Krasnoyarsk region			
Titimukhta deposit[10]	5.7.2016	31.12.2023	– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects.
Olimpiada deposit (including Vostochny pit and Zapadny pit)[11]	5.7.2016	31.12.2027	– Achieve full design capacity and production capacity in accordance with the technical design.

9 Documentation for this licence is currently under review by the Rosnedra for the purposes of actualisation of licence terms.

10 Initial terms of the licence have been fulfilled. Updated (actualised) licence terms as of 5 August 2016 do not imply any obligations other than the obligations described above.

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
			– Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects.
Magadan region			
Natalka deposit[12]	21.6.2016	31.12.2036	– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects.
Republic of Sakha (Yakutia) region			
Yuzhnoye deposit of the Kuranakh ore field[13]	21.03.2016	31.12.2017	– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects.
Each of Delbe, Kanavnoye, Dorozhnoye, Bokovoye, Porfirovoye, Severnoye and Tsentralnoye deposits of the Kuranakh ore field	25.7.2006	01.01.2017 (Porfirovoye) 31.12.2019 (Severnoye) 31.12.2019 (Kanavnoye) 01.01.2017 (Bokovoye and Dorozhnoye) 01.01.2022 (Tsentralnoye) 01.01.2024 (Delbe)	– Conduct state expert examination of projects for all types of works, obtain permit for all types of use of natural resources and environmental impact prior to commencement of works.
			– Exploit the deposit after the registration of the mining allotment and approval of the technical design in the prescribed matter. – The annual production level is determined in accordance with the technical design, which has received the approval of state authorities.

11 Initial terms of the licence have been fulfilled. Updated (actualised) licence terms as of 5 August 2016 do not imply any obligations other than the obligations described above.

12 Initial terms of the licence have been fulfilled. Updated (actualised) licence terms as of 21 June 2016 do not imply any obligations other than the obligations described above.

13 Initial terms of the licence have been fulfilled. Updated (actualised) licence terms as of 18 April 2016 do not imply any obligations other than the obligations described above

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
Yakokutskoye[14]	25.7.2006	31.12.2017	– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects.
Stockpile waste of Kuranakh field[15]	20.6.2016	30.6.2024	– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects.
Nezhdaninskoye (additional vein areas)[16]	26.1.2016	31.12.2031	– By 31 December 2008: file exploration report. – By 30 December 2012: prepare and agree technical design. – By 31 December 2020: commission mine. – Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works and exploration in accordance with geological study projects and/or exploration projects.

14 Initial terms of the licence have been fulfilled. Updated (actualised) licence terms as of 6 April 2016 do not imply any obligations other than the obligations described above.

15 Initial terms of the licence have been fulfilled. Updated (actualised) licence terms as of 29 July 2016 do not imply any obligations other than the obligations described above.

16 Initial terms of the licence have been fulfilled. Updated (actualised) licence terms as of 25 August 2016 do not imply any obligations other than the obligations described above.

MANAGEMENT AND CORPORATE GOVERNANCE

The Board of Directors currently comprises two Non-Executive Directors and one Executive Director.

The table below shows the current members of the Company's Board of Directors. The business address for each of the Company's Directors is Ergon House, Dean Bradley Street, London SWP 2AL, United Kingdom.

Board of Directors

Name	*Year of Birth*	*Position*
Mr. Sergei Nossoff	1977	Executive Director
Ms. Alexandra Maria Beckwith	1983	Non-Executive Director
Mr. Antonios Antoniou	1958	Non-Executive Director

Sergei Nossoff, *Executive Director*

Mr. Nossoff joined the Group in March 2016. He has extensive executive managerial experience in the metals and mining sector, private equity, financial management, capital-raising, mergers and acquisitions, corporate disposals and restructurings. Prior to joining the Group, Mr. Nossoff was First Vice President and board member of international gold and copper producer, GeoProMining Group. Prior to that, he was Director of Strategy and Business Development at UC Rusal, the world's leading aluminium producer. Prior to joining UC Rusal, Mr. Nossoff spent 10 years as an investment banker, specialising in M&A. He started his career at Credit Suisse, followed by Citigroup, Goldman Sachs and Bank of America. Mr. Nossoff graduated from the European Business School and is a member of the Securities Institute. He also completed an Executive MBA course at INSEAD.

Alexandra Maria Beckwith, *Non-Executive Director*

Ms. Beckwith joined the Group in January 2016. She has extensive experience in the finance and banking sectors. Prior to joining the Group, Ms. Beckwith had gained experience working at the London Stock Exchange where she was responsible for developing the Exchange's business in Russia, Mongolia and the CIS / CEE regions, as well as working at the Corporate Finance Department of RaiffesenBank, where she was responsible for the Guarantee business of the bank and trade finance deals. In addition to her role as a non-executive director at the Company, Ms. Beckwith continues to consult British and international companies on commercial strategy, business development and project management, with a particular emphasis on emerging markets and international business. Ms. Beckwith graduated from the Finance University under the Government of the Russian Federation with a degree in Financial Management (Finance and Credit) and holds a Masters degree in Finance and Investment from the Cass Business School, London. Ms. Beckwith is a Member of the Chartered Institute of Securities and Investments.

Antonios Antoniou, *Non-Executive Director*

Mr. Antoniou joined the Group in March 2016. Mr. Antoniou is a UK Chartered Accountant with over 30 years of public accounting experience with PwC, 15 years of which were as a partner in Russia, where his experience included the mining sector. He was previously a non-executive director and audit committee member of International Petroleum, of TransCreditBank – one of the largest banks in Russia, and a consultant to the Partner Council of PwC in Central and Eastern Europe. He holds a degree in Chemistry from the University of Bristol, UK and is a member of the Institute of Chartered Accountants in England and Wales.

Senior Management Team

The table below shows the senior management of PJSC Polyus and its subsidiaries. The business address for each member of the senior management is 15/1 Tverskoy Boulevard, Moscow 123104, Russian Federation.

Name	*Year of Birth*	*Position*
Mr. Pavel Grachev	1973	General Director
Mr. Mikhail Stiskin	1983	Senior Vice President, Finance and Strategy
Mr. Vladimir Polin	1962	Senior Vice President, Operations
Mr. Andrey Krylov	1975	Vice President, Production & Technical Policy
Mr. Sergey Lobov	1958	Vice President, Mineral Resources
Mr. Sergey Zhuravlev	1970	Vice President, Government Relations
Mr. Gleb Yermakov	1974	Vice President, Human Resources & Organisational Development
Mr. Vyacheslav Dzyubenko	1970	Vice President, Internal Audit
Mr. Alexander Shitov	1979	Vice President, Control & Compliance
Ms. Elena Zhavoronkova	1970	Vice President, Legal Affairs
Mr. Stefan Gueorguiev	1966	Vice President, Project Management & Capital Construction
Mr. Felix Itskov	1978	Vice President, Commerce & Logistics
Mr. Oleg Solin	1960	Vice President, Security & Asset Protection

Pavel Grachev, *General Director*

Mr. Grachev was appointed head of the Company in 2013. Prior to that, from 2010 to 2013, Mr. Grachev served as Chief Executive Office of the leading potash producer Uralkali and then of the Far East and Baikal Region Development Fund. From 2006 to 2011, he worked as chief counsel and then managing director of the investment company Nafta Moskva. From 1997 to 2005 he was the head of the Moscow office of the law firm Pavia e Ansaldo (Italy). Mr. Grachev has also served on the boards of the Company, the Federal Grid Company, Uralkali, PIK Group (as Chairman) and Polymetal. Mr. Grachev graduated from the Saint Petersburg State University and the University of Trieste (Italy) with degrees in law. Since 2014, Mr. Grachev has been a General Director for PJSC Polyus. Since 2016, Mr. Grachev has been a General Director of MC Polyus LLC, a management company for the Guarantor and certain other its subsidiaries.

Mikhail Stiskin, *Senior Vice President, Finance and Strategy*

Mr. Stiskin joined the Group in 2013 following a highly successful career in investment banking. Prior to joining the Group, Mr. Stiskin was Managing director at Sberbank CIB (until 2011 known as Troika Dialog where he was also a partner), a corporate and investment banking arm of Sberbank, Russia's largest financial institution, where he was in charge of research coverage of the metals and mining/fertilizer sectors. For many years Mr. Stiskin's team was rated as best in the sector within both the CIS and EMEA regions, according to annual institutional investor surveys. He has also been actively involved in a number of landmark transactions in the sector. Mr. Stiskin graduated with honours from the Moscow State Institute of International Relations with a degree in economics and holds a master's degree in economics from the University of Michigan (Ann Arbor).

Vladimir Polin, *Senior Vice President, Operations*

Mr. Polin joined the Group in August 2014. He has extensive managerial experience in the metals and mining sector. Prior to joining Polyus, Mr. Polin was Chief Operating Officer at En+, a leading Russian industrial group with assets in the metals, mining and energy sectors. Before that, for three years, he headed the East aluminium division at Rusal, the world's leading aluminium producer. Prior to joining Rusal, Mr. Polin spent almost 10 years at Mechel, a major coal and steel producer in Russia, in a variety of senior posts including Chief Executive Officer and Senior Vice President at Mechel Management. Mr. Polin graduated from Chelyabinsk Polytechnic Institute with a degree in metallurgy.

Andrey Krylov, *Vice President, Operations & Technical Development*

Mr. Krylov joined the Group in October 2014. Prior to this, from 1997 he worked at OJSC Karelisky Okatysh, the leading iron ore producer in Russia, which is part of Severstal Group. He was employed as a foreman before making the transition to Production Director. Mr. Krylov graduated from Saint-Petersburg Mining University.

Sergey Lobov, *Vice President, Mineral Resources*

Mr. Lobov joined the Group in August 2013 as Director for Geology and Development Projects. In March 2016, he was appointed Vice President for Mineral Resources. Prior to joining Polyus, Mr. Lobov worked for the Canadian gold mining company Barrick Gold, at their office in Russia, where he held a number of management positions. From 2000 to 2004, Mr. Lobov served as Deputy Head of the Russian office of Bateman Engineering Company. From 1993 to 2000, Mr. Lobov was a Regional Director at Metso Minerals, a specialist in mining equipment manufacturing and ore processing and technologies.

Sergey Zhuravlev, *Vice President, Government Relations*

Mr. Zhuravlev joined the Group in 2014. Prior to that, from 2009 to 2014, he held the position of Director Government Relations at Sibur, Russia's largest petrochemicals producer. From 2004 to 2008, he worked at the Federal Agency for State Property Management of the Russian Federation. Mr. Zhuravlev graduated with honours from the Cherepovets Military Engineering Institute of Radio Electronics and the Academy of National Economy in Moscow with a degree in management. He also holds an MBA in finance from California State University, Hayward.

Gleb Yermakov, *Vice President, Human Resources and Organisational Development*

Mr. Yermakov joined the Group in September 2014. He has extensive experience in human resource management in major Russian and international companies. Prior to joining the Group, for four years, he headed the HR department at JSFC Sistema, one of the largest diversified holding companies in Russia and the CIS with assets in the telecom, oil, electronics, retail and other sectors. Prior to Sistema, for two years, Mr. Yermakov, as a Country HR Manager, was responsible for managing the whole spectrum of HR activities at EFES Rus, a Russian subsidiary of EFES Beer Group, one of Europe's largest brewers. Prior to that, he headed the HR department of the Russian unit of Intercomp, one of the leading providers of financial and HR outsourcing services in Russia and the CIS. Mr. Yermakov has a Global Professional in Human Resources (GPHR) certificate from the HR Certification Institute (USA). He graduated with honours from the Moscow State Conservatory.

Vyacheslav Dzyubenko, *Vice President, Internal Audit*

Mr. Dzyubenko joined the Group in 2013. Prior to joining the Group, he was Managing Director of the Moscow representative office of Nafta Moskva Cyprus Ltd. Vyacheslav began his career in 1995 as risk assessment specialist at International Moscow Bank. From 2001 to 2004, he worked at the debt financing department of Sovlink, an independent investment boutique. From 2005 to 2013, his career was associated with real estate, including such positions as head of real estate financing at International Moscow Bank (2005-2008), deputy finance director at PIK Group (2008-2010), first deputy CEO on economics and finance at SU-155 (2010-2011) and head of private equity and real estate investments at Uralsib Financial Corporation, a leading financial company in Russia (2012-2013). Mr. Dzyubenko graduated from the Moscow State Institute of International Relations with a degree in economics.

Alexander Shitov, *Vice President, Control & Compliance*

Mr. Shitov joined the Group in October 2015 as Director for Internal Audit. In May 2016, he was appointed Vice President for Control and Compliance. Mr. Shitov has extensive managerial experience and expertise in internal control, risk management, internal audit and compliance. He has successfully implemented a number of projects for the largest national and international companies in the area of developing risk management and internal control system, including control procedures' optimisation, development of strategy, methodology and trainings and the automated management of internal control systems, as well as internal audit projects.

Elena Zhavoronkova, *Vice President, Legal Affairs*

Ms. Zhavoronkova joined the Group in October 2014. She brings with her a wealth of experience in managing legal affairs at Russia's largest companies in metals and mining and industrials sectors. Prior to joining the Group, from 2010, she was Vice President Legal Affairs at Evraz, one of the largest integrated steel and mining businesses in Russia. Since 2008, she headed the legal department at United Industrial Corporation, a diversified holding company in Russia with assets in coal mining, banking, retail and other sectors. Prior to that, from 2000 to 2008, she worked at TMK, one of the largest pipe manufacturers in the world, initially as legal advisor and later as head of its legal department. Ms. Zhavoronkova graduated from Moscow State Law Academy.

Stefan Gueorguiev, *Vice President, Project Management & Capital Construction*

Mr. Gueorguiev has over 20 years of experience in the Engineering, Procurement, and Construction Management (EPCM) industry, including project management, design, construction, and ramp-up of projects for mining, energy and oil and gas companies in North and South America, Europe, Africa, and the Middle East.

Prior to joining Polyus, Mr. Gueorguiev served as a Vice President of Projects at the Canadian subsidiary of Lycopodium Minerals, one of the leading providers of engineering and project management services for the mining industry. During his three years at Lycopodium, in addition to his role as Vice President, he managed several large-sclae projects designing and constructing gold-processing plants in Colombia, Brazil, and Guinea.

Prior to this, for over 10 years, Mr. Gueorguiev worked for Amec in Canada, where he held a number of positions from a lead engineer to a project manager. At Amec, he successfully executed a number of projects in a variety of fields, including mining, energy, and oil and gas across the globe.

He holds a Master's Degree in Civil and Structural Engineering from the University of Architecture, Civil Engineering and Geodesy (UACEG) in Sofia (Bulgaria), as well as a Master's Degree in Project Management from Penn State University (USA).

Felix Itskov, *Vice President, Commerce & Logistics*

Mr. Itskov has been with the Group since July 2015. Mr. Itskov has a wealth of experience in managing supply chains, transportation and warehousing logistics. Prior to joining MC Polyus LLC, he spent two years at OJSC ANK Bashneft, where he was responsible for procurement and supply functions. Whilst there, he centralised the processes of materials and consumables procurement and supply for all the production, processing and sales companies and implemented the company's strategy for improving logistics efficiency and performance. Prior to joining Bashneft, Mr. Itskov was Vice President, Supply Chain Management and Infrastructure at TNK-BP. In 2012, he was recognised as the most effective young top manager in the company. At TNK-BP, he was in charge of materials and services procurement and supply to the processing and trading companies within the group. He was also responsible for the transportation, power efficiency and outsourcing functions of those companies. Mr. Itskov graduated with honours from the STANKIN Moscow State Technological University with a degree in economics and company management and has a Ph.D. in economics.

Oleg Solin, *Vice President, Security & Asset Protection*

Mr. Solin joined the Group in February 2013 as Director for Economic Security. In June 2016, he was appointed Vice President for Security & Asset Protection. Prior to joining the Group, Mr. Solin held different managerial positions in the field of economic security and asset protection with major private and state-owned companies, including Rosneft and Mechel. Mr. Solin graduated from Moscow Higher Military School under the Federal Security Service of the Russian Federation.

Remuneration of Directors and Senior Management

The total amount paid to the members of the Board of Directors and the Group's Senior Management in 2015 was US$16.2 million. The Senior Management are entitled to pensions at the level required by Russian law. All directors of the Company benefit from directors and officers insurance.

Shares held by Directors and Senior Management

As at the date of this Prospectus, no member of the Company's Board of Directors or Senior Management holds any shares or holds any option over shares in the Company.

Corporate Governance

Reflecting the Group's intention to maintain high standards of corporate governance, the shareholders of the Company's Moscow Exchange-listed subsidiary, PJSC Polyus, have at the annual general meeting elected the Board of Directors comprising nine members, including three directors considered independent under the Moscow Exchange Listing Rules.

Board committees

Following completion of the offer and delisting the Company's shares in 2015, on 29 April 2016, the Audit, Nomination and Remuneration, Strategy and Operations Committees were re-established at PJSC Polyus, the Company's Moscow Exchange-listed subsidiary. The committees are headed by independent directors. The Audit Committee, chaired by Kent Potter, is fully comprised of independent directors in line with the Moscow Exchange Listing Rules and recommendations. William Champion is chairman of the Operations Committee. The Nomination and Remuneration and Strategy Committees are chaired by Edward Dowling, who is also the chairman of the Board of Directors of PJSC Polyus.

PRINCIPAL SHAREHOLDERS

As of the date of this Prospectus, Wandle Holdings Limited and its wholly-owned subsidiary Sacturino Limited own 1,033,821,497 and 1,055,284,536 shares of the Company, respectively, representing 49.49 per cent and 50.51 per cent of its share capital, respectively. Wandle Holdings Limited and Sacturino Limited acquired 100 per cent of the Company's share capital as a result of the offer and the subsequent compulsory acquisition of remaining shares.

Wandle Holdings Limited and Sacturino Limited are companies beneficially owned by the Suleyman Kerimov Foundation and Mr. Said Kerimov, respectively, and controlled by Mr. Said Kerimov. Of the 1,033,821,497 and 1,055,284,536 shares of the Company that each of Wandle Holdings Limited and Sacturino Limited, respectively, owns, substantially all are subject to security interest agreements, under which Wandle Holdings Limited and Sacturino Limited retain the voting rights attributable to the shares of the Company.

RELATED PARTY TRANSACTIONS

The Company and its subsidiaries, in the ordinary course of business, enter into purchase and service transactions with related parties.

The Group had no transactions with its shareholders during 2015 and 2014.

Since the beginning of 2016 until June 2016, the Group had a number of transactions with its shareholders in the course of the repurchase of shares of PJSC Polyus and of its own shares. See "*Business — History of the Group — Recent Developments*".

In January 2016, the Company, as creditor, entered into a loan facility agreement with Wandle Holdings Limited, as borrower, for the total amount not exceeding US$20 million. The loans were repaid in full in March 2016.

In addition, during 2015 and 2014 and in the first six months of 2016, the Group paid compensation to key management personnel and former key management personnel.

See note 17 to the Company's condensed consolidated interim financial statements for the six months ended 30 June 2016, and note 23 to the Company's 2015 Financial Statements.

REGULATORY MATTERS

Below is a summary of Russian regulatory matters that are applicable to the Group's operations in the Russian Federation.

Overview

The Group's operations in Russia are regulated by a number of laws relating to mining operations, precious metals, quality standards, industrial safety, environmental regulation and other matters. The relevant legislation includes the following laws:

- the Constitution of the Russian Federation dated 12 December 1993 (as amended);
- the Civil Code of the Russian Federation (as amended) (the "**Civil Code**");
- the Land Code of the Russian Federation dated 25 October 2001, as amended (the "**Land Code**");
- the Russian Subsoil Law;
- Federal Law No. 41-FZ on Precious Metals and Gems, dated 26 March 1998, as amended (the "**Precious Metals Law**");
- Federal Law No. 128 FZ on Licensing of Certain Types of Activities, dated 8 August 2001 (the "**Old Licensing Law**");
- Federal Law No. 99-FZ "on Licensing of Certain Types of Activities, dated 4 May 2011, as amended (the "**Licensing Law**");
- Federal Law No. 7-FZ on Environmental Protection, dated 10 January 2002, as amended (the "**Environmental Protection Law**");
- Federal Law No. 116-FZ on Industrial Safety of Dangerous Industrial Facilities, dated 21 July 1997, as amended (the "**Safety Law**");
- Federal Law No. 173-FZ on Currency Regulation and Currency Control dated 10 December 2003, as amended (the "**Russian Currency Law**"); and
- Federal Law No. 57-FZ on Foreign Investments in Commercial Entities Having Strategic Importance for the Defence of the Country and the Security of State dated 29 April 2008, as amended (the "**Foreign Investments Law**"),

and rules and regulations adopted in accordance with those laws.

Subsoil use and mining

Subsoil licences

The Precious Metals Law, the Russian Subsoil Law and the regulations issued under those laws are the main legal acts which establish the licensing regime in Russia for the use of subsoil for geological research, exploration and production of mineral resources, particularly gold. In accordance with the Precious Metals Law, the Russian Subsoil Law governs the licensing of use of subsoil plots containing precious metals and gems, under which the Russian Federal Agency for Subsoil Use (the "**Rosnedra**") may grant several types of subsoil licences in relation to the geological survey and exploration and production of natural resources, including:

- combined licences for the geological survey, exploration, assessment and production of natural resources;
- licences for the geological exploration and assessment of a subsoil plot; and
- licences for the geological exploration production of natural resources.

Until January 2000, the Russian Government's Committee for Geology and Subsoil Use typically granted geological survey licences for up to five years, production licences for up to 20 years and licences for combined activities for up to 25 years. Under the Russian Subsoil Law, as currently in effect, the maximum term of a regular geological survey licence is still five years (although the maximum term of a licence for the geological survey of subsoil plots located, fully or partly, in certain regions of the Russian Federation, including the Republic of Sakha (Yakutia), the Kamchatka region, Krasnoyarsk region, Khabarovsk region, Irkutsk region, Magadan region Sakhalin region, Nenets autonomous region, Chukotka autonomous region and Yamalo-Nenets autonomous region is seven years and for the geological survey of subsoil plots under inland sea waters, territorial waters and the continental shelf of the Russian Federation is 10 years). The Rosnedra may issue a production licence and combined licence for the useful life of a mineral reserves field, calculated on the basis of a feasibility study for exploration and production that ensures rational use and protection of the subsoil.

Prior to amendments the Russian Subsoil Law passed in August 2004, geological survey and production licences were granted jointly by federal and regional authorities. Under the Russian Subsoil law, as currently in effect, the Rosnedra awards production licences and combined geological survey exploration and production licences by tender or auction. While the auction or tender commission formed by the Rosnedra must include a representative of the relevant region, the Russian Subsoil Law no longer requires the separate approval of regional authorities in order to issue subsoil licences. Regional authorities may, however, issue production licences for "common" mineral resources, such as clay, sand or limestone. An auction for subsoil plots of federal importance (as defined by Article 2.1 of the Russian Subsoil Law), which include, among other things, subsoil plots with aggregate gold reserves exceeding or equal to 50 tonnes of vein gold, and in certain other cases is arranged by the Russian Government, and the Government may impose limitations on Russian legal entities with foreign shareholders participating in the auctions. The Russian Subsoil Law provides that, in a tender, the licence should be awarded to the bidder which has submitted the most technically competent, financially attractive and socially and environmentally sound proposal that meets published tender terms and conditions, and, in an auction, to the bidder which has offered the largest one-off payment for the use of the subsoil plot. The Rosnedra may also, pursuant to a decision of the special committee comprised of representatives of the federal and state authorities, issue licences for exploration and production without holding an auction or tender if holders of geological survey licences discover mineral resource deposits through a geological survey (except for the subsoil plots of federal and local importance).

If a geological survey conducted at a subsoil site has identified a deposit falling under the classification of a subsoil plot of federal importance, in the interests of national defence and security, the Russian Government may decide to deny a Russian legal entity with foreign participation the right to conduct exploration and production (even if a combined licence has already been issued to the subsoil user, which would entail the revocation of the licence subject to payment of compensation to the subsoil user for expenses incurred in conducting the geological survey and reimbursement of the lump sum payment upon issue of the licence). Exploration and production of natural resources on the subsoil plots of federal importance by foreign investors or persons under their control is only permitted by a resolution of the Russian Government.

Licensing agreements for subsoil use identify the terms and conditions for the use of the subsoil, the rights and obligations of the licencee and the manager of the subsoil plot and the level of payments. Although most of the conditions set out in a licence are based on mandatory rules, the parties may negotiate a number of provisions in a licensing agreement.

As a general rule, the Russian Subsoil Law prohibits the transfer of rights of subsoil use, subject to a licence, with certain exceptions, including the following:

- to a newly established Russian legal entity in which the initial licence holder has at least a 50 per cent interest;
- from a parent company to a Russian subsidiary;
- from a subsidiary to a Russian parent company;
- between two subsidiaries of the same parent company, provided that a transferee is a Russian company; and
- to a Russian legal entity as a result of the acquisition of property of a previous subsoil user in the course of insolvency proceedings.

Generally, the Russian Subsoil Law prohibits the transfer of rights of subsoil use over the subsoil plots of federal importance to a Russian legal entity with foreign participation if such foreign investor or such group of persons including a foreign investor: directly or indirectly possesses 10 per cent or more of the voting shares of that entity; has the right, through a contract or otherwise, to issue binding instructions to that entity, including control over the business operations; or has the right to appoint the chief executive officer or more than 10 per cent of the members of the collective executive body, or has an unconditional right to elect more than 10 per cent of the board of directors or another collective management body of that entity. Such entities may obtain the right of subsoil use over the subsoil plots of federal importance in exceptional cases at the discretion of the Russian Government.

A licence holder has the right to develop and to use (including to sell) resources extracted from the licence area for a specified period. The Russian Federation, however, retains ultimate state ownership of all subsoil resources.

Licences generally require the licence holder to make various commitments, including:

- complying with the licence term and the timing of commencement of works (preparation of the technical design, achieving full design capacity, submission of geological information for state expert review);
- complying with the terms of payments levied on the use of subsoil, land plots, and water bodies;
- complying with the requirements for agreeing targets for the extraction of minerals, title to the extracted minerals;
- complying with the requirements for timely submission of geological information on subsoil to the federal fund for geological information and its regional bodies;
- complying with the requirements for the protection of subsoil and the environment and for work safety as set forth in the law and the relevant standards, provisions and rules; and
- complying with the procedure and timing for preparing mine decommissioning and suspension projects and land reclamation.

The Group's licences are scheduled to expire at different times during the period between 2017 and 2036. See "*Business — Licences*". In addition, some of these licences require approval of technical design of the deposit development (adjustment of the technical design of the deposit development) as a condition to extend the licences and continue mining under them.

In accordance with the Russian Subsoil Law, a licence holder may, on application to the Rosnedra, extend its licence if the exploration, assessment or development of the licenced field or wind-up operations require completion, provided that the licence holder complies with the terms of the licence. The Group intends to extend its licences for each of the fields that are expected to be productive following the end of their current periods.

In February 2015, Rosnedra commenced working on a one-time "actualisation" of subsoil licences, which includes elimination of overly-detailed conditions of subsoil use, bringing them in compliance with amended regulatory framework, as well as exclusion of those licence conditions that cannot be complied with and result in a formal requirement of premature termination of the right for subsoil use. The list of licences which are subject to "actualisation" is determined and from time to time updated by the Rosnedra. Such "actualisation" is expected to be completed by the end of 2016. Some of the Group's licences have already been "actualised", while documentations for certain other licences are currently under review by the Rosnedra or will be submitted to the Rosnedra by the fourth quarter of 2016.

Governmental authorities may undertake periodic reviews for ensuring compliance by subsoil users with the terms of their licences and applicable legislation. The Federal Service for Supervision in the Sphere of Natural Resource Use (the "**Rosprirodnadzor**") and the Federal Service for Ecological, Technological and Nuclear Supervision (the "**Rostechnadzor**") can fine a licencee for failing to comply with a subsoil licence and requirements of subsoil protection and efficient subsoil use, and the Rosnedra can prematurely revoke, suspend or limit a subsoil production licence in certain circumstances, including:

- a breach or violation by the licencee of material terms and conditions of the licence;
- repeated violation by the licencee of subsoil regulations;
- the failure by the licencee to commence operations within a required period of time or to produce required volumes, as specified in the licence;
- the occurrence of an emergency;
- the emergence of a direct threat to the life or health of people working or residing in the area affected by the subsoil use operations;
- the liquidation of the licencee; and
- a failure to submit reporting data in accordance with Russian subsoil legislation.

Mining allotments

Under the Russian Subsoil Law, the Rosnedra provides a subsoil plot to a subsoil user as a "mining allotment", in other words, a geometric block of subsoil. The Rosnedra determines the boundaries of the preliminary mining allotment at the time it issues the licence, subject to approval of the regional bodies of Rostechnadzor. Following the preparation of a subsoil use development plan by the licencee, which the state mining supervision authorities (or, in relation to subsoil plots of local importance, the regional authorities) and an environmental examination committee must approve, Rostechnadzor (or, in relation to subsoil plots of local importance, the regional authorities) prepares a mining allotment act and graphic annexes, which certify the exact mining allotment boundaries. The licence will then incorporate the exact mining allotment boundaries.

Land use permits

In addition to a subsoil production licence, a licencee needs to obtain rights to use surface land within the specified licenced mining area. The land resources management authorities provide a subsoil user with rights to the relevant land plot pursuant to Russian civil, forestry and land legislation. Under Federal Law No. 137-FZ on Enactment of the Land Code of the Russian Federation, dated 25 October 2001 (as amended), commercial legal entities were required to purchase or enter into lease agreements with respect to land plots occupied by their operations by 1 July 2012. The Group is in compliance with these requirements with respect to its material land plots occupied by its principal operations.

Payment system for the use of subsoil

Pursuant to the Russian Subsoil Law, the payment system for the use of subsoil currently consists of the following payment obligations:

- one-off payments in cases specified in the licence;
- regular payments for subsoil use;
- fees for the right to participate in tenders and auctions; and
- other payments and fees set forth by the legislation of the Russian Federation on taxes and duties.

The Russian Subsoil Law contains a range of minimum and maximum rates of regular payments for the use of subsoil and the federal authorities (and, in relation to subsoil plots of local importance, the regional authorities) have authority to set the rate in any particular licence. The Russian Tax Code contains the relevant rates of mineral extraction tax.

Precious metals regulation

The extraction, production and refining of precious metals are subject to specific regulations set forth in the Precious Metals Law. As a general rule, a company which extracts ores that contain precious metals has title to those precious metals. Russian companies may buy ores and concentrate which contain precious metals provided that they are registered with the Russian State Assay Chamber. Only authorised persons approved by the Russian Government may refine precious metals. Companies which extract precious metals are required to offer refined precious metals on a priority basis to the relevant governmental authorities, which may use their pre-emptive rights if they have notified such companies of their intention to enter into agreements on purchase and sale of precious metals within a month since the date of the relevant offer to purchase refined precious metals on a priority basis and have made an advance payment under those agreements. Since 2008, the governmental authorities have not acquired any refined metals from the Group on such a priority basis. Refined precious metals which have not been sold to governmental authorities may be sold in the domestic markets, used in internal production or exported.

Companies are required to obtain a licence from the Russian Ministry of Industry and Trade in order to export refined gold. For non-banking institutions, the Ministry of Industry and Trade only issues such licences with respect to each particular export contract for a term of not longer than one year. This kind of one-off licence is granted for a fixed volume of product, as specified in the sale contract. Imports of precious metals into Russia are not subject to licensing. In the first six months of 2016, 2015 and 2014, the Group believed it could obtain more favourable contract terms with Russian banks for the sale of gold than in the export markets, and, as a result, did not apply for any export licences.

Licensing of types of activity

In addition to licences for subsoil use, the Group is required to obtain other licences, authorisations and permits from Russian governmental authorities for its operations. In particular, the Group requires licences for the operation of its hazardous industrial facilities using explosive and flammable materials and chemically hazardous materials and for the use of its underground water resources.

Licensing of the operation of hazardous facilities

The Rostechnadzor issues licences for the operation of industrial facilities using explosive and flammable materials and chemically hazardous materials of I, II and III levels of hazard and maintains a register of such facilities. In accordance with the Licensing Law, many provisions of which came into effect on 3 November 2011, the Group must continue to conduct those types of its activities on the basis of previously issued licences issued under the Old Licensing Law and the regulations introduced under that law. Under the Old Licensing Law, licences were issued for a minimum period of five years. Licences issued under the Licensing Law are not limited to a specified term. The issuance of the licence is subject to completion of a state industrial safety review and an industrial safety declaration and other requirements set forth in the licensing regulations. Licences issued prior to and valid as at the date of the Licensing Law coming into force will also have unlimited duration.

Under the Licensing Law, a licence will be suspended by a licensing authority in the following situations:

- imposition of administrative sanctions on a licencee for failure to implement, within the established period, orders issued by the licensing authority curing a material violation of the licensing requirements; and
- imposition upon a licencee of an administrative penalty in the form of administrative suspension of activity by reason of a material violation of licensing requirements.

If during a period of administrative suspension of the activity and suspension of a licence, as established by a court or an official of the Rostechnadzor, a licencee has failed to cure a material violation of the licensing requirements, the licensing authority is obliged to bring before a court an application for revocation of the licence.

Licensing of surface water use

The Water Code of the Russian Federation No. 74-FZ dated 3 June 2006 (the "**Water Code**") does not require licensing of surface water use. However, prior to the Water Code, the law did require such licensing and the Group currently holds all of the licences that were previously required.

Under the Water Code, water users may use surface water under a water use agreement concluded with state or local authorities; a decision of state or local authorities granting rights to the use of surface water; or without any such agreements or decisions, depending on the purpose of the surface water use. Water users and state or local authorities may conclude agreements on water use for a period of up to 20 years.

Licensing of underground water use

Users of underground water resources in Russia require a subsoil licence issued under the Russian Subsoil Law and the regulations adopted under that law. The Rosnedra currently issues licences for the use of underground water (except for the subsoil plots of local importance) following a procedure which involves representatives of the federal and regional subsoil authorities. The Rosnedra may grant licences for a term of up to 25 years. Licencees may only amend the conditions of a subsoil licence, including its term, by application to the licensing authorities. The user may also enter into an agreement with the licensing authorities which sets out further terms of use of the relevant resources. In addition, the Subsoil Law requires the licencee to hold a right of use to the land where the licenced subsoil plot is located.

However, if underground water is produced for the process of water supply by the holders of combined licences for the geological survey, exploration and production of natural resources or licences for the geological survey and exploration of a subsoil plot, the requirements described above do not apply and the subsoil user is entitled to produce underground water upon approval of the technical design.

In the event of repeated breaches by the licencee of applicable regulations or material terms of the licence, as well as upon the occurrence of certain emergencies, the licensing authorities may amend, suspend or terminate the licence. Breaches may also result in the imposition of fines.

Environmental Law

General

The Group is subject to extensive federal and state environmental laws and regulations and local environmental regulations in the Russian Federation. The operations of the Group involve the discharge of materials and contaminants into the environment, the disturbance of land, potential damage to flora and fauna and other environmental concerns. As part of the Group's mining operations, the Group uses various chemicals and produces wastewater that could, if improperly disposed of, have a negative impact on wildlife and vegetation. In addition, the Group uses hazardous materials, such as solvents, to clean, refurbish and maintain its equipment. Russian laws and regulations set various health and environmental quality standards, provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to compensate for environmental damage and restore environmental conditions.

Environmental protection laws are primarily set forth in Environmental Protection Law, together with a number of other federal, state and local legal acts.

Pay-to-pollute

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. Additional payment obligations may arise under other laws such as Federal Law No. 89-FZ of 24 June 1998 on Production and Consumption Waste, as amended, and Federal Law No. 96-FZ of 4 May 1999 on the Protection of Atmospheric Air, as amended.

Pursuant to Decree No. 161 dated 6 April 2004, the Russian Government created the Federal Service for Surveillance in the Sphere of Ecology and Environmental Use under the auspices of the Ministry of Natural Resources (as well as the Rosnedra), and transferred the control and surveillance functions of the Ministry of Natural Resources to this service. Decree of the President of the Russian Federation No. 649, dated 20 May 2004, transformed the Federal Service for Surveillance in the Sphere of Ecology and Environmental Use into the Rosprirodnadzor, and transferred its ecology surveillance functions to the Rostechnadzor, which is now the authority responsible for administering the "pay-to-pollute" regime and for the register of the hydro-technical facilities (for instance, tailing dams).

The Russian Government and the Rostechnadzor have established standards that regulate the permissible impact of industrial and other business activities on the environment. They have also determined limits for emissions and disposal of hazardous substances, waste disposal and soil and subsoil contamination. Companies must develop their own pollution standards based on these statutory standards, as modified to take into account the type and scale of the environmental impact of their operations. Companies must then submit these standards for approval by the Rostechnadzor and limits for waste disposal by the Rosprirodnadzor, which, if those standards do not comply with the relevant regulations, may determine the applicable limit for pollution and require the relevant company to prepare and submit a programme for the reduction of emissions or disposals to the prescribed limit. The law generally requires a company to implement an emission reduction programme within a specified period.

The Rostechnadzor assesses fees on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits. It imposes the lowest charges for pollution within the statutory limits, intermediate fees for pollution within the individually approved limits, and the highest fees for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities. The Group paid approximately US$1.06 million, US$1.35 million and US$1.07 million in such charges in Russia in 2015, 2014 and 2013, respectively.

Industrial environmental monitoring

According to the Environmental Protection Law, objects having negative environmental impact are divided into four categories based on the level of such impact: objects having significant negative environmental impact, objects having moderate negative environmental impact, objects having low negative environmental impact and objects having minimal negative environmental impact. Criteria pursuant to which such objects having negative environmental impact are referred to the particular category are determined by the Russian Government and take into account such factors as level of negative environmental impact of business and/or production activity, toxic level and carcinogenic property of polluting substances, classification of industrial facilities, etc. All objects having negative environmental impact shall be registered with state authorities.

The Environmental Protection Law requires companies operating business and/or other activity on objects of I, II or III category to carry on an industrial environmental monitoring which includes implementation of a programme of industrial environmental monitoring and reporting on results of the industrial environmental monitoring to the Rosprirodnadzor.

Ecological approval

Federal Law No. 174-FZ on Ecological Expert Examination, dated 23 November 1995, as amended (the "**Ecological Examination Law**"), provides for mandatory ecological approval of documentation before the implementation of certain types of activities made to prevent negative impact of these activities on the environment, and the receipt of a positive examination by state ecological expert before the project may commence or be financed. State ecological approval must be obtained from federal or regional authorities based on the list of certain types of documentation being objects of such ecological approval (Environmental Impact Assessment) set forth by the Ecological Examination Law. Violation of the Ecological Examination Law may result in administrative fines, civil liability (to compensate for damages and losses) and criminal liability as described below.

Environmental protection authorities

The Rosprirodnadzor, the Rostechnadzor, the Russian Federal Service for Hydrometeorology and Environmental Monitoring, the Rosnedra, the Russian Federal Agency on Forestry and the Russian Federal Agency on Water Resources, along with their regional branches, are primarily responsible for environmental control, and the monitoring, implementation and enforcement of the relevant laws and regulations. The Russian Government and the Russian Ministry of Natural Resources and Ecology are responsible for the development of regulations in the sphere of environmental protection and for the coordination of activities of the regulatory authorities in this area. These regulatory authorities, along with other state authorities, individuals and public and non-governmental authorities, have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, the environmental authorities may suspend these operations (for up to 90 days) or a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company that fails to comply with environmental regulations may be subject to administrative and/or civil liability, and its employees may be held disciplinary, civilly, administratively or criminally liable. A court may impose an obligation to conduct reclamation measures at the expense of a breaching entity pursuant to a plan of restorative works.

Since 1 January 2012, pursuant to Federal Law No. 225-FZ of 27 July 2010 on Mandatory Insurance of Civil Liability of Owners of Hazardous Facilities in respect of Harm Caused as a Result of an Accident at the Hazardous Facility, owners of certain types of hazardous facilities are required to obtain insurance for liability for harm caused to third parties as a result of accidents at the facilities, except for harm caused to the environment. In addition, the Ministry of Natural Resources and Environment recommended, in its Sample Regulation on Procedure for Voluntary Environmental Insurance in the Russian Federation approved on 3 December 1992, under No. 04-04/72-6132, that a voluntary environmental insurance policy be obtained to cover events of accidental environmental pollution of air or land or accidental discharge of waste waters or other clean-up liabilities.

Reclamation

Reclamation activities, such as re-cultivation, restoration, regeneration and other methods of rehabilitation, are prescribed in the Basic Regulations on Land Reclamation, Removal, Preservation, and Rational Use of the Fertile Soil Layer, approved by Order No. 525/67 of 22 December 1995 of the Ministry of Natural Resources and Environment and the Russian Committee for Land Resources and Land Use. In general, reclamation activities applicable to the Group involve both a technical stage and a biological stage. In the first, technical stage, the Group performs landscaping operations (backfilling of the pits, grades and terraces mound slopes, levelling of the surface of the mounds, and adding clay rock on top for greater adaptability of young plants). In the second, biological stage, conifers, such as pine, larch or cedar, on horizontal and gently sloping surfaces start to grow, as well as shrubs and bushes to reinforce inclines. Russian environmental regulations do not require mines to achieve the approximate original contour of the property as is required, for example, in the United States.

Regulation of Real Estate

General

At present, the Russian Federation or the Russian regions and municipalities own most land in Russia, and only a small proportion of land is in private ownership. A relatively higher proportion of buildings and similar real estate is privately owned, due to a less restrictive regulatory regime which applies to such property.

Under the Land Code, companies generally have one of the following rights in relation to the use of land in the Russian Federation: ownership; or lease. The Group owns or leases the majority of land plots that it uses in its activities.

The Federal Service for State Registration, Cadastre and Cartography ("**Rosreestr**") records details of land plots and other types of immovable property, including their measurements and boundaries, in a "cadastre". As a general rule, a landowner must obtain a state cadastre number for a land plot as a condition to selling, leasing or otherwise transferring interests in that plot. As described below, the government maintains a separate register for the registration of rights, transactions and encumbrances relating to the real estate.

Russian law categorises all land as having a particular designated purpose, for example agricultural land, industry land, settlement lands, lands by specially protected territories and objects. Land should be used in accordance with the purpose designated by the relevant category. However, in March 2014, a draft federal law prepared by the Ministry of Economic Development of the Russian Federation and aimed primarily at simplifying the existing land use rules was submitted to the Russian State Duma and was adopted in the first reading in December 2014. If the draft is adopted, as from 1 January 2018, the land categories will be abolished, and all land plots (save for the most valuable agricultural land) will be divided into certain functional zones.

Those companies that had obtained a right of perpetual use over land prior to the enactment of the Land Code were required, by 1 July 2012, either to purchase the land from, or to enter into a land lease agreement with, the relevant federal, regional or municipal authority owning the land. Those companies that had a right of perpetual use over land containing linear facilities (such as power transmission lines, communication lines, pipelines and railway lines) were entitled to purchase such land, enter into a land lease agreement or establish a right of limited use of such land (servitude) by 1 January 2016. The right of perpetual use was abolished starting from 1 March 2015.

Under Russian law, it is possible that the person or entity holding the ownership rights to a building may not be the same person or entity holding the ownership rights to the land plot on which the building is constructed. In these circumstances, the owner of that building, as a general rule, has a right of use over the relevant portion of that plot of land occupied by the building and needed for its use. Moreover, in certain cases, an owner of a building or plot of land may require that the owner of an adjoining plot of land grant a right of limited use of the adjoining plot of land (servitude) in its favour.

State registration of real estate and transactions and encumbrances involving registered real estate

The Rosreestr maintains the Unified State Register of Rights to Immovable Property and Transactions Therewith (the "**Register of Rights**"). Federal Law No. 122-FZ dated 21 July 1997 on State Registration of Rights to Immovable Property and Transactions Therewith, as amended, requires registration in the Register of Rights for specified transactions involving leases of the registered real estate (including, among other things, buildings, facilities, land plots and other real estate for a term of not less than one year (with certain exceptions) as well as certain encumbrances, for instance, servitude. Regional divisions of the Rosreestr effect registration in the Russian region where the property is located, and a person acquires rights to the relevant real estate only upon such state registration. A failure to register a transaction which requires state registration generally results in the transaction being rendered unconcluded or, to the extent stipulated by law, null and void.

On 13 July 2015, new Federal Law No. 218-FZ on State Registration of Real Estate was adopted providing that the "cadastre" and Register of Rights and certain other registers related to real estate will be combined into the unified state register of immovable property by 1 January 2017.

Regulation of the sale and lease of real estate

The Civil Code requires that agreements for the sale or lease of buildings expressly set out the price of such sale or lease. In relation to leases, both the rights granted by the lease and the lease agreement (other than lease agreements for a term of less than one year) require registration. In relation to sales, only the transfer of ownership effected by the relevant sale (but not the sale agreement itself) requires registration.

Technical Regulation

The Group is subject to various technical regulations and standards which apply to industrial manufacturing businesses. Federal Law No. 184-FZ on Technical Regulation, dated 27 December 2002 (the "**Technical Regulation Law**") introduced, on 1 July 2003, a new regime for the development, enactment, application and enforcement of mandatory rules applicable to products, manufacturing, storage, transportation, sales and specified other operations and processes, as well as new regulations relating to the quality of products and processes, including technical regulations, standards and certifications. Technical regulations are expected to replace the previously adopted state standards (the so-called "**GOSTs**"), and in the absence of certain technical regulations, the existing federal laws and regulations, including GOSTs, that prescribe rules for different products and processes remain in force to the extent that they protect health, property, the environment or consumers. In any event, the State Committee on Standardisation and Metrology (a predecessor of the Federal Service for Technical Regulation and Metrology) has declared GOSTs and interstate standards adopted before 1 July 2003 to be the applicable national standards.

In those cases where the Technical Regulation Law provides for mandatory confirmation that a product conforms to established technical regulations or standards, companies are required to obtain certifications of compliance with the applicable technical regulations, standards and terms of contracts. Currently, companies must certify a number of products containing precious metals and Russian law requires mandatory certification under a classification system. Where certification is not mandatory, a company may elect for voluntary certification by applying for a compliance certificate from the relevant authorities. Following the issuance of that certificate, the applicant has the right to use the relevant compliance mark on its products.

Health and Safety

Due to the nature of the business of the Group, and the Group's workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Safety Law. The Safety Law applies, in particular, to industrial facilities and sites where companies undertake specific activities, including sites where companies use lifting machines, produce alloys of ferrous and non-ferrous metals and conduct certain types of mining. Dangerous industrial facilities under the Safety Law are divided into four categories based on the level of hazard. These categories vary from level one (extremely dangerous industrial sites) to level four (least dangerous industrial sites). The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where companies use these substances. As a general rule, a company that utilises industrial facilities of I and II levels of hazard is obliged to adopt an industrial safety declaration.

Other Russian regulations address safety rules for coal mines and the production and processing of ore, gold smelting and alloy production. Additional safety rules apply to metallurgical and coke chemical enterprises, the foundry industry and other industries.

Any construction, reconstruction, liquidation or other activity in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited, unless the revised documentation undergoes expert examination and the Rostechnadzor approves the same.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and other laws, including the Russian Labor Code effective from 1 February 2002, as amended (the "**Labor Code**"). In particular, companies must limit access to such sites to qualified specialists, maintain industrial safety controls, have third-party insurance liability for injuries caused in the course of operating industrial sites and comply with other specific obligations. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or, in some cases, create their own wrecking services; conduct personnel training programmes; create emergency response systems; inform the Rostechnadzor of accidents; and maintain these systems in good working order.

In some cases, companies operating industrial sites must also prepare industrial safety declarations, which summarise the risks associated with operating a particular industrial site and the measures the company has taken, and will take, to mitigate such risks and to use the site in accordance with applicable industrial safety requirements. The chief executive officer of the company must adopt those declarations, and is personally responsible for the completeness and accuracy of the data contained in the declarations. The Rostechnadzor requires the industrial safety declaration and certain other documents, including a state industrial safety review, for the issuance of a licence permitting the operation of a hazardous industrial facility when such a licence is required by law.

Companies operating hazardous industrial facilities of I or II levels of hazard are required to approve and ensure maintenance of an industrial safety management system, including industrial safety policy, internal regulation on industrial safety management system, and internal regulation on industrial control.

The Rostechnadzor has broad authority in the field of industrial safety. In the event of an accident, a special commission led by a representative of the Rostechnadzor conducts a technical investigation of the cause of the incident. The company operating the dangerous industrial facility where the accident took place must bear all the costs of the investigation. The officials of the Rostechnadzor have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Rostechnadzor may suspend or terminate operations or impose administrative liability on the company or its officials.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obliged to compensate the individual for lost earnings, as well as for health-related damages, and, in certain cases, its activity may be suspended.

Employment and Labor

General

The Labor Code is the key law in Russia which governs labor matters. In addition to this core legislation, various federal laws, such as Russian Law No. 1032-1 dated 19 April 1991 on Employment of Population in the Russian Federation, as amended, regulate relationships between employers and employees.

Employment contracts

As a general rule, employers must conclude employment contracts for an indefinite term with all employees. Russian labor legislation expressly limits the possibility of entering into fixed term employment contracts. However, employers and employees may enter into an employment contract for a fixed term in certain cases where it is not possible to establish labor relations for an indefinite term due to the nature of the duties or the conditions of the performance of such duties, as well as in other cases expressly identified by the Labor Code or other federal laws.

An employer may terminate an employment contract only on the basis of the specific grounds stated in the Labor Code, including, among others:

- liquidation of the company or downsizing of staff;
- failure of the employee to comply with the position's requirements due to incompetence confirmed by results of the employee's appraisal;
- systematic failure of the employee to fulfil his or her labor duties if he or she was the subject of disciplinary measures;
- a gross violation by the employee of labor duties; and
- provision by the employee of false documents upon entering into the employment contract.

Employees' rights

The Labor Code provides an employee with certain minimum rights, including the right to a working environment which complies with health and safety requirements and the right to receive a salary on a timely basis and to participate in the management of the authorised entity. These rights may be extended by other federal laws, the company's constituent documents and local regulations, and collective and other agreements.

An employee dismissed from the company due to downsizing or liquidation is entitled to receive compensation from his or her employer, including a severance payment and, depending on the circumstances, salary payments for a specified period of time.

The Labor Code also provides protections for specified categories of employees. For example, except in limited circumstances, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 (or with a disabled child under the age of 18) or other persons caring for a child under the age of 14 without a mother.

Any termination by an employer that is inconsistent with the Labor Code requirements may be invalidated by a court, which may require the employer to reinstate the employee. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent and Russian courts tend to support employees' rights in most cases. Where a court reinstates an employee, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for any mental distress.

Work time

The Labor Code sets the regular working week at 40 hours. In general, an employer must compensate an employee for any time worked beyond 40 hours per week, as well as for work on public holidays and weekends, at a higher rate.

Annual paid vacation leave is generally 28 calendar days. The Group's employees who perform underground and open-pit mining works or other work in harmful conditions are entitled to additional paid vacation of at least 7 calendar days. Employees required to work non-standardised working hours are entitled to additional paid vacation of at least three calendar days.

The retirement age in the Russian Federation is generally 60 years for males and 55 years for females. However, the retirement ages of males who have worked in arduous working conditions for at least 12 years and six months and females who have worked in arduous working conditions for at least 10 years are 55 years and 50 years, respectively, provided that their total qualifying period is not less than 25 years and 20 years, respectively. In the case of work involving underground operations, hazardous conditions or hot workshops, the retirement age is 50 years for males who have worked in such conditions for at least 10 years and whose qualifying period is not less than 20 years and 45 years for females who have worked in such conditions for at least 7 years and six months and whose qualifying period is not less than 15 years. Persons who have worked as miners in open-pit mines or underground mines for at least 25 years, and in specified circumstances for at least 20 years, may retire regardless of age.

Salary

The minimum monthly salary in Russia is established by federal law from time to time. Starting from 1 July 2016, the minimum monthly salary is set at an amount of RUB 7,500. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current statutory minimum monthly salary is generally considered to be less than the minimum subsistence level. Salaries of the Group's employees are generally higher than the statutory minimum and none are below such minimum.

Strikes

The Labor Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labor dispute. Russian legislation contains several requirements which must be met for strikes to be legal. An employer may not use an employee's participation in a legal strike as grounds for terminating an employment contract, although Russian law generally does not require employers to pay wages to striking employees for the duration of the strike. Conversely, an employee's participation in an illegal strike may provide adequate grounds for termination of his or her employment contract.

Trade unions

Trade unions are defined by Federal Law No. 10-FZ on Trade Unions, Their Rights and Guaranties of Their Activity, dated 12 January 1996, as amended (the "**Trade Union Law**"), as voluntary unions of individuals with common professional interests which are created for the purposes of representing and protecting social and labor rights and interests of their members. Russian law also permits national trade union associations, which coordinate activities of trade unions throughout Russia.

Although Russian labor regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. The Group's management routinely interacts with trade unions in order to ensure the appropriate treatment of its employees and the stability of the Group's business.

The activities of trade unions are generally governed by the Trade Union Law and applicable legal acts including the Labor Code.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labor laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labor issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labor disputes with management;
- participate in strikes and meetings to protect social and labor rights of employees; and
- monitor the redundancy of employees and seek action by municipal authorities to delay or suspend mass redundancies.

Russian laws require that companies cooperate with trade unions and not interfere with their activities. Trade unions and their members enjoy certain guarantees as well, such as:

- the retention of job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- the provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work conditions requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may receive information on social and labor issues from an employer (or employers' unions) and state and local authorities, as well as cooperate with state authorities for the purposes of supervision of compliance with Russian labor laws. Trade unions may also initiate collective labor disputes, which may lead to strikes.

To initiate a collective labor dispute, trade unions must present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labor disputes are generally referred to mediation or labor arbitration.

The Trade Union Law provides that those who violate the rights and guarantees of trade unions and their officers may be subject to disciplinary, administrative and criminal liability. The Russian Code on Administrative Offences of 30 December 2001, as amended, specifies that such violations may lead to imposition of an administrative fine or, in certain circumstances, administrative suspension of activities for up to 90 days. Although the Russian Criminal Code of 13 June 1996, as amended, currently has no provisions specifically relating to these violations, general provisions and sanctions may be applicable.

Regulation of Competition

Federal Law No. 135-FZ on the Protection of Competition, dated 26 July 2006, as amended (the "**Competition Law**"), regulates competition in Russia, through the FAS.

Dominant position in the market

The Competition Law determines a dominant position pursuant to certain criteria, including, among other things, where a company or a group of persons has a market share in a particular commodity market in excess of 50 per cent, unless the FAS specifically establishes that the relevant company does not have a dominant position. However, even if a company has a market share of less than 50 per cent in a particular commodity market, the FAS may still specifically determine that the company has a dominant position in certain cases. The Competition Law assumes that a company has a dominant position if it has a substantial influence on the circulation of goods in a particular commodity market; may force other participants from such market; or may restrict the access of other companies to such market. The Competition Law also provides for the principle based on "collective" dominance, which applies to a number of markets characterised by an absence of substitute goods and fixed demand for goods. In such markets, any one of three or fewer entities with a total market share of more than 50 per cent, or any one of five or fewer entities with a total market share of more than 70 per cent (if the shares of these entities are bigger than the shares of other participants in this market and in no event is the share of each such entity less than 8 per cent), shall be deemed to be in a dominant position to the extent that, for a period of at least one year or for the period of existence of the relevant market, the market shares of the respective entities do not change in any significant respect; the access of new competitors to this market is impeded; and the relevant commodity cannot be substituted by other commodities, a price increase for such commodity does not condition the relevant decrease in demand for such commodity and information about prices, sale and purchase of such commodity in the relevant market is publicly available.

As a general rule, a company may not be deemed to be in a dominant position if its market share is less than 35 per cent, but this rule does not apply if the company is holding a collective dominant position (as described above) or if any specific federal law establishes that dominance may still be recognised where the market share of a certain company is less than 35 per cent.

Russian law prohibits companies having a dominant position from, among other things, entering into agreements which have the effect of price fixing or which otherwise have the effect of limiting competition, artificially limiting the supply of goods, maintaining high or low monopolistic prices and refusing without justification to sell goods to third parties, setting different prices for the same goods. For instance, in 2014, one of the Group's companies was found to have violated regulations that require it to provide connections to the power grid within the prescribed deadline on equal basis for Group companies and other end users. Companies in a dominant position may also become subject to additional antimonopoly restrictions imposed by the FAS.

Merger and joint venture control

The FAS also exercises state control over competition by reviewing merger and acquisition transactions. Relevant persons must obtain prior antimonopoly clearance from the FAS for an acquisition of: more than 25 per cent of the voting shares in a Russian joint stock company (or a one-third interest in a Russian limited liability company) and any subsequent increase of that stake to more than 50 per cent or more than 75 per cent of the voting shares (or a one-half and two-thirds interest in a Russian limited liability company); subject to certain exceptions, an acquisition of fixed production assets or goodwill of a company located in Russia in an amount exceeding 20 per cent of the aggregate balance sheet value of all fixed production assets and goodwill of the company; the right to control the business activities of another Russian company or perform the functions of its executive body; or an acquisition of more than 50 per cent of voting shares (or a 50 per cent interest) in a company registered outside Russia, which delivered goods to the Russian territory in the amount exceeding RUB 1 billion within the previous year, or any other right to control its business activities or perform the functions of its executive body. Certain other transactions are also subject to a prior antimonopoly clearance from the FAS.

Any of the above acquisition transactions would require prior approval by the FAS if, based on the latest balance sheet: the aggregate asset value of a purchaser (and its group) together with the target (and its group) exceeds RUB 7 billion; or the total revenues of such persons for the preceding calendar year exceed RUB 10 billion and in each case the total asset value of the target (and its group) exceeds RUB 400 million. Mergers and acquisitions within the same group are exempt from pre-transactional clearance by the FAS, subject to compliance with specified reporting requirements.

According to the amendments to the Competition Law introduced by Federal Law No. 275-FZ dated 5 October 2015, joint venture agreements are subject to prior antimonopoly clearance if the aggregate asset value of the parties to the agreement (or their group), based on the latest balance sheet, exceeds RUB 7 billion, or if the total revenues of the parties to the transaction (or their group) for the preceding calendar year exceed RUB 10 billion.

Foreign Investment in Sectors that are of Strategic Importance for the National Security and Defence of the Russian Federation, including the Subsoil Sector

In May 2008, new laws came into effect that changed the legal environment for foreign investment in sectors that are of strategic importance for the national security and defence of the Russian Federation, including the gold mining industry. The relevant laws are the Foreign Investments Law and Federal Law No. 58-FZ on Certain Legislative Acts of the Russian Federation and Deeming Inoperative Certain Legislative Acts of the Russian Federation in Connection with the Adoption of the Federal Law on Procedure of Foreign Investment in Commercial Entities Having Strategic Importance for the Defence of the Country and the Security of the State, dated 29 April 2008 (the "**Amending Law**") (together with the Foreign Investments Law, the "**Strategic Investment Laws**"), which introduced, among other things, various amendments to the Russian Subsoil Law.

The Foreign Investments Law provides for stringent requirements in respect of foreign investment in companies engaged in activities that have strategic importance for the national defence and security, the list of which is provided in the Foreign Investments Law. These activities include geological exploration of, and production on, subsoil plots of federal importance. Companies engaged in such activities are considered Strategic Subsoil Companies. Foreign investors, or a group of persons including a foreign investor, intending to enter into a transaction or perform acts which result in the acquisition of "control" (as defined in the Foreign Investments Law) over Strategic Subsoil Companies, as well as the acquisition of right of ownership, possession or use of the fixed production assets of a Strategic Subsoil Company, the value of which represents 25 per cent or more of the balance sheet value of the assets of such company as of the last reporting date, are required to obtain the prior approval of the Government Commission on Monitoring Foreign Investment in the Russian Federation (the "**Foreign Investment Commission**"). Under the Russian Subsoil Law, subsoil plots of federal importance include, among other things, subsoil plots with aggregate vein gold reserves exceeding or equal to 50 tonnes of vein gold (based on the data contained in the State Balance of Reserves of Mineral Resources on or after 1 January 2006). The list of subsoil plots of federal importance was officially published in March 2009, and has been subsequently amended several times. As at the date of this Prospectus, certain material subsidiaries of PJSC Polyus, namely, JSC Polyus (the holder of the licences with respect to Titimukhta, Olimpiada and Blagodatnoye deposits), JSC Tonoda (the holder of the licence with respect to Chertovo Koryto deposit), JSC South-Verkhoyansk Mining Company (the holder of the licence with respect to the Nezhdaninskoe deposit), JSC Matrosova Mine (the holder of the licence with respect to Natalka deposit), LLC Amurskoye GRP (the holder of the licence with respect to Bamskoye deposit), LLC Krasnoyarskoye GRP (the holder of the licences with respect to Razdolinskoye and Panimba) and JSC Pervenets (the holder of the licence with respect to the Verninskoye deposit), are using subsoil plots of federal importance, as defined in the Russian Subsoil Law that are included in the list of such deposits maintained by the Federal Agency for Subsoil Use, and therefore are considered Strategic Subsoil Companies.

Under the Foreign Investments Law, the acquisition, which includes agreements in written or oral form, by a foreign investor (or a "group" of persons (as defined in the Competition Law) including one or more foreign investors directly or indirectly) of 25 per cent or more, or in case of the acquisition by foreign states, international organisations or entities under their control, of more than 5 per cent, of the voting shares of a Strategic Subsoil Company is subject to prior approval, where foreign states, international organizations or entities under their control are generally prohibited from acquiring control over strategic companies. The Foreign Investments Law further provides that if a foreign investor (or a group of persons including one or more foreign investors) already exercises direct or indirect control over 25 per cent (but less than 75 per cent) of the voting shares of a Strategic Subsoil Company, each subsequent acquisition of shares of the Strategic Subsoil Company by the foreign investor (or group of persons including the foreign investor) would require the prior approval of the Foreign Investment Commission (with the exception of transactions which do not result in the increase of an ownership percentage of a foreign investor or a group including a foreign investor in the charter capital of a Strategic Subsoil Company, where such transactions are performed as part of the charter capital increase of such Strategic Subsoil Company or by persons that are under control of the person which controls such Strategic Subsoil Company), whereas transactions in respect of Strategic Subsoil Companies, if prior to the transaction the foreign investor (or group of persons including a foreign investor) had the right to directly or indirectly control more than 75 per cent of the total number of the voting shares of the relevant Strategic Subsoil Company, are exempted from the scope of the Foreign Investments Law. Failure to obtain such prior approval will either render the relevant transaction void or may prevent the relevant foreign investor, or the group of persons including the foreign investor, from voting at shareholders meetings of the relevant Strategic Subsoil Company.

Furthermore, should a foreign investor or a group of persons including a foreign investor establish control over a Strategic Subsoil Company as a result of events other than the direct acquisition of shares, for example, as a result of a buy-out or redemption by the Strategic Subsoil Company of its own shares, a conversion of its preferred shares into ordinary shares or otherwise, the relevant foreign investor or a group of persons including a foreign investor would be obliged to apply for approval of control by the

Foreign Investment Commission within three months from the date of establishment of control. Failure to apply for such approval may result in a prohibition on voting, as set out above. Should the Foreign Investment Commission refuse to approve the establishment of foreign control over a Strategic Subsoil Company, the relevant foreign investor or a group of persons including a foreign investor would be obliged to dispose of part of its shares so that the remaining shares do not represent a controlling stake. If the foreign investor (or a group of persons including a foreign investor) fails to dispose of the shares within three months from the date when the prior governmental approval is declined, the FAS may file a lawsuit with a Russian court requiring that a foreign investor (or a group of persons including a foreign investor) be prohibited from voting at the shareholders meeting of the Strategic Subsoil Company.

The Russian Subsoil Law also provides that exploration and production at a subsoil plot of federal importance, even under a previously issued combined subsoil licence, may only be commenced if permitted by the Russian Government following the completion of a geological survey. If, in the course of geological research at a subsoil plot, a foreign investor or a Russian legal entity with foreign participation discovers a deposit which meets the criteria for a subsoil plot of federal importance, and there is a possibility of an apparent threat to the national security of the Russian Federation, the licensing authorities have the right to revoke the related combined subsoil licence or refuse to grant an exploration and production subsoil licence following a decision of the Russian Government. In the case of such a revocation, the Russian Subsoil Law contemplates that the licence holder will be reimbursed for costs incurred in connection with prospecting and evaluating the relevant deposit and the amount of the one-off fee for subsoil use paid under the terms of the related combined subsoil licence or geological research licence, and may be paid a premium in accordance with applicable procedures. These amounts, however, may not cover the licence holder's actual costs, or be paid at all. In addition, the Russian Subsoil Law provides that only Russian legal entities are entitled to use subsoil plots of federal importance. In the interests of national security, Russian legal entities with foreign participation may also be subject to limitations imposed by the Russian Government on participation in subsoil auctions or tenders for the use of subsoil plots of federal importance. The rights to use a subsoil plot of federal importance may not be transferred to legal entities controlled by a foreign investor or a group of persons including a foreign investor, save for the transfer of rights in exceptional cases at the discretion of the Russian Government.

Currency Restrictions

The Group's operations are subject to certain currency control restrictions, which are set forth in the Russian Currency Law and respective regulations of the CBR.

Pursuant to the Russian Currency Law, Russian residents and non-residents may settle transactions between them either in roubles or in a foreign currency, and there are no restrictions on currency operations between Russian residents and non-residents. However, the settlement of transactions between Russian residents in a foreign currency is generally prohibited.

Under the Russian Currency Law, Russian residents conducting foreign trade operations must, subject to certain exemptions stipulated by the Russian Currency Law, repatriate to accounts in authorised Russian banks all roubles and foreign currency payable to them under foreign trade contracts. In addition, such Russian residents must procure the repatriation of funds paid to non-residents for goods, works, services, intellectual property and information that were not delivered into the Russian Federation.

In addition, the Russian Currency Law and CBR Regulation No. 138-I of 4 June 2012 set forth the requirement for Russian residents to open a "transaction passport" with an authorised Russian bank to comply with the CBR regulations on currency control. This procedure applies, as a general rule, to export and import operations between Russian residents and non-residents, and to loans granted to Russian residents by non-residents (and *vice versa*). In relation to imports, the relevant parties must complete this procedure prior to making payments for the imported goods.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Conditions which contains summaries of certain provisions of the Trust Deed and which (subject to completion and amendment) will be endorsed on each Definitive Note and will be attached and (subject to the provisions thereof) apply to the Global Certificate:

The US$500,000,000 4.699 per cent guaranteed notes due 2022 of Polyus Gold International Limited (the "**Issuer**") (the "**Notes**", which expression includes any further Notes issued pursuant to Condition 15 and forming a single series therewith (the "**Further Notes**")) are unconditionally and irrevocably guaranteed by JSC Polyus.

Following the Additional Guarantee Event (as defined below) the Notes will also be guaranteed by PJSC Polyus. From the Issue Date until the Additional Guarantee Event, reference herein to the "**Guarantor**" shall be to JSC Polyus only (and references to 'a Guarantor', 'any Guarantor', 'each Guarantor' or 'the relevant Guarantor' shall be to JSC Polyus only). Following the Additional Guarantee Event references herein to the "**Guarantor**" shall be to JSC Polyus and PJSC Polyus (thereafter references to: 'a Guarantor'; 'any Guarantor'; or 'each Guarantor' shall be to both JSC Polyus and PJSC Polyus, and references to 'the relevant Guarantor' shall be to either JSC Polyus or PJSC Polyus as the context permits).

The issue of the Notes was authorised by a meeting of the board of directors of the Issuer held on 14 October 2016. The giving of the Guarantee (as defined below) of the Notes by JSC Polyus has been authorised by the sole executive body of JSC Polyus.

The Notes are constituted by a trust deed dated 26 October 2016 (as may be supplemented from time to time, the "**Trust Deed**") between the Issuer, the Guarantor and BNY Mellon Corporate Trustee Services Limited (the "Trustee", which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below) of the Notes.

These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Issuer and the Guarantor have entered into a paying agency agreement dated 26 October 2016 (as may be amended from time to time, the "**Paying Agency Agreement**") with the Trustee, The Bank of New York Mellon, London Branch as principal paying agent (the "**Principal Paying Agent**" and, together with any other paying agents appointed under the Paying Agency Agreement, the "**Paying Agents**"), The Bank of New York Mellon (Luxembourg) S.A. as registrar (the "**Registrar**") and Transfer Agents named therein (the "**Transfer Agents**"). The Registrar, Paying Agents and Transfer Agents are together referred to herein as the "**Agents**".

Copies of the Trust Deed and the Paying Agency Agreement are available for inspection during normal business hours at the principal office of the Issuer (being at the date hereof Ergon House, Dean Bradley Street, London SW1P 2AL, United Kingdom), the specified office of the Trustee (being at the date hereof One Canada Square, London E14 5AL, United Kingdom), and at the specified offices of the Agents. The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Paying Agency Agreement applicable to them. Capitalised terms used but not defined in these Conditions shall have the respective meanings given to them in the Trust Deed.

1 Form and Denomination

The Notes are issued in fully registered form in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof (each an "**Authorised Denomination**") without coupons attached.

*The Notes will be initially issued in global, fully registered form, and represented by (i) the Original Restricted Global Note Certificate (the "**Original Restricted Global Note Certificate**"), interests in which are to be sold to qualified institutional buyers (each a "**QIB**") within the meaning of, and pursuant to, Rule 144A ("**Rule 144A**") under the Securities Act, and (ii) the Original Unrestricted Global Note Certificate (the "**Original Unrestricted Global Note Certificate**" and, together with the Original Restricted Global Note Certificate, the "**Global Note Certificates**"), interests in which are to be offered outside the United States to non-U.S. persons within the meaning of, and pursuant to, Regulation S under the Securities Act ("**Regulation S**"), which will each be exchangeable for individual note certificates ("**Individual Note Certificates**") in the limited circumstances specified in the Global Note Certificates and the Paying Agency Agreement.*

2 Guarantee and Status

2.1 Guarantee

Each Guarantor has unconditionally and irrevocably guaranteed the payment when due of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (the "**Guarantee**").

Pursuant to the provisions of the Trust Deed, PJSC Polyus may accede to the Trust Deed and may guarantee (jointly and severally with JSC Polyus) the obligations under the Notes in accordance therewith. The accession of PJSC Polyus to the Trust Deed, and the giving of the Guarantee in respect of the Notes by PJSC Polyus in accordance with the provisions of the Trust Deed, shall be referred to herein as the "**Additional Guarantee Event**". Following the Additional Guarantee Event, reference to the "**Guarantee**" shall be to the Guarantee given by either JSC Polyus or PJSC Polyus.

2.2 Status

The Notes constitute direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the Issuer and shall at all times rank pari passu and rateably without any preference among themselves.

The Guarantee constitutes direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of each Guarantor.

Each of the Issuer and each Guarantor shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantee, respectively, rank in right of payment at least pari passu with the claims of all their other present and future unsecured and unsubordinated creditors, save those whose claims are preferred by any mandatory operation of law.

3 Register, Title and Transfers

3.1 Register

The Registrar shall maintain a Register in respect of the Notes (the "**Register**") outside the United Kingdom at the specified office for the time being of the Registrar in accordance with the provisions of the Paying Agency Agreement and shall record in the Register the names and addresses of the Noteholders, particulars of the Notes and all transfers and redemptions thereof. In these Conditions, the "Holder" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

3.2 Title

Title to the Notes will pass by and upon registration in the Register. The Holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Individual Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Individual Note Certificate) and no person shall be liable for so treating such Holder.

3.3 Transfers

Subject to Conditions 3.6 and 3.7 below, a Note may be transferred in whole or in part in an Authorised Denomination upon surrender of the relevant Individual Note Certificate representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the "**Transfer Form**"), duly completed and executed, at the specified office of a Transfer Agent or of the Registrar, together with such evidence as such Agent or the Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Individual Note Certificate are the subject of the transfer, a new Individual Note Certificate in respect of the balance not transferred will be delivered by the Registrar to the transferor in accordance with Condition 3.4. Neither the part transferred nor the balance not transferred may be less than US$200,000.

3.4 Registration and delivery of Individual Note Certificates

Within five business days of the surrender of an Individual Note Certificate in accordance with Condition 3.3 above, the Registrar shall register the transfer in question and deliver a new Individual Note Certificate to each relevant Holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of a Transfer Agent or (at the request and risk of such relevant Holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder.

In the case of the transfer of only a part of the Notes represented by an Individual Note Certificate, a new Individual Note Certificate in respect of the balance of the Notes not transferred will be so delivered at the specified office of the Registrar or (at the request of the transferor) at the specified office of a Transfer Agent or (at the request and risk of such transferor) sent by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such transferor.

In this Condition 3.4, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the cities where the Registrar and (if applicable) the relevant Transfer Agent have their specified offices.

3.5 No charge

The registration of the transfer of a Note shall be effected without charge to the Holder or transferee thereof, but against such indemnity from the Holder or transferee thereof as the Registrar or the Transfer Agent, as applicable, may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.6 Closed periods

Noteholders may not require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of such Note and (ii) after any Note has been called for redemption.

3.7 Regulations concerning Transfer and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in Schedule 2 to the Paying Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be available at the specified office of the Registrar and will be sent by the Registrar free of charge to any person who so requests and can confirm that they are a Noteholder to the satisfaction of the Registrar.

4 Covenants

4.1 Negative Pledge

So long as any Note remains outstanding (as defined in the Trust Deed):

4.1.1 neither the Issuer nor any Guarantor shall, and the Issuer and each Guarantor shall procure that none of their respective Material Subsidiaries shall, directly or indirectly, create, incur, assume, permit or suffer to exist any Lien (for the purposes of this Condition 4.1, the “**Initial Lien**”), other than a Permitted Lien, on any of its properties or assets, whether owned at the Issue Date or thereafter acquired, or on any income, revenue or profits therefrom, to secure any Indebtedness; and

4.1.2 if any Suspension Period is continuing pursuant to Condition 4.11.1, the Issuer and each Guarantor shall procure that none of their respective Material Subsidiaries shall give any guarantee of, or indemnity (for the purposes of this Condition 4.1 such guarantee or indemnity shall be referred to as the "**Initial Guarantee**") in respect of, any of the Issuer's or any Guarantor's Relevant Indebtedness to the holders thereof other than any guarantee or indemnity that was given prior to the Group Switch Date in accordance with these Conditions and which is outstanding at the Group Switch Date,

unless the Issuer or the relevant Guarantor (as applicable), at the same time or prior thereto, procures that the Notes or the Guarantor's obligations under the relevant Guarantee, as the case may be:

(x) in respect of Condition 4.1.1: are secured at least equally and rateably with such Indebtedness (or, as applicable, Relevant Indebtedness) or benefit from such other security or other arrangements as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed); or

(y) in respect of Condition 4.1.2: have the benefit of an equivalent guarantee or indemnity to that provided under the Initial Guarantee as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) (any security provided pursuant to (x) above or any guarantee or indemnity provided pursuant to (y) above for the purposes of this Condition 4.1, a "**Subsequent Security**"), in each case, for as long as such Indebtedness (or, as applicable, Relevant Indebtedness) referred to in Condition 4.1.1 or Relevant Indebtedness referred to in Condition 4.1.2 has the benefit of the Initial Lien or, as the case may be, the Initial Guarantee.

Any Subsequent Security created for the benefit of the Noteholders pursuant to this Condition 4.1 shall provide by its terms that it shall be automatically and unconditionally released and discharged upon: (a) the release and discharge of the Initial Lien or, as the case may be, of the Initial Guarantee; or (b) the full and irrevocable payment of all amounts payable by the Issuer and any Guarantor (if applicable) under the Notes, these Conditions and the Trust Deed. In the event that the automatic release and discharge is not fully effective for any reason, the Trustee has agreed in the Trust Deed to take such steps and actions (at the expense of the Issuer or the relevant Guarantor) as the Issuer or the relevant Guarantor may reasonably request to release and discharge (or acknowledge release and discharge of) the Subsequent Security in the circumstances referred to in paragraphs (a) or (b) (as applicable).

4.2 Limitation on Indebtedness

4.2.1 Neither the Issuer nor any Guarantor shall, nor shall they permit any of their respective Subsidiaries to, incur, directly or indirectly, any Indebtedness; provided, however, that the Issuer, any Guarantor and any of their respective Subsidiaries shall be entitled to incur Indebtedness if:

(i) after giving effect to such incurrence and the application of the proceeds thereof, as if such Indebtedness had been incurred, no Potential Event of Default or Event of Default would occur or be continuing; and

(ii) on the date of such incurrence and after giving effect thereto and the application of the proceeds thereof the Group Leverage Ratio does not exceed 3.5 to 1.

4.2.2 Notwithstanding the foregoing Condition 4.2.1, the Issuer, any Guarantor and any of their respective Subsidiaries are entitled to incur any Permitted Indebtedness.

4.2.3 Notwithstanding the foregoing, neither the Issuer nor any Guarantor shall incur any Indebtedness pursuant to Condition 4.2 if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations of the Issuer or any Guarantor unless such Indebtedness shall be subordinated to the Notes or the relevant Guarantee to at least the same extent as such Subordinated Obligations.

4.2.4 For the purposes of determining compliance with this Condition 4.2:

(i) in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described in Conditions 4.2.1 or 4.2.2, the Issuer, in its sole discretion, will classify such item of Indebtedness (or any portion thereof) at the time of incurrence and will only be required to include the amount and type of such Indebtedness in one of the above sub-Conditions;

(ii) the Issuer will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described in Conditions 4.2.1 or 4.2.2 and may change the classification of an item of Indebtedness (or any portion thereof) to any other type of Indebtedness described in Conditions 4.2.1 or 4.2.2 at any time;

(iii) the outstanding principal amount of any particular Indebtedness shall be counted only once and any obligations arising under any guarantees, indemnities, Lien, letters of credit or similar instrument supporting such Indebtedness shall not be double counted; and

(iv) any entity that is allowed to incur Indebtedness under Condition 4.2.1 or Condition 4.2.2 (including the definition of "Permitted Indebtedness") may provide a guarantee or indemnity of any other entity's incurrence of such Indebtedness, provided that such other entity incurs such Indebtedness pursuant to Condition 4.2.1 or Condition 4.2.2 (and the same paragraph of the definition of "Permitted Indebtedness") under which the guaranteeing entity provides its guarantee or indemnity of such Indebtedness.

4.2.5 For the purposes of determining compliance with any U.S. dollar denominated restriction on the incurrence of Indebtedness where the Indebtedness incurred is denominated in a different currency, the amount of such Indebtedness will be the U.S. Dollar Equivalent determined on the date of the incurrence of such Indebtedness; provided, however, that if any such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to U.S. dollars covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. dollars will be as provided in such Currency Agreement. The principal amount of any Refinancing Indebtedness incurred in the same currency as the Indebtedness being Refinanced will be the U.S. Dollar Equivalent, as appropriate, of Indebtedness Refinanced, except to the extent that (A) such U.S. Dollar Equivalent was determined based on a Currency Agreement, in which case the principal amount of such Refinancing Indebtedness will be determined in accordance with the preceding sentence and (B) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the U.S. Dollar Equivalent of such excess, as appropriate, will be determined on the date such Refinancing Indebtedness is incurred. Notwithstanding any other provision of this Condition 4.2, the maximum amount that the Issuer, a Guarantor or a Material Subsidiary may incur pursuant to this Condition 4.2 shall not be deemed to be exceeded, with respect to outstanding Indebtedness, solely as a result of fluctuations in the exchange rates of currencies.

4.3 Merger and consolidation

4.3.1 No Guarantor shall enter into any reorganisation (by way of merger, accession, division, separation, or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation):

(i) with any other member or members of the Group where such Guarantor is not the surviving entity and which would have a Material Adverse Effect; or

(ii) involving a Person which is not a member of the Group and which would have a Material Adverse Effect.

4.3.2 Neither the Issuer nor any Guarantor shall (without the prior written consent of the Trustee, or, alternatively, without the approval of an Extraordinary Resolution (as defined in the Trust Deed)), permit:

(i) any of their respective Material Subsidiaries to enter into any reorganisation (whether by way of merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation); or

(ii) any of their Material Subsidiaries incorporated in a jurisdiction other than the Russian Federation, to participate in any type of corporate reconstruction or other analogous event (as determined under the legislation of the relevant jurisdiction),

in each case of (i) and (ii) above involving a Person which is not a member of the Group and which would have a Material Adverse Effect.

4.3.3 The Issuer may re-domicile by transferring its registered office to, establishing or continuing its corporate existence in, or changing its place of main interest to, another jurisdiction (the "**Change of Jurisdiction**"), *provided that*:

(i) such new jurisdiction is any of Jersey, Guernsey, the UK, or any member state of the European Economic Area as of the Issue Date;

(ii) immediately before and after giving effect to such transaction, corporate procedure or step (and treating any Indebtedness that becomes an obligation of the Issuer as a result of such transaction, corporate procedure or step as having been incurred by the Issuer at the time of such transaction, corporate procedure or step), no Potential Event of Default or Event of Default shall have occurred and be continuing;

(iii) the Issuer and each Guarantor shall have each delivered to the Trustee, in form and substance satisfactory to the Trustee, an Officers' Certificate confirming compliance with Condition 4.3.3(i) above (attaching any documentation necessary to demonstrate compliance);

(iv) the Issuer shall satisfy the "know your client" and similar regulatory requirements of the Trustee; and

(v) the proposed Change of Jurisdiction shall not, in the sole opinion of the Trustee and/or Agents, expose the Trustee or the Agents to any additional duties, obligations, responsibilities or liabilities or amend or reduce the protective provisions afforded to the Trustee and the Agents in the Trust Deed or Paying Agency Agreement (unless in each case the Trustee and/or Agents are indemnified to their satisfaction in respect of any such additional duties, obligations, responsibilities, liabilities, amendment or reduction).

4.4 Disposals

Neither the Issuer nor any Guarantor shall, and the Issuer and each Guarantor shall ensure that their respective Material Subsidiaries do not, consummate any Asset Sale unless the consideration received by the Issuer, such Guarantor or such Material Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of.

4.5 Reports

4.5.1 As long as any Notes are outstanding, the Issuer, failing whom a Guarantor, will furnish to the Noteholders and the Trustee:

(i) within 150 days after the end of each financial year, the audited Financial Statements of the Group as of the end of the last financial year, and including complete notes to, and the independent auditor's report on, such Financial Statements; and

(ii) within 90 days after the end of the first semi-annual period of each financial year, the unaudited Financial Statements of the Group as of the end of such period and the comparable prior year periods, and including condensed notes to such interim condensed unaudited Financial Statements of the Group together with a review report thereon conducted in accordance with International Standard on Review Engagements No. 2410 (or such replacement standard in force at such time).

4.5.2 The Issuer, failing whom PJSC Polyus, shall: (i) publish copies of such financial statements as and to the extent required by the applicable requirements of the Stock Exchange to be published; and (ii) post such financial statements on the website of the Issuer (or, from the Group Switch Date, on the website of PJSC Polyus), each within the respective time periods referred to in this Condition 4.5. Such posting on the website shall be deemed to satisfy the obligations of the Issuer (or, as applicable, the Guarantor) under Condition 4.5.1. All financial statements referred to in this section will be available for inspection at the respective offices of the Principal Paying Agent.

4.5.3 In addition, so long as any of the Notes are restricted securities (as defined in Rule 144 under the Securities Act) and during any period during which the Issuer is not subject to the reporting requirements of the Exchange Act or exempt therefrom pursuant to Rule 12g3-2(b), the Issuer will furnish to any Holder or beneficial owner of Notes initially offered and sold in the United States to QIBs pursuant to Rule 144A under the Securities Act, and to prospective purchasers in the United States designated by such Holder or beneficial owners, upon request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

4.6 Payment of taxes and other claims

So long as any amount remains outstanding under the Notes, each of the Issuer and each Guarantor shall, and the Issuer and each Guarantor shall ensure that their respective Material Subsidiaries shall, pay or discharge (or cause to be paid or discharged), before the same shall become overdue and without incurring penalties:

(a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or assets of the Issuer, any Guarantor or any such Material Subsidiary, as the case may be; and

(b) all lawful claims for labor, materials and supplies which, if unpaid, would by law become a Lien (other than a "**Permitted Lien**") upon the property of the Issuer, any Guarantor or any such Material Subsidiary, as the case may be;

in each case, *provided, however, that* none of the Issuer, any Guarantor nor any such Material Subsidiary, as the case may be, shall be required to pay or discharge (or cause to be paid or discharged) any such tax, assessment or charge or any such claim which is overdue or for which penalties are incurred:

(i) which is being contested in good faith by appropriate proceedings; or

(ii) with respect to (a) above, where the aggregate of all such taxes, assessments or charges does not exceed US$150,000,000 (including the U.S. Dollar Equivalent of respective amounts in any other currency) thereof at any time; or

(iii) with respect to (b) above, where the aggregate of all such claims would not have a Material Adverse Effect,

provided that, in the case of (i), (ii) or (iii), if any such tax, assessment or charge or any such claim (including any applicable penalties) is paid or discharged after becoming overdue, such payment or discharge shall be deemed to remedy any breach of this Condition 4.6 with respect to such tax, assessment, charge or claim.

4.7 Maintenance of authorisations

4.7.1 The Issuer and each Guarantor shall obtain or make, and procure the continuance or maintenance of, all governmental registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required by applicable law to be obtained or made in the jurisdiction of their incorporation or registration, as applicable, for the purposes of the execution, delivery or performance of the Notes and the Trust Deed by them and for the validity and enforceability thereof.

4.7.2 The Issuer and each Guarantor shall, and shall procure that their respective Material Subsidiaries shall, obtain, make or do, and procure the continuance or maintenance of, all governmental registrations, recordings, filings, consents, licences, approvals, authorisations and things, which may at any time be required by applicable law to be obtained or made in the jurisdiction of their incorporation or registration, as applicable, to ensure the continuance of its corporate existence and its Restricted Business, except where such failure would not have a Material Adverse Effect.

4.7.3 Notwithstanding the foregoing, if the Issuer and/or a Guarantor and/or a Material Subsidiary, as the case may be, can remedy any failure to comply with Conditions 4.7.1 and/or 4.7.2 within (a) 180 days, in respect of any subsoil license, or (b) 90 days, in respect of any other registration, recording, filing, consent, licence, approval, authorisation or thing specified in Conditions 4.7.1 or 4.7.2 above, in each case from the date of such failure, this Condition 4.7 shall be deemed not to have been breached.

4.8 Change of business

The Issuer and each Guarantor shall procure that no material change is made to the general nature of the principal business of the Group as conducted as at the Issue Date (being primarily mining, production and sale of gold, precious metals and other minerals, and any business related, ancillary or complementary thereto) (the "**Restricted Business**").

4.9 Environmental compliance

The Issuer and each Guarantor shall, and shall ensure that their respective Material Subsidiaries shall, comply with all Environmental Laws and obtain and maintain any Environmental Licence, except where failure to do so would not have a Material Adverse Effect.

4.10 Issuer covenant replacement

If, and for so long as, the Issuer is not a member of the Group, Conditions 4.1 to 4.9 (inclusive) (other than Condition 4.3.3) shall not apply to the Issuer or its Subsidiaries, and shall be replaced with the following covenants:

4.10.1 *Negative Pledge*

The Issuer shall not, and shall procure that none of its Subsidiaries shall, directly or indirectly, create, incur, assume, permit or suffer to exist any Lien (for the purposes of this Condition 4.10.1, the "**Initial Lien**") (other than any Lien referred to in paragraphs: (b) to (e) (inclusive); (h); (s); or (v) of the definition of "Permitted Liens" (which shall apply to the Issuer *mutatis mutandis*)), on any of its properties or assets, whether owned at the Issue Date or thereafter acquired, or on any income, revenue or profits therefrom, securing any Indebtedness, *unless*, at the same time or prior thereto, the Issuer's obligations under the Notes shall:

(x) have been secured equally and rateably with such other secured Indebtedness; or

(y) benefit from such other security or other arrangements as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed),

(such security provided under (x) or (y) for the purposes of this Condition 4.10.1 a "**Subsequent Security**")

in each case any Subsequent Security shall provide by its terms that such Subsequent Security shall be automatically and unconditionally released and discharged upon (a) the release and discharge of the Initial Lien or (b) the full and irrevocable payment of all amounts payable by the Issuer and the Guarantor (if applicable) under the Notes, these Conditions and the Trust Deed. In the event that the automatic release and discharge is not fully effective for any reason, the Trustee has agreed in the Trust Deed to take such steps and actions (at the expense of the Issuer) as the Issuer may reasonably request to release and discharge (or acknowledge release and discharge of) the Subsequent Security in the circumstances referred to in paragraphs (a) or (b) (as applicable).

4.10.2 *Limitation on Indebtedness*

The Issuer shall not, and shall ensure that none of its Subsidiaries, incur (directly or indirectly) any Indebtedness, *other than*:

(i) Relevant Indebtedness for the sole purpose of providing finance to the Group or for the Refinancing of Indebtedness;

(ii) Indebtedness that was incurred by the Issuer or its Subsidiaries prior to the Group Switch Date in accordance with Condition 4.2 and which is outstanding at the Group Switch Date; or

(iii) any other Indebtedness up to a total aggregate outstanding principal amount, at any time, of US$1,000,000.

4.11 Covenant Suspension

4.11.1 If, on any date following the Issue Date (the "**Suspension Date**"):

(i) the Notes have Investment Grade Status; and

(ii) no Potential Event of Default or Event of Default has occurred and is continuing on such date,

(together, the "**Suspension Conditions**"), and such conditions are certified to the Trustee in an Officers' Certificate, then beginning on the Suspension Date and continuing until such time (the "**Reversion Date**"), if any, at which the Notes cease to have Investment Grade Status (such period, the "**Suspension Period**"), the covenants in:

(i) Condition 4.1 (*Negative Pledge*) shall be amended by:

(a) deleting reference to "Indebtedness" and replacing it with reference to "*Relevant Indebtedness*" in Condition 4.1.1;

(b) deleting reference to "*Permitted Lien*" and replacing it with reference to "*Permitted Security Interest*" in Condition 4.1.1; and

(c) adding the words "(other than Domestic Relevant Indebtedness)" after the words "any of the Issuer's or any Guarantor's Relevant Indebtedness" in Condition 4.1.2;

and

(ii) Conditions 4.2 (*Limitation on Indebtedness*), 4.3 (*Merger and consolidation*) (other than Condition 4.3.3), 4.4 (*Disposals*), 4.6 (*Payment of taxes and other claims*), 4.8 (*Change of business*) and 4.9 (*Environmental compliance*), shall no longer apply to the Issuer or any Guarantor;

and, in each case, any related Potential Events of Default or Events of Default under Condition 9 (*Events of Default*) will be amended or suspended as indicated above in respect of the Issuer, any Guarantor or any of their respective Subsidiaries.

4.11.2 If a Reversion Date occurs, the Issuer and each Guarantor will thereafter again be subject to the covenants without giving effect to the changes in Condition 4.11.1 above until such time (if any) as the Suspension Conditions are again satisfied. Notwithstanding that the covenants may be reinstated upon the occurrence of a Reversion Date, no Potential Event of Default or Event of Default will be deemed to have occurred or continue to occur as a result of any omission or failure by the Issuer or any Guarantor to act in compliance with such covenants before their amendment/suspension in accordance with Condition 4.11.1 during the Suspension Period. On the Reversion Date, all Indebtedness incurred during the Suspension Period will be classified to have been incurred pursuant to one of the paragraphs of the definition of "Permitted Indebtedness" in Condition 21 (to the extent such Indebtedness would be permitted to be incurred thereunder as of the Reversion Date and after giving effect to Indebtedness incurred prior to the Suspension Period and outstanding on the Reversion Date). To the extent such Indebtedness would not be so permitted to be incurred pursuant to a paragraph of the definition of "Permitted Indebtedness", such Indebtedness will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under paragraph (a) of the definition of "Permitted Indebtedness". On the Reversion Date, all disposals made during the

Suspension Period will be classified to have been made in compliance with Condition 4.4. For the purpose of determining compliance with Condition 4.4 after the Reversion Date, the 12 month period for determining the aggregate value of any disposals shall be reset to the Reversion Date and any amount of proceeds from a disposal made during the Suspension Period will be deemed to be reset to zero for the purposes of compliance with Condition 4.4. On the Reversion Date, any Lien made or entered into during the Suspension Period will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under paragraph (a) of the definition of "Permitted Liens".

5 Interest

The Notes bear interest from and including the Issue Date at the Rate of Interest, payable semi-annually in arrear no later than 10:00 a.m. (New York City time) on 28 March and 28 September in each year (each an "**Interest Payment Date**"), the first such Interest Payment Date being on 28 March 2017 (the "**First Interest Payment Date**"). There will be a short first coupon payable on the First Interest Payment Date. Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "Interest Period".

Interest in respect of any Note shall be calculated per US$1,000 in principal amount of the Notes (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any Interest Period shall be calculated by applying the Rate of Interest to the Calculation Amount, dividing the resulting product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for a period of less than a complete Interest Period, the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of actual days elapsed.

6 Redemption and Purchase

6.1 Final redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed or repaid by the Issuer at 100 per cent of their principal amount thereof together with accrued interest on 28 March 2022. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

6.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 17 (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to the date fixed for redemption but otherwise without premium or penalty, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 8.1 as a result of any change in, or amendment to, or clarification of the laws, treaties, protocols, rulings or regulations of any Relevant Jurisdiction, or any change in the published application or official interpretation of such laws, treaties, protocols, rulings or regulations and including the decision of any court governmental agency or tribunal, which change, amendment or clarification is announced, enacted or becomes effective on or after 26 October 2016 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee (x) an Officers' Certificate stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such Officers' Certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders and (y) an opinion of third party legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment or clarification. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition 6.2 shall be redeemed on the date specified in such notice in accordance with this Condition 6.2.

6.3 Redemption at the option of Noteholders

If, on or prior to 24 April 2017 the Additional Guarantee Event has not occurred: any Noteholder may require (unless prior to the Noteholder so requiring: (a) the Issuer has given notice of redemption under Condition 6.2 above; or (b) the Additional Guarantee Event has occurred) the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) such Note on the date (the "**Put Settlement Date**") specified in the Put Option Notice (as defined below) at a price equal to 101 per cent of the principal amount of such Notes together with interest accrued to the Put Settlement Date.

In order to exercise the option contained in this Condition 6.3, the Holder of a Note must, not less than 30 nor more than 60 days before the Put Settlement Date, deposit the Note Certificate relating to such Note with any Paying Agent together with a duly completed put option notice (a "**Put Option Notice**") in the form obtainable from any Paying Agent. No Note Certificate, once deposited with a duly completed Put Option Notice in accordance with this Condition 6.3, may be withdrawn; provided, however, that if, prior to the Put Settlement Date, the Notes evidenced by any Note Certificate so deposited become immediately due and payable or, upon due presentation of any Note Certificate on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Note Certificate shall be returned to the Holder by uninsured first class mail (airmail if overseas) at the address specified by such Holder in the relevant Put Option Notice.

6.4 Purchase

The Issuer, any Guarantor and any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise at any price. The Notes so purchased, while held on or behalf of the Issuer, any Guarantor or any of their respective Subsidiaries, shall not entitle the Holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Conditions 9 or 12.

6.5 Cancellation

All Notes redeemed or purchased pursuant to this Condition 6 shall be either cancelled forthwith, held or, to the extent permitted by law, resold. Any Notes so cancelled may not be reissued.

7 Payments

7.1 Principal and other amounts

Payment of principal and interest in respect of the Notes will be made to the persons shown as the Holder in the Register at the opening of business on the Record Date (as defined below). Payments of all amounts other than as provided in this Condition 7.1 will be made as provided in these Conditions.

7.2 Payments

Each payment in respect of the Notes pursuant to Condition 7.1 shall be made by transfer to a U.S. dollar account maintained by or on behalf of the payee with a bank in New York City and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of a Transfer Agent. Subject to the Principal Paying Agent receiving written notification of the relevant U.S. dollar account details prior to such time, payment instructions (for value on the due date or, if that is not a business day (as defined below), for value the first following day which is a business day) will be initiated on the business day preceding the due date for payment (for value the next business day).

7.3 Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8.

7.4 Payments on business days

A Note may only be presented for payment on a day which is a business day in the place of presentation. If the due date for any payment of principal or interest under this Condition 7 is not a business day, the Holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 7 only, "**business day**" means any day on which (i) the London interbank market is open for dealings between the banks generally, and (ii) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Moscow, London, New York City, and in the city where the specified office of the relevant Paying Agent is located.

7.5 Record date

"**Record Date**" means the fifteenth business day, in the place of the specified office of the Registrar, before the due date for the relevant payment.

7.6 Agents

The initial Agents and their initial specified offices are listed in the Paying Agency Agreement. The Issuer reserves the right to vary or terminate the appointment of all or any of the Agents at any time (with the written approval of the Trustee) and appoint additional or other payment or transfer agents, provided that the Issuer will at all times maintain (i) a Registrar and a Principal Paying Agent, and (ii) a Paying Agent and a Transfer Agent having specified offices in at least one major European city approved by the Trustee. Notice of any such change will be provided to Noteholders as described in Condition 17.

In acting under the Paying Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and each Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

8 Taxation

8.1 All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or by any Guarantor under the relevant Guarantee shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) a Guarantor shall pay such additional amount so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

8.1.1 held by or on behalf of a Holder which is (i) liable to such taxes, duties, assessments or governmental charges in respect of such Note or the relevant Guarantee by reason of its (or any beneficial owner thereof) having some connection with the Relevant Jurisdiction other than the mere holding of such Note or the benefit of the relevant Guarantee or (ii) able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim to the relevant taxing authority; or

8.1.2 where (in the case of a payment of principal or interest on redemption or at maturity) the relevant Individual Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Individual Note Certificate on the last day of such period of 30 days; or

8.1.3 in respect of taxes, duties, assessments or governmental charges that are imposed or withheld by reason of the failure of the Noteholder to comply with a request of, or on behalf of, the Issuer or a Guarantor addressed to the Noteholder to provide information or documentation concerning the nationality, residence or identity of such Noteholder or to make any declaration or similar claim or satisfy any certification, information or reporting requirement, which is required or imposed by a statute, treaty, regulation, protocol or administrative practice as a precondition to exemption from all or part of, or reduction in the rate of, such taxes, duties, assessments or governmental charges and with which the Noteholder is legally able to comply; or

8.1.4 where such withholding or deduction is required pursuant to Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any amended or successor version), any current or future regulations or agreements (including any intergovernmental agreements) thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto; or

8.1.5 in respect of estate, inheritance, gift, sales, excise, transfer, personal property or similar taxes, duties, assessments or governmental charges; or

8.1.6 any combination of the above.

8.2 In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received for the account of the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders by the Issuer in accordance with Condition 17.

8.3 Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

9 Events of Default

9.1 The Trustee at its discretion may, and if so requested in writing by Noteholders holding not less than 25 per cent of the principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) shall (subject in each case to its being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Notes are immediately due and repayable at their principal amount together with accrued interest if any of the following events occurs and is continuing (each an "**Event of Default**"):

9.1.1 the Issuer fails to pay the principal of or any interest on any of the Notes when due (whether at its stated maturity, on optional redemption, on required purchase, on declaration of acceleration or otherwise) and such failure continues for a period of five Business Days (in the case of principal) or 10 Business Days (in the case of interest or other amounts); or

9.1.2 the Issuer or any Guarantor, as the case may be, defaults in the performance or observance of any of their respective other obligations under the Notes or the Trust Deed, as the case may be, and except where such default is not, in the opinion of the Trustee, capable of remedy, such default remains unremedied for 30 Business Days after written notice thereof, addressed to the Issuer, or, where applicable, the relevant Guarantor, has been delivered by or on behalf of the Trustee to the Issuer or the relevant Guarantor, as the case may be;

9.1.3 at any point prior to the Additional Guarantee Event, any event occurs which would have resulted in a default of Condition 9.1.2 above by PJSC Polyus if PJSC Polyus had been a Guarantor from the Issue Date onwards;

9.1.4 a default under any Indebtedness of the Issuer, any Guarantor or any Material Subsidiary, if that default (i) is caused by a failure to repay any amounts under such Indebtedness within any originally applicable grace period at final maturity; or (ii) results in the acceleration of such Indebtedness prior to its stated maturity as a result of an event of default (howsoever described) under such Indebtedness; provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above individually or in the aggregate exceeds US$50,000,000 (or the U.S. Dollar Equivalent thereof in any currency); or

9.1.5 the amount of unsatisfied judgments or orders of courts or dispute resolution bodies of competent jurisdiction that have come into force for the payment of money against the Issuer, any Guarantor or any Material Subsidiary in the aggregate at any given moment of time exceeds US$75,000,000 (or the U.S. Dollar Equivalent thereof in any currency) except in circumstances where such judgment, decree or order, as the case may be, is being contested or appealed by the Issuer, any Guarantor or any Material Subsidiary in good faith or is discharged within 60 days of being made; or

9.1.6 the Issuer, any Guarantor or any Material Subsidiary is unable or admits in writing inability to pay its debts as they fall due, generally suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with its creditors generally with a view to a general rescheduling of any of its Indebtedness in excess of US$50,000,000 (or the U.S. Dollar Equivalent thereof in any currency) in aggregate; and/or a moratorium is declared in respect of all or, in the opinion of the Trustee, any substantial part of the Indebtedness of any of the Issuer, any Guarantor or any Material Subsidiary as a result of any action taken by any competent authority where, in the case of any Material Subsidiary, such inability, action or declaration would have a Material Adverse Effect; or

9.1.7 the occurrence of any of the following events:

(i) the Issuer, any Guarantor or any Material Subsidiary is seeking or consenting to (or an effective resolution is passed by it for) the introduction of proceedings for its liquidation or the appointment of a liquidator, or liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of the Issuer, any Guarantor or any Material Subsidiary, as the case may be, or files a petition in relation to the Issuer, any Guarantor or any Material Subsidiary organised outside Russia for its winding up, examinership or dissolution (otherwise in each case than for the purposes of or pursuant to an amalgamation, consolidation, merger, reorganisation, liquidation, dissolution, restructuring or analogous event whilst solvent or in accordance with Condition 4.3);

(ii) the acceptance by a court of competent jurisdiction, arbitration court or any competent agency of a petition in respect of any of the Issuer, any Guarantor or any Material Subsidiary alleging, or for, its bankruptcy, insolvency, examinership, dissolution or liquidation (or any analogous proceedings) or the declaration by such court or agency of the insolvency or bankruptcy of any of the Issuer, any Guarantor or any Material Subsidiary under any bankruptcy or insolvency law (other than (i) any vexatious or frivolous petition; (ii) any petition that is not accepted by such court or competent agency for review on its merits; (iii) where such petition is presented or filed by a person that is not the Issuer, a Guarantor or a Subsidiary of the Issuer or a Guarantor, and such petition has been discharged within 120 calendar days (excluding any period during which the court or competent agency has suspended the proceedings in respect of the petition on account of the petition not being in a form prescribed by law and/or while awaiting further documentation from the petitioner); (iv) any petition for the purposes of or pursuant to an amalgamation, consolidation, merger, reorganisation, liquidation, dissolution, restructuring or analogous event whilst solvent or in accordance with Condition 4.3; and (v) in the case of a Material Subsidiary only, where it would not have a Material Adverse Effect);

(iii) the institution, against any Guarantor or any Material Subsidiary organised within Russia of supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovleniye*), external management (*vneshneye upravleniye*) or bankruptcy management (*konkursnoye proizvodstvo*), in each case, which is not discharged within 120 days and, in the case of a Material Subsidiary only, where it would have a Material Adverse Effect;

(iv) the entry by the Issuer, any Guarantor or any Material Subsidiary into, or the agreeing by the Issuer, any Guarantor or any Material Subsidiary to enter into any amicable settlement which, in the case of any entity in the Russian Federation and without limitation, shall include amicable settlement (*mirovoye soglasheniye*) with its creditors, as such terms are defined in Federal Law of the Russian Federation No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended or replaced from time to time) and which, in the case of a Material Subsidiary only, has a Material Adverse Effect; or

(v) any judicial liquidation in respect of the Issuer, any Guarantor or any Material Subsidiary (otherwise than for the purposes of or pursuant to an amalgamation, consolidation, merger, reorganisation, liquidation, dissolution, restructuring or analogous event whilst solvent or in accordance with Condition 4.3) and which, in the case of a Material Subsidiary only, has a Material Adverse Effect; or

9.1.8 any expropriation, attachment, sequestration, execution, Lien or distress is levied against or becomes enforceable and is enforced against, or an encumbrancer takes possession of or sells, the whole or any, in the opinion of the Trustee, material part of, the property, undertaking, revenues or assets of the Group taken as a whole which, in each case, is not removed, satisfied, stayed, dismissed or otherwise discharged within 60 calendar days of its commencement; or

9.1.9 any of:

(i) the Notes;

(ii) the Trust Deed;

(iii) the Guarantee given by JSC Polyus; or

(iv) at any time after the Additional Guarantee Event, the Guarantee given by PJSC Polyus,

is held in any judicial or arbitral proceeding to be unenforceable or invalid or ceases to be legal, valid, binding and in full force and effect (other than in accordance with the terms of such document) or the Issuer or the relevant Guarantor denies, disaffirms, repudiates (or purports or evidences in writing an intention to repudiate) its obligations under any of (i) to (iv) above; or

9.1.10 at any time it is or becomes unlawful for the Issuer or any Guarantor to perform or comply with any or all of their respective material obligations under any of the Notes, the relevant Guarantee or the Trust Deed and any such event continues for more than 30 Business Days; or

9.1.11 any seizure, compulsory acquisition, expropriation, or nationalisation of all or, in the opinion of the Trustee, a material part of the undertaking, assets and revenues of the Issuer, any Guarantor or any Material Subsidiary is made by any state authority and, in the case of a Material Subsidiary only, which has a Material Adverse Effect; or

9.1.12 any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

10 Prescription

Claims for the payment of principal and interest in respect of any Note shall be prescribed and become void unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate Relevant Date.

11 Replacement of Individual Note Certificates

If an Individual Note Certificate shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange, be replaced at the specified offices of the Registrar or the Transfer Agents on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Registrar or the Transfer Agents. Mutilated or defaced Individual Note Certificate must be surrendered before replacements will be issued.

12 Meetings of Noteholders, Modification and Waiver

12.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes or the Trust Deed. Noteholders will be entitled to one vote per US$1,000 in principal amount of Notes held by them. Such a meeting may be convened by the Issuer, any Guarantor or the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured and/or prefunded to its satisfaction, upon the request in writing of Holders of the Notes holding not less than one tenth of the aggregate principal amount of the outstanding Notes or when it considers it necessary to determine compliance with any covenant under the Notes. The Trust Deed provides that special quorum provisions apply for meetings of Noteholders convened for the purpose of, inter alia (i) altering the terms and conditions relating to the maturity, redemption, prepayment and repayment (including, without prejudice to the generality of the foregoing, Condition 5) or postponing any date for payment of interest, (ii) reducing the principal amount of the Notes, (iii) varying the amounts corresponding to interest or principal payable in respect of the Notes or the method of determining such payments in respect of the Notes, (iv) varying the currency in which payments under the Notes are to be made, (v) modifying or cancelling any Guarantee, (vi) amending the provisions of Schedule 3 of the Trust Deed concerning the quorum required at any meeting of the Noteholders or any adjourned meeting thereof or concerning the majority required to pass an Extraordinary Resolution, (vii) amending the proviso to paragraph 5 of Schedule 3 to the Trust Deed, or (viii) giving a direction pursuant to Condition 13 or Clause 7.1(i) of the Trust Deed, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent, or at any adjourned meeting not less than 25 per cent, in principal amount of the Notes for the time being outstanding. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trust Deed provides that a resolution in writing signed by or on behalf of the Holders of not less than 75 per cent in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

12.2 Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, the Trust Deed or the Paying Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or (except as mentioned in the Trust Deed) in the opinion of the Trustee is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer or any Guarantor of the Notes or the Trust Deed, or determine that any event which would or might otherwise give rise to a right of acceleration under the Notes shall not be treated as such, if in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders, provided always that the Trustee may not exercise such power of waiver in contravention of a written request given by Holders of 25 per cent in aggregate principal amount of the Notes then outstanding or any express direction by Extraordinary Resolution. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be promptly notified to the Noteholders in accordance with Condition 17.

12.3 Substitution

Pursuant to the Trust Deed, the Issuer may at any time, without the consent of the Noteholders, by written notice to the Trustee, elect to transfer all of its rights and obligations under the Notes, the Trust Deed and the Paying Agency Agreement to another entity (the "**Substituted Issuer**") (such Substituted Issuer shall, by supplemental Trust Deed (in form and manner satisfactory to the Trustee, and executed and delivered to the Trustee) assume all obligations of the Issuer under the Notes and the Trust Deed), *provided that* certain conditions including the following are met to the satisfaction of the Trustee, as more fully set out in the Trust Deed:

12.3.1 the Substituted Issuer is incorporated in Jersey, Guernsey, the UK, or any member state of the European Economic Area as of the Issue Date;

12.3.2 the Substituted Issuer satisfies the "know your client" and similar regulatory requirements of the Trustee;

12.3.3 if the Substituted Issuer is organised or a resident in, for tax purposes, a jurisdiction (the "**Substituted Territory**") other than the United Kingdom or Jersey (the "**Issuer's Territory**"), the Substituted Issuer (unless the Trustee otherwise agrees) gives to the Trustee an undertaking satisfactory to the Trustee acting in good faith in terms corresponding to Condition 8 (and subject to the exceptions corresponding to those set out in Condition 8) with the substitution for the references in that Condition to the Issuer's Territory of references to the Substituted Territory whereupon the Trust Deed and the Notes will be read accordingly;

12.3.4 each Guarantee of the Notes is fully effective in relation to the obligations of the Substituted Issuer under the Trust Deed and the Notes;

12.3.5 the transfer of all of the Issuer's rights and obligations under the Notes, the Trust Deed and the Paying Agency Agreement and the assumption of such rights and obligations by the Substituted Issuer have been duly authorised by, or on behalf of, the Issuer and the Substituted Issuer, as applicable, and appropriate third-party legal opinions (which may contain customary assumptions and qualifications) have been provided to the satisfaction of the Trustee; and

12.3.6 the Issuer and the Substituted Issuer comply with such other requirements as the Trustee may reasonably direct in the interests of the Noteholders.

In the event that the Substituted Issuer, in accordance with the Trust Deed, assumes the obligations of the Issuer under the Notes and the Trust Deed, the Issuer (or a previous substitute) shall be released from any and all of its obligations under the Notes and the Trust Deed, the Substituted Issuer will be deemed to be named in the Trust Deed, the Notes and the Agency Agreement as the principal debtor in place of the Issuer (or of any previous substitute) and the Notes, and the Trust Deed will be deemed to be amended as necessary to give effect to the substitution.

12.4 Entitlement of the Trustee

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, any Guarantor or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

13 Enforcement

At any time after an Event of Default has occurred and for as long as it is continuing, the Trustee may, at its discretion and without further notice, institute such proceedings or take such steps or actions against the Issuer and/or a Guarantor as it may think fit to enforce the terms of the Trust Deed and/or the Notes, but it need not take any such proceedings and nor shall the Trustee be bound to take, or omit to take any step or action (including instituting such proceedings, steps or actions) unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder may proceed directly against the Issuer or any Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 Indemnification and Removal of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including provisions relieving it from taking proceedings or steps or actions to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction, and to be paid its costs and expenses in priority to any claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, any Guarantor and any entity related to the Issuer or any Guarantor without accounting for any profit.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Notes or for the performance by the Issuer or any Guarantor of its obligations under or in respect of the Notes and the Trust Deed. The Trustee is entitled to assume that each of the Issuer and each Guarantor is performing all of its obligations pursuant to the Notes and the Trust Deed (and shall have no liability for doing so) until it has actual knowledge to the contrary.

The Trustee may rely without liability to Noteholders on any certificate or report prepared by auditors, accountants or any other expert pursuant to the Trust Deed, whether or not addressed to the Trustee and whether or not the auditors', accountants' or expert's liability in respect thereof is limited by a monetary cap or otherwise. The Trust Deed provides that the Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove the Trustee (or any successor trustee or additional trustees); provided, that the removal of the Trustee or any other trustee shall not become effective unless there remains a Trustee in office after such removal.

15 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest, the date of issue and the amount of principal) and so that such further issue shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any such other securities shall be constituted by a deed supplemental to the Trust Deed and will benefit from a guarantee substantially in the form of the Guarantee given in respect of these Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders for the Holders of securities of other series where the Trustee so decides. Application will be made for such further securities to be listed and admitted to trading on the stock exchange on which the Notes are from time to time listed or quoted.

16 General Provisions Applicable to the Additional Guarantee Event

16.1.1 The Issuer will give notice in writing to the Trustee of the Additional Guarantee Event and, so long as the Notes are listed on the Stock Exchange and/or any other stock exchange on which the Notes may be listed or quoted from time to time, shall comply with any applicable rules of the Stock Exchange and/or such other exchange (including, if required by such rules, preparation of a supplemental prospectus or announcement) in relation thereto.

16.1.2 The Issuer shall also procure that the following opinion is delivered to the Trustee on the date of the Additional Guarantee Event: an opinion of counsel acceptable to the Trustee, in form and substance satisfactory to the Trustee, stating that, following the Additional Guarantee Event, the Guarantee constitutes legal, valid, binding and enforceable obligations of PJSC Polyus and such opinion may contain customary assumptions and qualifications.

16.1.3 Following the Additional Guarantee Event, a notice of such event will be provided to Noteholders as described in Condition 17.

17 Notices

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register or by any means designated from time to time by any clearing system on which trades in Notes settle. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as the Notes are listed on the Stock Exchange and the rules or guidelines of that exchange so require, notices will be published via the companies announcements office of the Stock Exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

18 Currency Indemnity

If any sum due from the Issuer in respect of the Notes or any Guarantor in respect of the Guarantee or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of: (a) making or filing a claim or proof against the Issuer or any Guarantor; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation to the Notes or the Guarantee, the Issuer, and each Guarantor shall indemnify each recipient, on the written demand of such recipient addressed to the Issuer or a Guarantor and delivered to the Issuer or a Guarantor or to the specified office of the Registrar, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such recipient may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and each Guarantor and shall give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Noteholder or any other person and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Trust Deed and/or the Notes or any other judgment or order.

19 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except and to the extent, if any, that the Notes expressly provide for such Act to apply to any of their terms.

20 Governing Law and Arbitration

20.1 The Trust Deed, the Notes and these Conditions and any non-contractual obligations arising out of or in connection therewith shall be governed by and interpreted in accordance with English law.

20.2 Any dispute, claim or difference of whatever nature arising out of or in connection with the Trust Deed, the Notes and/or these Conditions (including a dispute regarding the existence, validity or termination of the Trust Deed, the Notes and/or these Conditions or a dispute relating to non-contractual obligations arising out of or in connection with the Trust Deed, the Notes and/or these Conditions) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the rules of the LCIA (the "**Rules**"), which Rules are deemed incorporated by reference into these Conditions, as amended herein. This arbitration agreement shall be governed by, and shall be construed in accordance with, English law.

20.2.1 The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator in the Request for Arbitration. The respondent(s), irrespective of number, shall nominate jointly the second arbitrator within 30 days of receipt of the Request for Arbitration (or, in the case of multiple respondents, within 30 days of receipt of the Request for Arbitration by the first respondent). The third arbitrator, who shall serve as Chairman, shall be nominated by agreement of the two party-nominated arbitrators (in consultation with their appointing parties). Failing such agreement within 15 days of the confirmation of the appointment of the second arbitrator, the third arbitrator shall be appointed by the LCIA as soon as possible at the written request of any party. For the avoidance of doubt, the parties to these Conditions irrevocably agree, for the purpose of Article 8.1 of the Rules, that the claimant(s), irrespective of number, and the respondent(s), irrespective of number, shall constitute two separate sides for the formation of the arbitral tribunal.

20.2.2 In the event that the claimant(s) or the respondent(s) fail to nominate an arbitrator in accordance with the Rules within the time period stipulated, such arbitrator shall be nominated by the LCIA within 15 days of a written request from any party.

20.2.3 The seat of arbitration shall be London, England and the language of the arbitration shall be English.

20.2.4 If more than one arbitration is commenced under the Trust Deed, the Notes or these Conditions and any party contends that two or more such arbitrations are so closely connected that it is expedient for them to be resolved in one set of proceedings, the arbitral tribunal appointed in the first filed of such proceedings (the "**First Tribunal**") shall have the power to determine, provided no date for the hearing on the merits of the Dispute in any such arbitrations has been fixed, that the proceedings shall be consolidated. Each party to this Agreement hereby irrevocably agrees and consents to being joined in such consolidated proceedings with any other party to the Trust Deed, the Notes and/or the Conditions.

20.2.5 The tribunal in such consolidated proceedings shall be selected as follows:

(i) the parties to the consolidated proceedings shall agree on the composition of the tribunal; or

(ii) failing such agreement within 30 days of consolidation being ordered by the First Tribunal, the LCIA shall appoint all members of the tribunal within 30 days of a written request by any of the parties to the consolidated proceedings.

20.2.6 For the avoidance of doubt, the parties to the Trust Deed, the Notes and these Conditions are intended by the parties to these Conditions to have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce the terms of Condition 20.2.

20.3 Each Guarantor undertakes irrevocably to appoint the Issuer at Ergon House, Dean Bradley Street, London SW1P 2AL, United Kingdom (or such replacement process agent as may be appointed from time to time) as agent to accept service of process and any other documents in proceedings in England or in any legal action or proceedings arising out of or in connection with these Conditions and the Notes (the "**Process Agent**"), provided that:

20.3.1 service upon the Process Agent shall be deemed valid service upon any Guarantor whether or not the process is forwarded to or received by such Guarantor;

20.3.2 each Guarantor shall inform the Trustee, in writing, of any change in the address of the Process Agent within 28 days of such change;

20.3.3 if the Process Agent ceases to be able to act as a process agent or to have an address in England, or is otherwise replaced, each Guarantor agrees irrevocably to appoint a new process agent in England acceptable to the Trustee and to deliver to the trustee within 14 days a copy of a written acceptance of appointment by the new process agent; and

20.3.4 nothing in these Conditions shall affect the right to serve process in any other manner permitted by law.

20.4 To the extent that the Issuer or any Guarantor may now or hereafter be entitled, in any jurisdiction in which any legal action or proceeding may at any time be commenced pursuant to or in accordance with these Conditions, to claim for itself or any of its undertaking, properties, assets or revenues present or future any immunity (sovereign or otherwise) from suit, jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of a judgment, execution of a judgment or award or from set-off, banker's lien, counterclaim or any other legal process or remedy with respect to its obligations under these Conditions and/or to the extent that in any such jurisdiction there may be attributed to the Issuer or any Guarantor any such immunity (whether or not claimed), each of the Issuer and each Guarantor hereby irrevocably agrees not to claim, and hereby waive, any such immunity.

20.5 Each of the Issuer and each Guarantor irrevocably and generally consents in respect of any proceedings anywhere to the giving of any relief or the issue and service on it of any process in connection with those proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those proceedings.

21 Definitions

In these Conditions the following terms have the meaning given to them in this Condition 21.

"**Accounting Standards**" means IFRS, or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the relevant regulators for the time being; provided however, that where such term is used with respect to the financial statements of a Subsidiary, in these Conditions, it shall, where financial statements prepared in accordance with IFRS are not available, be deemed to include U.S. GAAP, Russian accounting standards or any other generally accepted accounting standards of the jurisdiction of incorporation of the relevant Subsidiary from time to time;

"**affiliate**" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or officer (a) of such specified Person, (b) of any Subsidiary of such specified Person or (c) of any Person described in (i) above. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing;

"**Asset Sale**" means a lease, sale (other than a sale and lease-back) transfer or other disposition either in one transaction or in a series of related transactions, by the Issuer, any Guarantor or any Material Subsidiary to a Person that is not a member of the Group, of any assets the book value of which exceeds 10 per cent of the Group Total Assets in any 12 month period excluding any period prior to the Issue Date (determined in each case by reference to the most recent publicly available audited annual Financial Statements or reviewed interim Financial Statements of the Group); provided that "**Asset Sale**" shall not include:

(a) sales or other dispositions of inventory, Commodities or stock in trade in the ordinary course of business;

(b) assignments of or other arrangements over the rights or revenues arising from Product Delivery Contracts;

(c) disposition of cash or cash equivalents, including the proceeds of the disposition of shares (or depositary receipt representing shares) in the share capital of PJSC Polyus;

(d) a lease, sale, transfer or other disposition of (x) any shares or participatory interests in any Group company, (y) any debt securities issued by any member of the Group or (z) any depositary receipts representing any securities issued by any member of the Group;

(e) any distribution or payment of dividends;

(f) any disposition pursuant to or in compliance with Condition 4.3 including, for the avoidance of doubt, any disposition of any number of shares (or depositary receipt representing shares) in the share capital of PJSC Polyus;

(g) any disposition in connection with any consolidation, merger, amalgamation, demerger, spin-off, split-off or other type of corporate reorganisation or restructuring of the Issuer;

(h) the sale, lease or other disposition of obsolete, worn out, negligible, surplus or outdated equipment or machinery or raw materials or inventory or any other asset, in each case which is no longer used or usable in the ordinary course of business, such sale, lease or other disposition being in the ordinary course of business;

(i) the lease, assignment or sublease of any real or personal property in the ordinary course of business, including the sale of accounts receivable in factoring arrangements entered into in the ordinary course of business;

(j) sales or other dispositions of assets or property received by the Issuer, any Guarantor or any Material Subsidiary upon the foreclosure of a Lien granted in favour of the Issuer, any Guarantor or any Material Subsidiary or any other transfer of title with respect to any ordinary course secured investment in default; and

(k) the surrender or waiver of contract rights or the settlement, release, or surrender of contract, tort or other claims, in the ordinary course of business;

"**Average Life**" means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (a) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of, or redemption or similar payment with respect to, such Indebtedness multiplied by the amount of such payment by (b) the sum of all such payments;

"**Business Day**" means (other than for the purposes of Condition 7) a day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Moscow, London, New York City and in the city where the Specified Office (as defined in the Paying Agency Agreement) of the Principal Paying Agent is located;

"**Capital Lease Obligation**" means an obligation that is required to be classified and accounted for as a finance lease for financial reporting purposes in accordance with IFRS, and the amount of Indebtedness represented by such obligation shall be the capitalised amount of such obligation determined in accordance with IFRS;

"**Capital Stock**" of any Person means any and all shares, depositary receipts representing shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any preferred stock of such Person, whether now outstanding or issued after the Issue Date, including without limitation, all series and classes of such Capital Stock but excluding any debt securities convertible into such equity;

"**Cash**" means, at any time, cash and cash equivalents presented in the most recently published Financial Statements of the Group;

the "**Code**" means the United States Internal Revenue Code of 1986, as amended;

"**Commodity**" means ore products, precious metal products and any other related products of the Group;

"**Currency Agreement**" means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values;

"**Domestic Relevant Indebtedness**" means any Relevant Indebtedness which is not quoted, listed or ordinarily dealt in or traded on any stock exchange or any public or institutional securities market, in each case outside the Russian Federation;

"**EBITDA**", for any period, means profit before income tax of the Group for that period, as adjusted by:

(a) adding back Interest Expenses;

(b) excluding any loss, and adding back any income, from investments and derivative financial instruments;

(c) before taking into account any items treated as exceptional or extraordinary items (such as but not limited to: any impairments, forex exchange gains/losses, loss/income from disposal of property, plant and equipment);

(d) adding back any amount attributable to the amortisation of intangible assets and the depreciation of tangible assets; and

(e) excluding any one-off items as required to ensure calculation of the EBITDA comparable with the prior period,

in each case, as such amount is calculated as presented in the most recently published Financial Statements of the Group;

"**Environment**" means living organisms including the ecological systems of which they form part and the following media:

(a) air (including air within natural or man-made structures, whether above or below ground);

(b) water (including territorial, coastal and inland waters, water under or within land and water in drains and sewers); and/or

(c) land (including land under water);

"**Environmental Law**" means all applicable laws and regulations of any jurisdiction in which the Issuer, any Guarantor or any Material Subsidiary conducts business which:

(a) have as a purpose or effect the protection of, and/or prevention of harm or damage to, the Environment;

(b) provide remedies or compensation for harm or damage to the Environment; and

(c) relate to Hazardous Substances or health or safety matters;

"**Environmental Licence**" means any authorisation, consent, approval, resolution, licence, exemption, filing or registration required at any time under Environmental Law;

"**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended;

"**Fair Market Value**" means, with respect to any asset or property, the price that would be paid in an arms' length, free market transaction between an informed, willing and able seller and an informed, willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will be determined in good faith by a duly authorised officer of the Issuer or Guarantor, as applicable, whose determination (in the absence of fraud or manifest error) will be conclusive;

"**Financial Statements**" means the consolidated financial statements prepared in accordance with the Accounting Standards;

"**Fitch**" means Fitch Ratings Limited, any credit rating agency affiliate thereof or any successor to the rating agency business thereof;

"**Group**" means:

(a) from the Issue Date until the Group Switch Date: Polyus Gold International Limited and its consolidated Subsidiaries (including PJSC Polyus and its Subsidiaries) taken as a whole; and

(b) from the Group Switch Date: PJSC Polyus and its consolidated Subsidiaries taken as a whole;

"**Group Leverage Ratio**" as of any date of determination (the "**Determination Date**"), means the ratio of (x) the aggregate amount of Group Net Indebtedness to (y) the aggregate amount of EBITDA for the period (the "**EBITDA Calculation Period**") of the two most recent consecutive semi-annual periods or, if applicable, four most recent consecutive quarterly periods (provided that published, reviewed or audited financial statements are available for such quarterly periods), ending prior to the date of such determination for which Financial Statements of the Group are available; provided, however, that:

(a) if (i) any member of the Group has incurred any Indebtedness since the balance sheet date (the "**Relevant Date**") of the latest published Financial Statements of the Group published immediately preceding the Determination Date which remains outstanding on the Determination Date or (ii) the transaction giving rise to the need to calculate the Group Leverage Ratio is an incurrence of Indebtedness, or both, the Group Leverage Ratio shall be calculated by adjusting the Group Net Indebtedness for such period to give effect to the incurrence of any Indebtedness mentioned in (i) or (ii) above, or both, as if such Indebtedness had been incurred on the Relevant Date; provided that no effect shall be given to any Cash received by any member of the Group as proceeds of such Indebtedness that gave rise to the need to calculate the Group Leverage Ratio;

(b) if (i) any member of the Group has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the Relevant Date or (ii) if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case other than Indebtedness incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Group Leverage Ratio, or both, the Group Leverage Ratio shall be calculated by adjusting the Group Net Indebtedness for such period to give effect to such repayment, repurchase, defeasement or discharge mentioned in (i) or (ii) above, as if such repayment, repurchase, defeasement or discharge had occurred on the Relevant Date;

(c) if since the Relevant Date any member of the Group has made an Asset Sale as a result of which a Person ceased to be a member of the Group, the Group Leverage Ratio shall be calculated by adjusting the Group Net Indebtedness for such period to give effect to any reduction of Indebtedness (to the extent originally included) equal to the Indebtedness of such Person as if such disposal had occurred on the Relevant Date;

(d) if since the beginning of the EBITDA Calculation Period any member of the Group (by merger or otherwise) shall have made an investment in any Person which as a result of such investment becomes a member of the Group or an acquisition of assets which constitutes all or substantially all of an operating unit of a business (including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder), the Group Leverage Ratio shall be calculated by adjusting the EBITDA for such EBITDA Calculation Period as if such investment or acquisition had occurred on the first day of such EBITDA Calculation Period; and

(e) if since the beginning of the EBITDA Calculation Period any member of the Group made an Asset Sale the Group Leverage Ratio shall be calculated by reducing the EBITDA for such EBITDA Calculation Period by an amount equal to EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Sale, or increased by an amount equal to EBITDA (if negative), directly attributable thereto for such period as if such Asset Sale had occurred on the first day of such EBITDA Calculation Period.

The Group Leverage Ratio shall be determined in good faith by an authorised officer of the Issuer (or following the Group Switch Date, PJSC Polyus), whose determination will be conclusive (in the absence of manifest error);

"**Group Net Indebtedness**" means at any date of determination (and without duplication) an amount equal to (a) all consolidated Indebtedness of the Group shown upon the then most recent Financial Statements of the Group, less (b) the aggregate Cash of the Group shown upon the then most recent Financial Statements of the Group;

"**Group Switch Date**" means the earlier of:

(a) the first date of publication of the consolidated financial statements of Polyus Gold International Limited which shows that PJSC Polyus is not a consolidated subsidiary of Polyus Gold International Limited;

(b) the date notified by the Issuer to the Trustee as the date when PJSC Polyus ceased to be a consolidated subsidiary of Polyus Gold International Limited; or

(c) the date of substitution of Polyus Gold International Limited as Issuer pursuant to Condition 12.3;

"**Group Total Assets**" means at any date of determination the total assets of the Group as shown in the most recently published Financial Statements of the Group;

"**guarantee**" means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of reimbursement agreements in respect thereof, of all or any part of any Indebtedness;

"**Hazardous Substance**" means any waste, pollutant, contaminant or other substance (including any liquid, solid, gas, ion, living organism or noise) that may be harmful to human health or other life or the Environment or a nuisance to any person;

"**Hedging Obligations**" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement, or any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price;

"**IFRS**" means International Financial Reporting Standards issued by the International Accounting Standards Board (the "**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, consistently applied and which are in effect from time to time;

"**Indebtedness**" means, without duplication:

(a) any moneys borrowed (the principal amount of which as determined in accordance with IFRS);

(b) any principal amount (as determined in accordance with IFRS) raised by acceptance under any acceptance credit facility;

(c) any principal amount (as determined in accordance with IFRS) raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) any principal amount (as determined in accordance with IFRS) raised under any other transaction having the economic or commercial effect of a borrowing; and

(e) the amount of any liability in respect of the guarantee or indemnity for, or similar undertaking given in respect of, any of the items referred to above in relation to any Person.

For the avoidance of doubt the following amounts shall not constitute "Indebtedness": (i) trade account payables arising solely in the ordinary course of business; (ii) advances received from customers; (iii) any tax liability and any letters of credit and bank guarantees issued in relation to trade related activities, customs activities or tax payments; (iv) contingent liabilities other than with respect to items of Indebtedness described in the preceding sentence; (v) any amounts of liability under any option agreement; (vi) any amounts of liability or advances received under any streaming transaction or a purchase transaction; (vii) any Intra-Group Transactions; and (viii) any counter-indemnity obligation in respect of a guarantee, indemnity, standby or documentary letter of credit or any other financial instrument issued by a bank or financial institution that is discharged within three months after the relevant obligation crystallises;

"**Interest Expenses**" means, for any EBITDA Calculation Period, finance costs presented in the most recently published Financial Statements of the Group, including the interest element of leasing and hire purchase payments;

"**Interest Rate Agreement**" means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates;

"**Intra-Group Transaction**" means any loan, guarantee, surety, reorganisation and any other transaction (including the payment of dividends or the making of other distributions) solely between members of the Group (or by a member of the Group in favour of another member of the Group). For the avoidance of doubt, Intra-Group Transactions shall include the accession of PJSC Polyus to the Trust Deed as a Guarantor in accordance with the Trust Deed;

"**Investment Grade Rating**" means a rating equal to or higher than Baa3 (or the equivalent) by Moody's and BBB- (or the equivalent) by Fitch or Standard & Poor's or, if applicable in relation to any other Rating Agency, an equivalent rating by such other Rating Agency;

"**Investment Grade Status**" shall be deemed to have been reached on the date that the Notes have an Investment Grade Rating from at least two of the Rating Agencies;

"**Issue Date**" means 26 October 2016;

"**Lien**" means any mortgage, pledge, encumbrance, lien, charge or other security interest securing any obligation of any Person;

"**Material Adverse Effect**" means a material adverse effect on:

(a) the business or financial condition of the Group taken as a whole; or

(b) the Issuer or any Guarantor's ability to perform its payment or other material obligations under the Conditions or Trust Deed; or

(c) the validity, legality or enforceability of the Conditions or Trust Deed or the rights or remedies of the Noteholders or Trustee under the Conditions or Trust Deed;

"**Material Subsidiary**" means, at any given time, a Subsidiary of a member of the Group which:

(a) has gross revenues representing 10 per cent or more of the consolidated gross revenues of the Group; or

(b) has total assets representing 10 per cent or more of the consolidated total assets of the Group,

in each case calculated by reference to the latest published financial statements and respective unconsolidated financial information of such Subsidiary, prepared under the same principles as the Financial Statements of the Group, but, in respect of (a), excluding any intra-Group items, provided, however, that a report based on the above criteria by the Auditors (if such report is requested by the Issuer or a Guarantor), that a member of the Group is, or is not, a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding;

"**Moody's**" means Moody's Investors Service Limited, any credit rating agency affiliate thereof or any successor to the rating agency business thereof;

"**Officers' Certificate**" means, a certificate executed on behalf of such person by a duly authorised officer of the Issuer or the relevant Guarantor, as the case may be;

"**Permitted Indebtedness**" means any or all of the following Indebtedness:

(a) Indebtedness outstanding at the Issue Date;

(b) Indebtedness represented by the Notes and any Guarantee or any supplement or amendment to the Trust Deed made in connection with a further issuance by the Issuer of securities having identical terms and conditions, term, tenor and rate of interest as, and forming a single fungible series with, the Notes;

(c) Refinancing Indebtedness incurred by the Issuer, any Guarantor or any member of the Group to Refinance Indebtedness;

(d) Indebtedness incurred pursuant to Hedging Obligations; provided that such Hedging Obligations are entered into in the ordinary course of business of the Group and not for speculative purposes;

(e) Indebtedness in respect of workers' compensation claims or claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit;

(f) customer deposits and advance payments received from customers in the ordinary course of business of the Group;

(g) intercompany and intra-Group Indebtedness owed to, and held by, the Issuer, any Guarantor or a member of the Group in respect of the Issuer, any Guarantor or a member of the Group; provided, however, that any subsequent disposition, pledge or transfer of such Indebtedness (other than to the Issuer, any Guarantor or a member of the Group) shall be deemed, in each case, to constitute the incurrence of such Indebtedness by the relevant obligor in respect of such Indebtedness;

(h) obligations in respect of performance, bid, judgmental, appeal and surety bonds, completion guarantees, letters of credit, bank's acceptances, veksels (being Russian rouble-denominated short-term promissory notes) or similar obligations provided by the Issuer, any Guarantor or a member of the Group in the ordinary course of business of the Group;

(i) Purchase Money Indebtedness and Capital Lease Obligations incurred to finance the acquisition by the Issuer, any Guarantor or another member of the Group of assets in the ordinary course of business of the Group;

(j) Indebtedness of a member of the Group incurred and outstanding on or prior to the date on which such entity was acquired by the Issuer, any Guarantor or another member of the Group (other than Indebtedness incurred in connection with, or to provide all or any portion of the funds or credit support utilised to consummate, the transaction or series of related transactions pursuant to which such entity was acquired by, or became, a member of the Group; provided, however, that on the date of such acquisition and after giving effect thereto, as if such acquisition had occurred, the Issuer, each Guarantor or other member of the Group, as applicable, would have been entitled to incur at least US$1.00 of additional Indebtedness pursuant to Condition 4.2.1;

(k) Indebtedness of either the Issuer, any Guarantor or any member of the Group consisting of guarantees of Indebtedness of either the Issuer, any Guarantor or any member of the Group incurred under Condition 4.2.1 or any other paragraph of this definition;

(l) Indebtedness arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five Business Days of its incurrence;

(m) Indebtedness arising from agreements of the Issuer or a member of the Group providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business, assets or Capital Stock of the Issuer or any member of the Group; provided that (A) the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the net proceeds (including the Fair Market Value of non-cash consideration) actually received by (or held in escrow as a collateral for such Indebtedness for later release to) the Issuer or a member of the Group in connection with such disposition (without giving effect to any subsequent changes in value); and (B) such Indebtedness is not reflected on the balance sheet of the Issuer or any member of the Group (contingent obligations referred to in a footnote to financial statements and not otherwise reflected on the balance sheet shall not be deemed to be reflected on such balance sheet for the purposes of this part (B));

(n) Indebtedness under any export credit facility existing on the Issue Date incurred to finance the acquisition by the Issuer or a member of the Group of an asset, including construction, additions and improvements, in the ordinary course of business (including the cost of design, development, construction, acquisition, transportation, installation, improvement and migration of assets); provided, however, that (A) any Lien arising in connection with any such Indebtedness shall be limited to the specific asset being financed or, in the case of real property or fixtures, including additions and improvements, the real property on which such assets is attached; and (B) the aggregate principal amount of such Indebtedness at any one time outstanding shall not exceed (x) the Fair Market Value of the acquired or constructed asset or improvement so financed or (y) in the case of an uncompleted constructed asset, the amount of the asset to be constructed, as determined on the date the contract for construction of such asset was entered into by the Issuer or the relevant member of the Group (including, in each case, any related premiums, fees, expenses and taxes incurred in connection with such acquisition, construction or development);

(o) Indebtedness incurred by the relevant Person prior to the Group Switch Date in accordance with Condition 4.2 that is outstanding at the Group Switch Date; and

(p) in addition to the items referred to in paragraphs (a) to (o) above, Indebtedness of the Issuer, each Guarantor and the members of the Group incurred in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness incurred pursuant to this paragraph (p) and then outstanding, will not exceed US$200,000,000 at any time outstanding;

"**Permitted Liens**" means:

(a) Liens existing on the Issue Date;

(b) Liens under worker's compensation laws, unemployment insurance laws, social security benefits or similar legislation, or to secure public or statutory obligations, surety bonds, customs duties, bid, judgmental or appeal bonds and the like, or for the payment of rent, in each case incurred in the ordinary course of business of the Group and not securing Indebtedness;

(c) Liens imposed by law, such as carriers', vendors', warehousemen's and mechanics' liens, in each case for sums not yet due or being contested in good faith and by appropriate proceedings;

(d) Liens arising by operation of law and in the ordinary course of business of the Group or in respect of taxes, assessments, government charges or claims, including without limitation those in favour of Russian governmental fiscal or customs authorities;

(e) Liens in respect of taxes or assessments, government charges and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Issuer (or, from the Group Switch Date, PJSC Polyus) has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;

(f) with respect to any Person, survey exceptions, encumbrances, easement or reservations of, or rights of others, licences, rights of way, sewers, electrical lines, telegraph or telephone lines and other similar purposes, or zone or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which do not act in the aggregate materially adversely affect the value of the property or materially impair their use in the operation of the business of such Person;

(g) (i) licences or leases or subleases as licensor, lessor or sublessor of any of its property in the ordinary course of business of the Group and (ii) with respect to any leasehold interest where either the Issuer, any Guarantor or any member of the Group is a lessee, tenant, subtenant or other occupant, mortgages, obligations, liens and other encumbrances incurred, created, assumed or permitted to exist and arising by, through or under a landlord or sub-landlord of such leased real property encumbering such landlord's or sub-landlord's interest in such leased real property;

(h) any bankers' Liens in respect of deposit accounts, statutory landlords' Liens and deposits to secure bids, contracts, leases, and other similar obligations (provided such Liens do not secure obligations constituting Indebtedness and are incurred in the ordinary course of business of the Group), direct debit arrangements, any netting or set-off arrangement entered into by any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances and judgment Liens not giving rise to a Potential Event of Default or an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings that may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(i) Liens securing Indebtedness permitted to be incurred under Condition 4.2 to finance or refinance the acquisition, construction, purchase or lease of, or repairs, improvements or additions to, property of such Person; provided, however, that the Lien may not extend to any other property (other than property related to the property being financed) owned by such Person or any of its Subsidiaries at the time the Lien is incurred, and the Indebtedness (other than any interest thereon) secured by the Lien may not be incurred more than 180 days after the later of the refinancing, acquisition, lease, completion of construction, repair, improvement, addition or commencement of full operation of the property subject to the Lien;

(j) with respect to any Person, Liens on property at the time such Person or any of its Subsidiaries acquires such property, including any acquisition by means of a merger or consolidation with or into the Issuer, any Guarantor or any member of the Group; provided, however, that such Liens are not created, incurred or assumed in connection with, or in contemplation of, such acquisition and provided further, that the Liens may not extend to any other property owned by such Person or any of its Subsidiaries (other than assets and property affixed or appurtenant thereto);

(k) Liens securing Indebtedness or other obligations of either the Issuer, any Guarantor or a member of the Group in favour of either the Issuer, any Guarantor or a member of the Group;

(l) Liens securing Hedging Obligations so long as such Hedging Obligations are permitted to be incurred under these Conditions and the related Indebtedness is permitted to be incurred in accordance with these Conditions and such Hedging Obligations are entered into in the ordinary course of business of the Group and are not speculative;

(m) any title transfer or retention of title arrangement entered into by any member of the Group in the ordinary course of its business;

(n) Liens to secure a Refinancing Indebtedness that was secured by a Lien permitted hereunder and that was incurred in accordance with these Conditions; provided that such Liens do not extend to or cover any property or assets of either the Issuer, any Guarantor or any member of the Group other than assets or property securing the Indebtedness so Refinanced;

(o) deposits made by and escrow or similar arrangements to secure obligations or liabilities arising from agreements providing for indemnification, adjustment of purchase price, earn-out or other similar obligations, in each case incurred or assumed in connection with the disposition of any assets (to the extent such disposition of assets is permitted hereby);

(p) Liens on assets, income, property or share capital of another Person at the time such other Person is acquired, merged into or consolidated with the Issuer and/or any member of the Group; provided, however, that such Liens are not created, incurred or assumed in connection with, or in contemplation of, such event and provided further that the Liens may not extend to any other property owned by the Issuer, any Guarantor or a member of the Group (other than assets and property affixed or appurtenant thereto);

(q) any Liens in respect of, in support of or in connection with Project Financing;

(r) any Lien over any rights, title or interest in, to or under any Product Delivery Contract, including the receivables generated under any such Product Delivery Contract and all other monies and proceeds arising in connection with any such Product Delivery Contract, and any Lien over any bank accounts into which the receivables, monies and proceeds from any such Product Delivery Contract or any cash collateral are paid or transferred (including (i) amounts standing to the credit of such bank accounts and (ii) any rights under any agreements establishing or opening such bank accounts);

(s) a right of set-off, netting, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group;

(t) Liens upon, or with respect to, any present or future assets or revenues or any part thereof which are created pursuant to, and any Liens constituted by, any repo or other derivatives transaction;

(u) any Lien created in connection with the raising of any Indebtedness for working capital purposes;

(v) any Liens created by the relevant Person prior to the Group Switch Date in accordance with Condition 4.1 (including any Liens contemplated by paragraphs (a) to (u), (w) or (x)), which exist at the Group Switch Date;

(w) any Liens (other than those contemplated above in paragraphs (a) to (v) above or (x) below) on the property, income, revenue or assets of the Issuer or any member of the Group securing Indebtedness of the Issuer or such member of the Group incurred in an aggregate principal amount at any one time outstanding not to exceed 15 per cent of Group Total Assets; and

(x) any extension, renewal of or substitution for any Lien permitted by any of the preceding paragraphs, provided, however, that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien; with respect to Liens incurred pursuant to this paragraph (x) the principal amount secured has not increased (other than any increase representing costs, fees, expenses or commission associated with such extension, renewal or substitution) and the Liens have not been extended to any additional property or assets (other than proceeds of the property or assets in question);

"**Permitted Security Interest**" means:

(a) any Lien:

  (i) existing on the Issue Date;

  (ii) created by the relevant person prior to the Group Switch Date in accordance with Condition 4.1 (including any Liens contemplated by any paragraph of the definition of "Permitted Liens"), which exist at the Group Switch Date; or

  (iii) securing Refinancing Indebtedness in respect of Indebtedness existing on the Issue Date, provided that such Liens are limited to all or part of the assets, undertaking, property or revenues that secured the original Indebtedness and that the aggregate principal amount of such Refinancing Indebtedness secured over such assets does not exceed the sum of (x) the aggregate principal amount of the Indebtedness being refinanced; (y) accrued and unpaid interest on such Refinancing Indebtedness; and (z) fees, premiums and other costs and expenses incurred in connection with such Refinancing Indebtedness;

(b) any Lien created or existing in respect of Domestic Relevant Indebtedness;

(c) any Lien:

(i) existing on any undertaking, property, assets or revenues of any person at the time such person becomes a member of the Group or such undertaking property, assets or revenues are acquired by the Issuer or any member of the Group, provided that such Lien was not created in contemplation of such event and that no such Lien shall extend to other undertaking property, assets or revenues of such person or the Group; or

(ii) securing Refinancing Indebtedness in respect of the Indebtedness specified in paragraph (c)(i) above, provided that such Liens are limited to all or part of the undertaking, assets, property or revenues that secured the original Indebtedness and that the aggregate principal amount of such Refinancing Indebtedness secured over such assets does not exceed the sum of (x) the aggregate principal amount of the Indebtedness being refinanced; (y) accrued and unpaid interest on such Refinancing Indebtedness; and (z) fees, premiums and other costs and expenses incurred in connection with such Refinancing Indebtedness;

(d) any Lien created in respect of Relevant Indebtedness in the form of, or represented by, notes, debentures, bonds or other debt securities exchangeable for or convertible into Treasury Shares or shares in any other company (except a member of the Group) listed on a stock exchange, including American Depositary Receipts or Global Depositary Receipts (as the case may be) representing rights in respect of such shares;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Potential Event of Default**" means an event which, with the lapse of time and/or the issue, making or giving of any notice or both, would constitute an Event of Default;

"**Product Delivery Contract**" means any contract for the sale or delivery of any Commodity, entered into from time to time between the Issuer, any Guarantor or any member of the Group and any other Person in the ordinary course of business, that is customary in the mining and precious metals industry, including, without limitation, any commission agency contracts, any spot sale contract and any transportation or other contracts related thereto;

"**Project Finance Company**" means any Person in which the Issuer (or, from the Group Switch Date, PJSC Polyus) holds a direct or indirect interest or which is a special purpose vehicle, where such person is established or used for the purposes of undertaking the ownership, acquisition, construction or development of any project whose main source of finance is Project Financing;

"**Project Financing**" means any Indebtedness issued, raised or borrowed by a Project Finance Company to finance the ownership, acquisition, construction, repair, improvement, modification or development of any project if the recourse of the Person or Persons providing such financing is limited to (a) the project financed, and/or (b) the revenues derived from such project as the main source of repayment for the moneys advanced (it being acknowledged and agreed that equity contribution agreements (and related guaranties), subordinated debt obligations and equity pledges and similar arrangements, in each case, provided by or on behalf of the direct or indirect owners of such project shall not result in such financing being considered recourse to such owners);

"**Purchase Money Indebtedness**" means Indebtedness (including Capital Lease Obligations) (i) consisting of the deferred purchase price of property, conditional sale obligations, obligations under any title retention agreement, other purchase money obligations and obligations in respect of Indebtedness, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed; and (ii) incurred (including under an export finance facility) to finance the acquisition by the Issuer, a Guarantor or a member of the Group of such asset, including construction, additions, repair, refurbishment and improvements, in the ordinary course of business of the Group (including the cost of design, development, construction, acquisition, transportation, installation, improvement and migration of assets); provided, however, that (A) any Lien arising in connection with any such Indebtedness shall be limited to the specific asset being financed or, in the case of real property or fixtures, including additions and improvements, the real property on which such asset is attached, (B) such Indebtedness is incurred within 180 days after such acquisition of such assets and (C) the aggregate principal amount of Purchase Money Indebtedness at any one time outstanding shall not exceed (x) the Fair Market Value of the acquired or constructed asset or improvement so financed or (y) in the case of an uncompleted constructed asset, the amount of the asset to be constructed, as determined on the date the contract for construction of such asset was entered into by the Issuer, the relevant Guarantor or the relevant member of the Group (including, in each case, any reasonable related fees and expenses incurred in connection with such acquisition, construction or development);

"**Rate of Interest**" means interest in U.S. Dollars on the outstanding principal amount of the Notes at the rate of 4.699 per cent per annum;

"**Rating Agencies**" means Fitch, Moody's and Standard & Poor's or, if any or all of Fitch, Moody's or Standard & Poor's shall not provide a publicly available rating on the Notes, an internationally recognised securities rating agency or agencies, as the case may be, selected by the Issuer (or, from the Group Switch Date, PJSC Polyus) with the prior written approval of the Trustee, which shall be substituted for Fitch, Moody's and/or Standard & Poor's, with respect to the Notes;

references to "**reasonable**" or "**reasonably**" and similar expressions relating to the Trustee and any exercise of power, opinion, determination or other similar matter shall be construed as meaning reasonable or reasonably (as the case may be) having regard to, and taking into account, the interests of the Noteholders only;

"**Refinance**" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. Refinances, Refinanced and Refinancing shall have correlative meanings;

"**Refinancing Indebtedness**" means Indebtedness that Refinances any Indebtedness of the Issuer, any Guarantor or any member of the Group existing on the Issue Date or incurred in compliance with these Conditions, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that:

(a) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced or earlier provided that the Stated Maturity is later than the Stated Maturity of the Notes;

(b) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced or earlier provided that the Average Life is greater than the Average Life of the Notes;

(c) such Refinancing Indebtedness has an aggregate principal amount (or if incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if incurred with original issue discount, the aggregate accreted value) then outstanding (plus all accrued interest and fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; and

(d) if the Indebtedness being Refinanced is subordinated in right of payment to the Notes and any Guarantee, such Refinancing Indebtedness is subordinated in right of payment to the Notes and the relevant Guarantee at least to the same extent as the Indebtedness being Refinanced;

"**Relevant Indebtedness**" means any:

(a) Indebtedness in the form of or represented by any bond, note, debenture stock, loan stock, certificate or other debt instrument (but for the avoidance of doubt, excluding term or revolving loans (whether syndicated or unsyndicated), credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities, credit agreements or similar facilities) which is listed or quoted on any stock exchange;

(b) Indebtedness in the form of a loan to the Issuer, any Guarantor or any Material Subsidiary which is financed by the issuance of any of the foregoing forms of debt in (a)(i) above, where such issuance is by a special purpose company or a bank and the rights to payment of the Holders of such forms of debt are limited to payments actually made by either the Issuer, such Guarantor or such Material Subsidiary pursuant to such loan; or

(c) payment under any guarantee of, or any payment under any indemnity or other like obligation relating to, any such Indebtedness as is referred to in (a) or (b) above;

"**Relevant Jurisdiction**" means:

(a) in the case of payment by the Issuer, such taxing jurisdiction in which the Issuer is organized or is otherwise resident for tax purposes (or any political subdivision or any authority thereof or therein having power to tax);

(b) in the case of payments by a Guarantor, the Russian Federation or any political subdivision or any authority thereof or therein having power to tax; or

(c) in any case except in relation to Condition 6.2, any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax in which the Issuer or a Guarantor becomes organised or resident for tax purposes or through which payments are made by it of principal or interest on the Notes or under the Guarantee;

"**Restricted Business**" has the meaning given to it in Condition 4.8;

"**Securities Act**" means the U.S. Securities Act of 1933, as amended;

"**Standard & Poor's**" means Standard & Poor's Credit Market Services Europe Limited, any credit rating agency affiliate thereof or any successor to the rating agency business thereof;

"**Stated Maturity**" means, with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final payment of principal of such Indebtedness is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase or redemption of such Indebtedness at the option of the Holder or lender thereof upon the happening of any contingency unless such contingency has occurred);

"**Stock Exchange**" means London Stock Exchange plc;

"**Subordinated Obligation**" means, with respect to a Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter incurred) which is subordinate or junior in right of payment to the Notes or a guarantee of such Indebtedness, as the case may be, pursuant to a written agreement to that effect;

"**Subsidiary**" of any specified Person means any corporation, partnership, joint venture, association or other business or entity, whether existing on the Issue Date or thereafter organised or acquired by such Person:

(a) which is controlled directly or indirectly by such Person; and/or

(b) which is beneficially owned directly or indirectly for more than 50 per cent of the issued share capital or similar right of ownership by such Person; and/or

(c) of which more than 50 per cent of the total voting power of the voting stock is held by such Person and/or any Subsidiaries of such Person;

and which in each case is required under IFRS to be consolidated in the financial statements of such Person prepared in accordance with IFRS;

"**Taxes**" means any taxes, duties, assessments or government charges of whatever nature (including interest or penalties thereon), which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by a Relevant Jurisdiction or any tax authority thereof or therein and the term 'taxation' shall be construed accordingly;

"**Treasury Shares**" means any shares (or depositary receipts representing shares) in the share capital of the Issuer, any Guarantor or any member of the Group as may be owned by the Issuer, any Guarantor or any member of the Group; and

"**U.S. Dollar Equivalent**" means with respect to any monetary amount in a currency other than U.S. dollars, at any time for determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the applicable foreign currency as published in The Wall Street Journal in the "Exchange Rates" column under the heading "Currency Trading" or any replacement thereof on the date that is two Business Days prior to such determination.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Notes

The Notes will be evidenced on issue by (i) in the case of Regulation S Notes, the Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, the Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in the Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg. See "*—Book-entry Procedures for the Global Notes*". By acquisition of a beneficial interest in the Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is purchasing the Notes in an "offshore transaction" as such term is defined in Regulation S. See "*Transfer Restrictions*". Beneficial interests in the Rule 144A Global Note may be held only through DTC at any time. See "*—Book-entry Procedures for the Global Notes*". By acquisition of a beneficial interest in the Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a qualified institutional buyer (a "**QIB**") as defined in Rule 144A under the Securities Act ("**Rule 144A**") that is also a qualified purchaser (a "**QP**") within the meaning of section 2(a)(51) of the U.S. Investment Company Act of 1940 and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Paying Agency Agreement. See "*Transfer Restrictions*".

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Paying Agency Agreement, and with respect to the Rule 144A Global Note, as set forth in Rule 144A, and the Notes will bear the legends set forth thereon regarding such restrictions set forth under "Transfer Restrictions." A beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) from the transferor to the effect that the transfer is being made in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note, and become an interest in the Rule 144A Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the "**Definitive Notes**"). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to the person who appears at the relevant time on the register of Noteholders against presentation and (if no further payment falls to be made on it) surrender thereof to or to the order of the Principal Paying Agent, (or to or to the order of such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose). A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.

Notices

So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes. The Issuer shall also ensure that all notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such notice.

Record Date

So long as the relevant Global Note is held by or on behalf of a common depositary for Euroclear, Clearstream, Luxembourg, DTC or an Alternative Clearing System, "**Record Date**" shall mean the Clearing System Business Day before the relevant due date for payment, where "**Clearing System Business Day**" means a day when Euroclear and Clearstream, Luxembourg is open for business.

Meetings

The holder of each Global Note and any proxy appointed by it will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each US$1,000 in principal amount of Note represented by the Global Notes.

Trustee's powers

In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: a Global Note is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a "clearing agency" registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of the Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in the Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Book-Entry Procedures for the Global Notes

For each series of Notes evidenced by both the Regulation S Global Note and the Rule 144A Global Note, custodial and depositary links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See *"– Settlement and Transfer of Notes*".

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing the Regulation S Notes will have an ISIN, Common Code CUSIP number and CFI and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

DTC

The Rule 144A Global Note representing the Rule 144A Notes will have an ISIN, Common Code and CUSIP number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System.

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Rule 144A Global Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "Exchange for Definitive Notes", DTC will surrender the Rule 144A Global Note for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note, as the case may be (subject to the certification procedures provided in the Paying Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the relevant Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by such Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Rule 144A Global Note (subject to the certification procedures provided in the Paying Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Guarantor, the Trustee nor any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisors.

TRANSFER RESTRICTIONS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale or other transfer of the Notes offered hereby.

Each purchaser of the Rule 144A Notes, by accepting delivery of this Prospectus and the Rule 144A Notes, will be deemed to have represented, agreed and acknowledged that:

(a) (i) it is a QIB that is also a QP; (ii) it is not a broker-dealer that owns and invests on a discretionary basis less than US$25 million in securities of unaffiliated issuers; (iii) it is not a participant-directed employee plan, such as a 401(k) plan; (iv) it is holding this note for its own account or for the account of another QIB which is also a QP; (v) it was not formed for the purpose of investing in the Issuer or this Note; (vi) it, and each account for which it holds Notes, will hold and transfer at least US$200,000 in principal amount of Notes, (vii) it understands that the Issuer may receive a list of participants holdings positions in its securities from one or more book-entry depositories; and (viii) it will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than US$200,000, and (b) provide notice of the foregoing transfer restrictions to its subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories.

(b) It understands that such Securities have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (i) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or the account of another QIB that is also a QP that is purchasing not less than US$200,000 principal amount of the Notes; (ii) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; (iii) pursuant to Rule 144 under the Securities Act (if available); or (iv) pursuant to any other available exemption from the registration requirements of the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States.

(c) It acknowledges that the Securities offered and sold hereby in the manner set forth in paragraph (a) are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, are being offered and sold in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for the resale of such Notes.

(d) It understands that any offer, sale, pledge or other transfer of the Securities made other than in compliance with the above-stated restrictions may not be recognised by the Issuer.

(e) It acknowledges that the Issuer, the Joint Lead Managers and their respective affiliates, and others will rely upon the truth and accuracy of the above acknowledgments, representations or agreements and agrees that, if any of the acknowledgments, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer and the Joint Lead Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts who are QIBs each of which is also a QP, it represents that it has sole investment discretion with respect to each such account, and that it has full power to make the above acknowledgments, representations and agreements on behalf of each such account.

(f) It understands that the Issuer has the power under the Trust Deed to compel any beneficial owner of Rule 144A Notes that is not a QIB and also a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of, or purchase such interest from, such owner at a price equal to the least of (x) the purchase price therefor paid by the beneficial owner, (y) 100 per cent of the principal amount thereof or (z) the fair market value thereof. The Issuer has the right to refuse to honor the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and also a QP.

(g) It understands that such Securities, unless otherwise agreed between the Issuer, the Guarantor and the Trustee in accordance with applicable law, will bear a legend to the following effect.

THIS NOTE AND THE GUARANTEE IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") THAT IS ALSO A QUALIFIED PURCHASER (A "**QP**") WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 (THE "**INVESTMENT COMPANY ACT**") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN US$200,000 PRINCIPAL AMOUNT OF NOTES OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**"), (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, OR (4) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

EACH BENEFICIAL OWNER HEREOF REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QIB THAT IS ALSO A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS NOTES, WILL HOLD AND TRANSFER AT LEAST US$200,000 IN PRINCIPAL AMOUNT OF NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES; AND (8) IT WILL PROVIDE

NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT, IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A PERSON WHO IS NOT A QIB THAT IS ALSO A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON (1) WHO IS A QIB THAT IS ALSO A QP AND WHO IS OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT OF THE PRINCIPAL AMOUNT THEREOF, OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A PERSON WHO IS NOT A QIB AND ALSO A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

BY ACCEPTING THIS NOTE (OR ANY INTEREST IN THE NOTES REPRESENTED HEREBY) EACH BENEFICIAL OWNER HEREOF, AND EACH FIDUCIARY ACTING ON BEHALF OF THE BENEFICIAL OWNER (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT, DURING THE PERIOD IT HOLDS ANY INTEREST IN THIS NOTE (1) EITHER (A) IT IS NOT, AND IT IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST THEREIN) WILL NOT BE, OR BE ACTING ON BEHALF OF) AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A PLAN TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED ("**CODE**"), APPLIES, OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" UNDER SECTION 3(42) OF ERISA, 29. C.F.R SECTION 2510.3-101 OR OTHERWISE BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN SUCH ENTITY (EACH, A "**BENEFIT PLAN INVESTOR**") OR A GOVERNMENTAL, CHURCH OR NON U.S. PLAN WHICH IS SUBJECT TO ANY FEDERAL STATE, LOCAL, NON U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY AND/OR THE PROHIBITED TRANSACTION PROVISIONS OF ERISA AND/OR SECTION 4975 OF THE CODE ("**SIMILAR LAWS**") AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE "PLAN ASSETS" OF SUCH PLAN UNDER SECTION 3(42) OF ERISA, 29 C.F.R. SECTION 2510.3-101 OR OTHERWISE, AND NO PART OF THE ASSETS TO BE USED BY IT TO PURCHASE OR HOLD SUCH NOTES OR ANY INTEREST HEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR OR SUCH A GOVERNMENTAL, CHURCH OR NON U.S. PLAN OR (B) IT IS, OR IS ACTING ON BEHALF OF A GOVERNMENTAL, CHURCH OR NON U.S. PLAN, AND SUCH ACQUISITION DOES NOT AND WILL NOT RESULT IN A NON EXEMPT VIOLATION OF ANY SIMILAR LAWS AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH PLAN SOLELY AS A RESULT OF THE INVESTMENT IN THE ISSUER BY SUCH PLAN; AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN OTHERWISE THAN TO A PURCHASER OR TRANSFEREE THAT IS DEEMED TO MAKE THESE SAME REPRESENTATIONS, WARRANTIES AND AGREEMENTS WITH RESPECT TO ITS PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF THIS NOTE, OR ANY INTEREST HEREIN, WILL BE

EFFECTIVE, AND NEITHER THE ISSUER NOR THE TRUSTEE WILL RECOGNIZE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE ISSUER DETERMINES THAT THIS NOTE IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THIS PROSPECTUS.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THIS NOTE SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE TRUST DEED.

(h) It understands and acknowledges that its purchase, holding and disposition of such Notes constitutes a representation and agreement by it that at the time of purchase and throughout the period it holds such Notes or any interest therein (1) either (i) it is not, and is not acting on behalf of (and for so long as it holds such Notes (or any interest therein) will not be, or be acting on behalf of), a Benefit Plan Investor or a governmental, church or non U.S. plan which is subject to any Similar Laws and/or laws or regulations that provide that the assets of the Issuer could be deemed to include "plan assets" of such plan under Section 3(42) of ERISA, the Plan Assets Regulation or otherwise, and no part of the assets used by it to purchase or hold such Note or any interest therein constitutes the assets of such Benefit Plan Investor or such plan, or (ii) it is, or is acting on behalf of, a governmental, church or non U.S. plan, and such purchase or holding of such Note does not and will not result in a non-exempt violation of any Similar Laws, and will not subject the Issuer to any laws, rules or regulations applicable to such plan solely as a result of the investment in the Issuer by such plan; and (2) it will not sell or otherwise transfer any note or interest therein to any person without first obtaining these same foregoing representations, warranties and covenants from that person with respect to its acquisition, holding and disposition of such Note.

(i) It acknowledges that, prior to any transfer of Securities or of beneficial interests in the Global Notes, the holder of Securities or the holder of beneficial interests in Global Notes, as the case may be, may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation as provided in this Agreement and the Trust Deed.

(j) If it is acquiring any Securities for the account of one or more QIBs each of which is also a QP, it represents that it has sole investment discretion with respect to each such account and that it has full power to make (and does make) the foregoing acknowledgments, representations and agreements on behalf of each such account. The Issuer, the Guarantor, the Registrar, the Joint Lead Managers and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and it agrees that, if any of the acknowledgments, representations or agreements deemed to have been made by it by its purchase of Securities pursuant to Rule 144A is no longer accurate, it shall promptly notify the Issuer and the Joint Lead Managers.

(k) It understands that the Notes offered in reliance on Rule 144A will be represented by the Rule 144A Global Note. Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that the sellers of the Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S **Notes**

Each purchaser of Regulation S Notes, by accepting delivery of this Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(a) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(b) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the "distribution compliance period" (as such term is defined in Rule 902 of Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in the case of (a) and (b), in accordance with any applicable securities laws of any state of the United States.

(c) It understands that the Regulation S Notes will be evidenced by the Regulation S Global Note Certificate. Before any interest in the Regulation S Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

TAXATION

The following is a general description of certain tax laws relating to the Notes and does not purport to be a comprehensive discussion of the tax treatment of the Notes. Prospective investors in the Notes should consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of the Notes in light of their particular circumstances, including but not limited to the consequences of receipt of interest and sale or redemption of the Notes.

JERSEY

The following summary of the anticipated tax treatment in Jersey of the Company and holders of Notes (other than residents of Jersey) is based on Jersey taxation law as it is understood to apply at the date of this document. It does not constitute legal or tax advice. Holders of Notes should consult their professional advisers on the implications of acquiring, buying, holding, selling or otherwise disposing of Notes under the laws of the jurisdictions in which they may be liable to taxation. Holders of Notes should be aware that tax rules and practice and their interpretation may change.

Income Tax

The Company

Under the Income Tax (Jersey) Law 1961, as amended (the "**Jersey Income Tax Law**"), the Company will be regarded as either:

(a) not resident in Jersey under Article 123(1) of the Jersey Income Tax Law provided that (and for so long as) it satisfies the conditions set out in that provision, in which case the Company will not (except as noted below) be liable to Jersey income tax; or

(b) resident in Jersey under Article 123C of the Income Tax Law, in which case the Company (being neither a financial services company nor a specified utility company under the Jersey Income Tax Law at the date hereof) will (except as noted below) be subject to Jersey income tax at a rate of 0 per cent.

The Company conducts its affairs so as to fall within paragraph (a) above.

If the Company derives any income from the ownership or disposal of land in Jersey or the importation and supply of hydrocarbon oil into Jersey, such income will be subject to tax at the rate of 20 per cent. It is not expected that the Company will derive any such income.

Holders of Notes

The Company will be entitled to make payments in respect of the Notes without any withholding or deduction for or on account of Jersey income tax; however, please see the section below entitled "Withholding tax in Jersey" in relation to payments made by a paying agent established in Jersey. Holders of Notes (other than residents of Jersey) will not be subject to any tax in Jersey in respect of the holding, sale or other disposition of Notes.

Withholding tax in Jersey

A paying agent established in Jersey that makes "interest payments" (as defined in the Taxation (Agreements with European Member States) (Jersey) Regulations 2005 (the "**Regulations**")) to an individual beneficial owner resident in an EU Member State that is a "contracting party" (as defined in the Regulations) is obliged to communicate details of such payments to the Comptroller of Taxes in Jersey who, pursuant to the Regulations, must provide such information to the tax authorities of the EU Member State in which the beneficial owner is resident.

Goods and services tax

The Company is an "international services entity" for the purposes of the Goods and Services Tax (Jersey) Law 2007 (the "**GST Law**"). Consequently, the Company is not required to:

(a) register as a taxable person pursuant to the GST Law;

(b) charge goods and services tax in Jersey in respect of any supply made by it; or

(c) subject to limited exceptions that are not expected to apply to the Company, pay goods and services tax in Jersey in respect of any supply made to it.

Stamp duty

No stamp duty is payable in Jersey on the issue or inter vivos transfer of Notes.

Upon the death of a holder of Notes, a grant of probate or letters of administration will be required to transfer the Notes of the deceased person to the extent that the Notes are considered moveable estate situated in Jersey, except that where the deceased person was domiciled outside of Jersey at the time of death, the Company may (at its discretion) dispense with this requirement where the value of the deceased's movable estate in Jersey does not exceed £10,000.

Upon the death of a holder of Notes (and to the extent that the Notes are considered moveable estate situated in Jersey), Jersey stamp duty will be payable on the registration in Jersey of a grant of probate or letters of administration, which will be required in order to transfer or otherwise deal with:

(a) (where the deceased person was domiciled in Jersey at the time of death) the deceased person's personal estate wherever situated (including any Notes in the Company to the extent that the Notes are considered moveable estate situated in Jersey) if the net value of such personal estate exceeds £10,000; or

(b) (where the deceased person was domiciled outside of Jersey at the time of death) the deceased person's personal estate situated in Jersey (including any Notes in the Company to the extent that the Notes are considered moveable estate situated in Jersey) if the net value of such personal estate exceeds £10,000.

The rate of stamp duty payable is:

(a) (where the net value of the deceased person's relevant personal estate does not exceed £100,000) 0.50 per cent of the net value of the deceased person's relevant personal estate;

(b) (where the net value of the deceased person's relevant personal estate exceeds £100,000) £500 for the first £100,000 plus 0.75 per cent of the net value of the deceased person's relevant personal estate which exceeds £100,000; or

(c) (where the net value of the deceased person's relevant personal estate exceeds £13,360,000) the sum of £100,000.

In addition, application and other fees may be payable.

UNITED KINGDOM

The following summary discusses in general terms, based upon UK tax law as applied in England and published H.M. Revenue & Customs ("HMRC") practice as of the date of this document, the material UK tax consequences relating to the ownership of the Notes. Such laws may be repealed, revoked or modified and such practice may not bind HMRC and/or may change, so as to result in UK tax consequences different from those discussed below.

Except where noted, the discussion relates only to the position of persons who are the absolute beneficial owners of the Notes which are held as investments (and, therefore, not held in connection with any trade) and may not apply to persons in special situations, such as financial institutions, investment funds, trustees and persons who are or become connected with the Issuer other than through their holding of the Notes. The discussion does not constitute legal or tax advice and, accordingly, persons considering the purchase, ownership or disposition of the Notes should consult their own tax advisers concerning the UK tax consequences in the light of their particular situations as well as any consequences arising under the law of any other relevant tax jurisdiction. No representations with respect to the UK tax consequences to any particular holder of Notes are made in this section.

References in this discussion to Notes owned, held or disposed of by holders of Notes include references to the Book-Entry Interests held by purchasers in the Notes in global form deposited with, and registered in the name of a common depositary for, Euroclear and Clearstream, Luxembourg.

Payments on the Notes – withholding tax

No withholding or deduction on account of UK income tax will be required from payments of principal on the Notes.

Interest on the Notes will generally be paid after deduction of UK income tax at the basic rate (currently 20 per cent). However, no withholding or deduction of UK income tax at source will be required from payments of interest where:

- the Notes are listed on a "**recognised stock exchange**" within the meaning of section 1005 of the Income Tax Act 2007 (the London Stock Exchange being such a recognised stock exchange for these purposes); or
- the Issuer reasonably believes that the person beneficially entitled to such interest is:

(a) a company resident in UK; or

(b) a company not resident in the UK which carries on a trade in the UK through a permanent establishment and which brings into account the interest in computing its UK taxable profits; or

(c) a partnership each member of which is a company referred to in (a) or (b) above or a combination of companies referred to in (a) and (b) above,

and (in any such case) HMRC has not given a direction that the interest should be paid under deduction of tax.

For these purposes, the Notes will be regarded as listed on a recognised stock exchange if they are officially listed in the UK in accordance with provisions corresponding to those generally applicable in EEA states and are admitted to trading on the London Stock Exchange. Under current HMRC practice, the admission of the Notes to trading on the London Stock Exchange's regulated market fulfils these requirements.

Furthermore, the Issuer may be able, by virtue of other exemptions under UK domestic law or the provisions of an applicable double tax treaty, to pay interest on a holding of Notes free of deduction or subject to a reduced rate of deduction, subject to completion of certain procedural requirements.

Taxation of interest and other returns

UK Resident Individuals

A holder of Notes who is a UK resident individual for tax purposes will generally be subject to UK income tax at the applicable rate on any interest received on the Notes (grossed up where deduction at source applies), but subject to credit for (or, if no liability arises, repayment of) any UK income tax deducted at source.

UK Resident Companies

In general, a holder of Notes which is a UK resident company will be liable to, or entitled to relief from, UK corporation tax on all profits, gains and losses arising to it from the Notes, generally computed in accordance with UK GAAP or International Accounting Standards. In general, holders of the Notes who are within the charge to UK corporation tax will be subject to tax on income in respect of all profits, gains and losses on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) measured and recognised in each accounting period broadly in accordance with their statutory accounting treatment.

Non-UK Residents

Except for any income tax deducted at source as described above, a holder of Notes who is not resident in the United Kingdom (other than certain trustees) will not be liable or assessable to UK tax on interest received on the Notes, unless that holder carries on a trade, profession or vocation through a UK branch or agency or, in the case of a UK company, a permanent establishment, in connection with which the interest is received or the Notes are held. In certain cases, a UK broker or investment manager is not treated as a UK branch, agency or permanent establishment for these purposes.

If a non-UK resident holder is liable to UK tax on any interest received on the Notes, the holder will receive credit for (and if no liability for UK tax arises, repayment of) any income tax deducted at source.

As noted above, where there is an applicable double tax treaty between the United Kingdom and the country in which the holder of Notes is resident, any liability of the noteholder to UK tax on interest received on the Notes may be reduced or eliminated by the treaty.

Accrued Income Scheme

On a transfer of Notes by a holder who is liable to UK income tax, such as a UK resident individual, any interest which has accrued since the last interest payment date may be chargeable to UK income tax as income of that holder.

The accrued income scheme will not, however, generally apply in the case of a holder of Notes who is not resident in the United Kingdom, unless that holder carries on a trade through a UK branch or agency in connection with which the Notes are held.

Taxation of chargeable gains

The Notes should not be treated as "**qualifying corporate bonds**" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992 for the purposes of UK capital gains tax (but not corporation tax on chargeable gains). Accordingly, a disposal (including a redemption) of Notes by an individual holder of Notes resident in the United Kingdom, or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Note is attributable, may give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

United Kingdom information reporting

Any paying agent or other person in the United Kingdom through whom interest is paid to, or by whom interest is received on behalf of, a holder of Notes may be required to provide information in relation to the payment to HMRC pursuant to certain domestic and international reporting and transparency regimes. The information that is disclosed may include (but is not limited to) information relating to the value of the Notes, amounts paid or credited with respect to the Notes, details of the holders or the beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons who exercise control over entities that are, or are treated as, holders of the Notes, details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes. These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of UK income tax and whether or not the holder is resident in the United Kingdom for UK tax purposes. In certain circumstances, HMRC may communicate this information to the tax authorities of certain other jurisdictions.

Inheritance tax

A gift or transfer at undervalue by a holder of Notes who is an individual of any Notes held by such holder or the death of such a holder may give rise to a liability to UK inheritance tax.

Stamp duty and stamp duty reserve tax

No UK stamp duty or stamp duty reserve tax will be payable on the issue of the Notes.

THE RUSSIAN FEDERATION

General

The following is an overview of certain Russian tax considerations relevant, among other things, to taxation of the Notes and payments under the Guarantee.

The overview is based on the laws of the Russian Federation in effect on the date of this Prospectus (where these laws are subject to potential changes, which could occur frequently, at short notice and may have retroactive effect). The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes. The overview does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation or tax implications arising for the Noteholders applying special tax regimes available under Russian tax legislation, nor does it seek to address the availability of double tax treaty relief in respect of income payable on the Notes, or practical difficulties involved in claiming and obtaining such double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Notes. No representations with respect to the Russian tax consequences of investing, owning or disposing of the Notes to any particular Noteholder is made hereby.

The provisions of the Russian Tax Code applicable to the Noteholders and transactions involving the Notes are ambiguous and lack interpretive guidance. Both the substantive provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be more inconsistent and subject to more rapid and unpredictable change (possibly with retroactive effect) than in jurisdictions with more developed capital markets or more developed taxation systems.

In practice, the interpretation and application of tax laws and regulations by different tax inspectorates may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. The interpretation and application of such provisions will in practice rest substantially with local tax inspectorates. Furthermore, in the absence of binding precedents, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this overview, the term "**Resident Noteholder**" means:

- a Russian legal entity which acquires, holds and disposes of the Notes, a legal entity or an organisation, in each case organised under a non-Russian law, which acquires, holds and disposes of the Notes through its permanent establishment in the Russian Federation or a foreign entity or an organisation recognised as a Russian tax resident in accordance with the requirements set out in the Russian Tax Code which acquires, holds and disposes of the Notes (the "**Resident Noteholder-Legal Entity**"). A foreign entity or an organisation shall be deemed to be a tax resident of the Russian Federation for the purposes of the Russian Tax Code if (1) it is deemed to be a tax resident of the Russian Federation in accordance with an applicable double tax treaty or (2) its place of management is in the Russian Federation unless a different conclusion follows from an applicable double tax treaty; and
- an individual who satisfies the criteria for being a Russian tax resident (the "**Resident Noteholder-Individual**") who acquires, holds and disposes of the Notes. A "Russian tax resident" is an individual who is actually present in the Russian Federation for an aggregate period of 183 calendar days or more in any period comprised of 12 consecutive months. Presence in the Russian Federation for Russian personal income tax residency purposes is not considered interrupted if an individual departs from the Russian Federation for short periods of time (less than six months) for medical treatment, education purposes or completion of employment or other duties related to work (rendering services) at offshore hydrocarbon fields.

For the purposes of this overview a "**Non-Resident Noteholder**" means:

- a Noteholder which is a legal entity or an organisation, in each case not organised under Russian law, which acquires, holds and disposes of the Notes otherwise than through its permanent establishment in the Russian Federation and does not satisfy the criteria for being a Russian tax resident as defined above (the "**Non-Resident Noteholder-Legal Entity**"); and
- a Noteholder who is an individual which acquires, holds and disposes of the Notes and does not satisfy the criteria for being a Russian tax resident as defined above (the "**Non-Resident Noteholder-Individual**").

For the purposes of this overview, the definitions of "Resident Noteholder" and "Non-Resident Noteholder" in respect of individuals are taken at face value based on the wording of Russian tax law as written as at the date of this Prospectus. In practice, however, the application of the above formal residency definition may differ based on the position of the Russian tax authorities. As at the date of this Prospectus, the law is worded in a way that implies the potential for a split year residency for individuals.

However, both the Russian Ministry of Finance and the Russian tax authorities have expressed the view that an individual should be either tax resident or non-resident in the Russian Federation for the full calendar year and consequently even where the travel pattern dictates differing tax residency status for a part of the tax year, the application of the Russian personal income residency tax rate may in practice be disallowed.

Although the Russian Tax Code states that tax residency for individuals depends exclusively on the number of days spent in the Russian Federation, in the beginning of 2015 the Federal Tax Service issued several private clarifications promulgating a view that besides number of days of physical presence such factors as permanent home and center of vital interest (country where family, business are located) must be taken into account for the purposes of determination of tax residency. Although these private clarifications of the Federal Tax Service were subsequently cancelled by the Russian Ministry of Finance in April 2016, we may not exclude the risk of challenge of non-resident status for individuals who do not meet the physical presence test for residents but have ties (such as property, family, business) to the Russian Federation.

Tax residency rules and the Russian Federation's rights with regard to taxation may be affected by the applicable double tax treaty. The Russian tax treatment of payments under the Guarantee made by the Guarantor to the Trustee, acting on behalf of the Noteholders, may affect the Noteholders. See "*Taxation of Payments under the Guarantee*" below.

Taxation of the Notes

Resident Noteholders

Resident Noteholders will be subject to all applicable Russian taxes in respect of income derived by them in connection with the acquisition, ownership and/or disposal of the Notes (including interest received on the Notes).

Resident Noteholders should consult their own tax advisors with respect to the effect that the acquisition, holding and disposal of the Notes may have on their tax position.

Non-Resident Noteholders

A Non-Resident Noteholder should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer. A Non-Resident Noteholder also generally should not be subject to any Russian taxes in respect of any gains or other income realised on redemption, sale or other disposal of the Notes outside Russia, provided that the proceeds from such redemption, sale or other disposal of the Notes are not received from a source within the Russian Federation. However, in the absence of a clear definition of what constitutes income from sources within Russia in case of sale of securities, there is a risk that the income from disposal of the Notes (including any accrued and paid interest) may be considered as received from Russian sources for Non-Resident Noteholders.

Taxation of Non-Resident Noteholders—legal entities

Acquisition of the Notes

The acquisition of the Notes by Non-Resident Noteholder – Legal Entities (whether upon their issue or in the secondary market) should not constitute a taxable event under Russian tax law. Consequently, the acquisition of the Notes should not trigger any Russian tax implications for the Non-Resident Noteholder–Legal Entities.

Sale or disposal of the Notes

Generally, there should be no Russian tax on gains from sale or other disposition of the Notes imposed on Non-Resident Noteholder — Legal Entity. There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the bonds (i.e. debt obligations) where proceeds from sale or other disposition of the Notes are received from a source within Russia by a Non-Resident Noteholder–Legal Entity, which is caused by isolated precedents in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the Notes. Although the Russian Ministry of Finance in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest paid to a non-Russian organization should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having a registered tax presence in Russia which purchases the Notes or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20 per cent (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds.

Taxation of a Non-Resident Noteholders — individuals

Acquisition of the Notes

The acquisition of the Notes by Non-Resident Noteholders – Individuals, may constitute a taxable event for Russian personal income tax purposes pursuant to provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of acquisition of securities (in case the Notes are initially issued at par, these provisions are likely to be relevant for the acquisitions of the Notes in the secondary market only). In particular, if the acquisition price of the Notes is below the lower margin of the fair market value of the Notes calculated under a specific procedure for the determination of market prices of securities for tax purposes, the difference may become subject to the Russian personal income tax at the rate of 30 per cent (or such other tax rate as may be effective at the time of acquisition), arguably subject to reduction or elimination under the applicable double tax treaty.

Under the Russian tax legislation, taxation of income derived by Non-Resident Noteholders – Individuals will depend on whether this income is qualified as received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, in practice the Russian tax authorities may infer that such income should be considered as Russian source income, if the Notes are purchased "in Russia". In the absence of any additional guidance as to what should be considered as a purchase of securities "in Russia", the Russian tax authorities may apply various criteria to determine the source of the related material benefit, including looking at the place of conclusion of the acquisition transaction, the location of the Issuer, or other similar criteria. There is no assurance therefore that as a result any material benefit received by the Non-Resident Noteholders – Individuals in connection with the acquisition of the Notes will not become taxed in Russia.

Interest on the Notes

The Non-Resident Noteholders – Individuals generally should not be subject to any Russian taxes in respect of payment of interest on the Notes received from the Issuer. Taxation of interest on the Notes may however be affected by the taxation treatment of income from sale of the Notes and payments under the Guarantee. See "*Sale or other Disposal of the Notes*" and "*Taxation of Payments under the Guarantee*" below.

Sale or other Disposal of the Notes

Non-resident Noteholder – Individuals should not be subject to any Russian taxes in respect of gains or other income realised on a redemption, sale or other disposal of the Notes outside of Russia, provided that the proceeds of such sale, redemption, or disposal are not received from a source within Russia.

Subject to any available tax treaty relief, if the receipt of any proceeds from the disposal of the Notes by a Non-Resident Noteholder–Individual, is classified as income from a source within the Russian Federation for Russian personal income tax purposes and, as such, will be subject to Russian personal income tax at the rate of 30 per cent (or such other tax rate as may be effective at the time of payment) on the gross amount of proceeds from disposal of the Notes (including accrued and paid interest on the Notes) less any available duly documented cost deductions.

Since the Russian Tax Code does not contain any additional guidance as to when the sales or disposal proceeds should be deemed to be received from Russian sources, in practice the Russian tax authorities may assert that such income should be considered as Russian source income if the Notes are sold or disposed "in Russia". In the absence of any additional guidance as to what should be considered as a sale or other disposal of securities "in Russia", the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the purchaser, or other similar criteria. There is no assurance therefore that as a result, sales or disposal proceeds received by the Non-Resident Noteholders – Individual will not become taxable in Russia.

The tax will apply to the gross amount of sales or disposal proceeds received upon the disposal of the Notes (including accrued and paid interest on the Notes), decreased by the amount of duly documented cost deductions (including the original acquisition costs and other documented expenses related to the acquisition, holding and sale or other disposal of the Notes), provided that such documentation is duly executed. There is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities, the immediate deduction will be disallowed and Russian personal income tax will apply to the gross amount of sales or disposal proceeds.

In certain circumstances if sales or other disposal proceeds (including accrued and paid interest on the Notes) are paid to a Non-Resident Noteholder – Individual by a licensed broker or an asset manager that is a Russian legal entity or organisation, carrying out operations under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or a commercial mandate agreement for the benefit of the Non-Resident Noteholder – Individual, the applicable personal income tax at the rate of 30 per cent (or such other tax rate as may be effective at the time of payment) should be withheld at source by such person who will be considered as the tax agent.

The amount of tax withheld will be calculated after taking into account available documented deductions for the original acquisition costs and related expenses on the acquisition, holding and sale or other disposal of the Notes to the extent such deductions and expenses can be determined by the entity making the payment of income to a Non-Resident Noteholder – Individual. If the costs were borne in connection with the acquisition of the Notes within the relationship with the party other than the tax agent who is obliged to calculate and withhold Russian personal income tax under this agreement, original duly documented acquisition costs may be taken into account by the tax agent upon written application of the Noteholder and presentation of the documents confirming the costs.

Where a sale is made to other legal entities, organisations (other than licensed brokers or asset managers mentioned above) or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder – Individual would be then required to file a personal income tax return individually, report on the amount of income realised to the Russian tax authorities and apply for a deduction in the amount of acquisition and other expenses related to the acquisition, holding and the sale or other disposal of the Notes confirmed by the supporting documentation. The applicable personal income tax would then have to be paid by the Non-Resident Noteholder – Individual on the basis of the filed personal income tax return.

In certain circumstances, gains received and losses incurred by a Non-Resident Noteholder–Individual as a result of the sale or other disposal of the Notes and other securities of the same category (*i.e.*, securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes, which would affect the total amount of income of a Non-Resident Noteholder–Individual subject to taxation in Russia.

There is also a risk that any gain derived by a Non-Resident Noteholder–Individual from the sale or other disposal of the Notes may be affected by changes in the exchange rate between the currency of the acquisition of the Notes, the currency of the sale or other disposal of the Notes and Russian roubles. For personal income tax purposes, deductible costs and proceeds from disposal of the Notes are converted into Russian roubles at the exchange rate of the Central Bank of Russia as of the date when the costs were incurred and proceeds were received. This may result in taxable income in Russian rouble terms due to devaluation of the Russian rouble (whereas in foreign currency terms there might be no gain or even capital loss).

Non-Resident Noteholders–Individuals should consult their own tax advisors with respect to tax consequences arising in connection with the disposal of the Notes, including the receipt of sales or other proceeds from a source within Russia upon the sale or other disposal of the Notes.

Taxation of payments under the Guarantee

Resident Noteholders will be subject to all applicable Russian taxes in respect of income realised by them in connection with payments received under the Guarantee. Resident Noteholders should consult their own tax advisers with regards to the effect that the receipt of payments under the Guarantee may have on their tax position.

Withholding tax

Pursuant to the Russian Tax Code, payments made by a Russian entity to a Non-Resident – Legal Entity should be subject to Russian withholding tax to the extent such payments represent Russian source income. The Russian Tax Code provides an open list of Russian source income, referring to "other similar income" that could include any income similar to specific examples of types of Russian source income provided in the Russian Tax Code (for instance, dividends, interest, royalties, fines, penalties, etc.), including guarantee payments. The Russian Tax Code provides that the exemption established for the "issued bonds" (as discussed below) is applicable with regard to payments made under the guarantee.

Therefore, payments under the Guarantee made by the Guarantor to or to the order of the Trustee acting in favour of the Noteholders should be subject to the Russian withholding tax at a rate of 20 per cent, unless the criteria for application of the exemption established for the "issued bonds" are all met or the Russian withholding tax is reduced or eliminated based on the applicable double tax treaty.

In particular, the Russian Tax Code envisages that the Russian companies which make payments in favour of foreign legal entities upon the execution of a guarantee or suretyship should be released from the obligation to withhold Russian income tax from such payments provided that the following conditions are all met (i.e. exemption established for the "**issued bonds**"):

(1) Payments under a guarantee or suretyship relate to "issued bonds", where "issued bonds" are defined as bonds or other debt obligations (a) listed and/ or admitted to trading on one of the qualifying foreign exchanges and/ or (b) that are cleared through qualifying foreign depository/ clearing organisations.

The lists of qualifying foreign stock exchanges and foreign depository/ clearing organisations were approved by the former Federal Financial Markets Service of the Russian Federation in its Order № 12-91/pz-n dated 25 October 2012 (the "**Lists**").

The Notes are to be admitted to the Official List of the London Stock Exchange and to the London Stock Exchange's regulated market. The Regulation S Notes will initially be represented by interests in the Regulation S Global Note Certificate, without interest coupons, which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee, on or about the Issue Date. The Rule 144A Notes will initially be represented by interests in the Rule 144A Global Note Certificate, which will be registered in the name of Cede & Co., as nominee of, and deposited with a custodian for, the DTC, on or about the Issue Date. Beneficial interests in the Global Note Certificates will be shown on, and transfers thereof will be effected only through records maintained by, DTC, Euroclear and Clearstream, Luxembourg and their respective participants.

The London Stock Exchange, Euroclear and Clearstream, Luxembourg are included in the Lists. DTC is not expressly mentioned in the Lists, but its holding company, the Depository Trust & Clearing Corporation that provides clearance, settlement, and information services for securities and derivative transactions through its subsidiaries, including DTC, is mentioned in the list of qualifying foreign depository/ clearing organisations. One can argue, albeit it is not free from doubt, that reference to the Depository Trust & Clearing Corporation in the Lists should cover its subsidiaries, including DTC.

(2) Payments under a guarantee or suretyship relate to "issued bonds" which were placed by a foreign entity in order to fund a debt to a Russian entity.

Debt obligations of a Russian legal entity towards a foreign legal entity should be recognised as arising in connection with the issuance by a foreign legal entity of "issued bonds" if reference to this fact is made in the agreement governing the debt obligation and/or in the terms and conditions of the issuance of the respective "issued bonds" and/or in the prospectus, or the connection is verified by the actual movement of funds.

Pursuant to the section "Use of Proceeds" of this Prospectus, the Issuer intends to use the net proceeds from the issue of the Notes primarily for debt refinancing and other general corporate purposes of the Group, including financing of operating activities and development projects of other members of the Group.

Therefore, if any amounts of the net proceeds would not be used to fund debts to the Russian companies of the Group (including the Guarantor) this condition will not be satisfied and the abovementioned tax release could not be applied in practice with respect to corresponding amounts of Guarantee payments. In this case, there is a risk that respective payments under the Guarantee may be subject to Russian withholding tax, unless it is reduced or eliminated based on the applicable double tax treaty.

(3) There is a double tax treaty between the Russian Federation and the jurisdiction of tax residence of the issuer of the "issued bonds", the foreign entity authorised to receive interest income payable on the "issued bonds", or the foreign entity to which rights and obligations under bonds issued by another foreign entity have been assigned which can be confirmed by a tax residency certificate.

Therefore, the Guarantor should not be required to deduct Russian withholding tax from Guarantee payments made to the Trustee (acting on behalf of the Noteholders), provided the Guarantor has received from the Trustee a tax residency confirmation and the Trustee is deemed to be a "foreign entity authorised to receive interest income payable on the issued bonds" for Russian taxation purposes. However, there is a risk that the Trustee could not be viewed as a "foreign entity authorised to receive interest income payable on the issued bonds" for Russian taxation purposes. In this case the payments made by the Guarantor under the Guarantee could be considered to be made to the Non-Resident Noteholders – Legal Entities; provided that the Guarantor has received from the Non-Resident Noteholders – Legal Entities tax residency certificates (confirming that they reside in the jurisdictions having double tax treaties with the Russian Federation), the above exemption on the "issued bonds" could be applicable with respect to payments under the Guarantee payable to such Non-Resident Noteholders – Legal Entities.

In case the above exemption on the "issued bonds" is not applicable with regard to payments under the Guarantee (either because the conditions 2 and/or 3 are not met), there is a risk that respective payments under the Guarantee may be subject to Russian withholding tax unless the Russian withholding tax is reduced or eliminated based on an applicable double tax treaty.

Pursuant to the Russian Tax Code, the double tax treaty benefits could be applied only by a non-resident income recipient who has the actual right to receive income (*i.e.*, who qualifies as a "**beneficial owner of income**"). A non-resident income recipient claiming double tax treaty benefits that has the actual right to receive income should provide the tax agents that pay Russian source income with a tax residency certificate before the date of the income payment. Before 1 January 2017, a tax agent that pays Russian source income has the right to request from a non-resident income recipient a confirmation that it has an actual right to receive the income in question; starting from 1 January 2017, there is an obligation of a non-resident income recipient to provide a tax agent with such confirmation in order to enjoy the double tax treaty benefits. There is no list of the particular documents which can be supplied by the non-resident income recipient for this purpose. Further, there is no explicit guidance on the list of the structures which can jeopardize the beneficial owner status of the non-resident income recipient. Beneficial ownership status is based on facts and circumstances and should be analysed on a case-by-case basis.

It is unlikely that the Trustee will be deemed to be the beneficial owner of payments under the Guarantee and, consequently, its tax residency certificate (if it is provided to the Guarantor) could arguably not be relied upon for the purpose of application of the double tax treaty benefits.

In this respect, if the Non-Resident Noteholder – Legal Entity is a beneficial owner of income payable under the Guarantee and provides the Guarantor with its tax residency certificate and a relevant confirmation that it is a beneficial owner of income, the Russian withholding tax on Guarantee payments payable to such Non-Resident Noteholder – Legal Entity could be reduced or eliminated based on the applicable double tax treaty. However, there can be no assurance that the double tax treaty relief (or refund of any taxes withheld) will be available for the Non-Resident Noteholder – Legal Entity with respect to payments under the Guarantee in practice.

There can be no assurance that Russian withholding tax would not be imposed on the payments made under the Guarantee to Non-Resident Noteholders – Legal Entities not resident for tax purposes in countries which have concluded a double tax treaty with the Russian Federation. In such case there is a risk that Russian withholding tax would be imposed on the full amount of the payment under the Guarantee, including the principal amount of the Notes.

In case the payments under the Guarantee are deemed to be made to the Non-Resident Noteholder-Individual, a Non-Resident Noteholder – Individual may be subject to Russian personal income tax as such income may be treated as a Russian source of income. In this case, depending on how these payments would be effected, either the full amount of payments, or a part of such payments covering the interest on the Notes, could be subject to Russian personal income tax at the rate of 30 per cent, which may be withheld at source or payable on a self-assessed basis. The tax may be reduced or eliminated pursuant to the provisions of any applicable double tax treaty.

Importantly, the abovementioned exemption established for the "issued bonds" that envisages the release from the obligation to deduct Russian withholding tax from payments made upon the execution of a guarantee or suretyship (provided the above conditions are all simultaneously met) does not provide for the exemption of the foreign interest income recipients from Russian withholding tax, although currently there is no requirement and mechanism in the Russian tax legislation for foreign income recipients which are the legal entities to self-assess and pay the tax to the Russian tax authorities. There can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients including the Non-Resident Noteholders – Legal Entities and/or the Trustee.

If payments under the Guarantee become subject to Russian withholding tax (as a result of which the Guarantor would have to reduce payments made under the Guarantee by the amount of tax withheld), the Guarantor will be obliged (subject to certain conditions) to pay an additional amount so as to result in the receipt by the Noteholders (or the Trustee acting on behalf of the Noteholders) of such amounts as would have been received by them if no such tax withholding or deduction had been required. See "*Terms and Conditions of the Notes — Taxation" and "Risk Factors — Risks Relating to Taxation — Risks Relating to the Russian Taxation System — Payments under the Guarantee may be subject to Russian withholding tax*".

Russian VAT

Payments under the Guarantee should not be subject to Russian VAT.

Tax treaty relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions that allow recipients to reduce or eliminate Russian income tax due with respect to income received by Non-Resident Noteholders from Russian sources, including income relating to acquisition, holding, sale and disposal of the Notes (if this income is treated as income from Russian sources). To the extent double tax treaty benefits are available, in order to obtain them such Non-Resident Noteholders must comply with the certification, information and reporting requirements in force in the Russian Federation (relating, in particular, to the confirmation of the entitlement and eligibility to treaty benefits).

In order to utilise the double tax treaty benefits, a Non-Resident Noteholder – Legal Entity which has the actual right to receive income (i.e. who qualifies as a "**beneficial owner of income**") should provide the tax agent with a tax residency certificate before the date of the income payment. The Guarantor may request some additional information in addition to a tax residency certificate to prove that the respective Noteholder is a beneficial owner of income; starting from 1 January 2017, there is an obligation of a non-resident income recipient to provide a tax agent with such confirmation in order to utilise the double tax treaty benefits.

Starting in 2016, in order to apply for tax exemption or payment of tax at a reduced tax rate under the respective double tax treaty a Non-Resident Noteholder-Individual should provide to the tax agent a passport of a foreign citizen in order to prove his/her tax residency status in the foreign jurisdiction. If this document is not sufficient to prove the residency status, the tax agent will request the Non-Resident Noteholder-Individual to provide a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes. It is not explicit whether under the new law Russian citizens may enjoy exemption from taxation at source under the respective double tax treaty. It is not clear from the law how the tax agent shall determine whether a passport is sufficient to confirm the individual's eligibility to double tax treaty benefits.

Within 30 days upon payment of income subject to tax exemption or withholding at a reduced tax rate under the respective double tax treaty, the tax agent is obliged to submit information to the tax authorities on foreign individuals (passport details and citizenship) and income (type of income, amount of income and date of payment).

The procedure of elimination of double taxation of Non-Resident Noteholders–Individuals in case of absence of a tax agent is not explicitly indicated in the Russian Tax Code.

Non-Resident Noteholders should consult their own tax advisers regarding possible tax treaty relief and procedures required to be fulfilled for obtaining such relief with respect to any Russian taxes imposed in respect of income received in connection with the acquisition, holding and the sale or other disposal of the Notes as well as interest income and payments under the Guarantee.

Refund of tax withheld

If Russian withholding tax on income derived from Russian sources by a Non-Resident Noteholder-Legal Entity was withheld at source, a claim for a refund of the Russian income tax that was excessively withheld at source can be filed by that Non-Resident Noteholder-Legal Entity with the Russian tax authorities within three years following the year in which the tax was withheld, provided such Non-Resident Noteholder-Legal Entity is entitled to the benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income. There is no assurance that such refund will be possible in practice.

If Russian personal income tax applicable to income derived from Russian sources by a Non-Resident Noteholder – Individual, for whom double tax treaty relief is available, was withheld at source despite the right of this Non-Resident Noteholder – Individual to rely on benefits of the applicable double tax treaty allowing the individual not to pay the tax in Russia or allowing the individual to pay the tax at the reduced tax rate in relation to such income, a claim for a refund of Russian personal tax which was excessively withheld at source and an application of the benefits of the applicable double tax treaty, together with a passport of a foreign individual / tax residency certificate issued by the competent authorities in his/her country of residence may be filed by that Non-Resident Noteholder – Individual with the tax agent within three years following the tax year when the corresponding income was received. In the absence of a tax agent who withheld the Russian personal income tax under consideration (for instance, in case of a liquidation of the tax agent), such an application for a refund may be filed with the Russian tax authorities within the same period (three years from the date when the tax was paid) accompanied by the Russian tax return, a tax residency certificate and documents proving tax withholding to the Russian tax authorities. There can be no assurance that the tax agent and/or the Russian tax authorities will refund this tax in practice.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information which has to be provided by a foreign person to the Russian tax authorities for tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming a right of a Non-Resident Noteholder – Individual to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates.

Obtaining a refund of Russian taxes that were excessively withheld at source is likely to be a time consuming process and no assurance can be given that such refund will be granted to a Non Resident Noteholder – Individual in practice.

Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures required to be fulfilled in order to obtain treaty relief in practice with respect to any Russian taxes imposed on income received by a Non-Resident Noteholder upon the acquisition, holding and sale or other disposal of the Notes as well as payments under the Guarantee.

U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR U.S. HOLDERS

The following is a discussion of certain U.S. federal income tax considerations relating to the purchase, ownership and disposition of the Notes by U.S. Holders (as defined below) that purchase the Notes at their issue price (generally the first price at which a substantial amount of the Notes is sold, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) pursuant to this offering and hold such Notes as capital assets. This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), U.S. Treasury regulations promulgated or proposed thereunder and administrative and judicial interpretations thereof, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect, or to different interpretation. This discussion does not address all of the U.S. federal income tax considerations that may be relevant to specific U.S. Holders in light of their particular circumstances (including U.S. Holders that are directly or indirectly related to the Issuer) or to U.S. Holders subject to special treatment under U.S. federal income tax law (such as banks, insurance companies, dealers in securities or other U.S. Holders that generally mark their securities to market for U.S. federal income tax purposes, tax-exempt entities, retirement plans, regulated investment companies, real estate investment trusts, certain former citizens or residents of the United States, U.S. Holders that hold a Note as part of a straddle, hedge, conversion or other integrated transaction or U.S. Holders that have a "**functional currency**" other than the U.S. dollar). This discussion does not address any U.S. state or local or non-U.S. tax considerations or any U.S. federal estate, gift or alternative minimum tax considerations.

As used in this discussion, the term "**U.S. Holder**" means a beneficial owner of a Note that, for U.S. federal income tax purposes, is (i) an individual who is a citizen or resident of the United States, (ii) a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source or (iv) a trust (x) with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (y) that has in effect a valid election under applicable U.S. Treasury regulations to be treated as a U.S. person.

If an entity treated as a partnership for U.S. federal income tax purposes invests in a Note, the U.S. federal income tax considerations relating to such investment will depend in part upon the status and activities of such entity and the particular partner. Any such entity should consult its own tax advisor regarding the U.S. federal income tax considerations applicable to it and its partners relating to the purchase, ownership and disposition of a Note.

EACH PERSON CONSIDERING AN INVESTMENT IN THE NOTES SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE U.S. FEDERAL, STATE AND LOCAL AND NON-U.S. INCOME, ESTATE AND OTHER TAX CONSIDERATIONS RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES IN LIGHT OF ITS PARTICULAR CIRCUMSTANCES.

Certain Additional Payments

In certain circumstances, we are required to make payments on the Notes other than stated principal and interest. For example, we are required to pay 101% of the principal amount of any Note purchased by us at the Holder's election if the Additional Guarantee Event does not occur within a certain period following the issuance of the Notes, as described above under the heading "Terms and Conditions of the Notes—Redemption at the option of the Noteholders".

U.S. Treasury regulations provide special rules for contingent payment debt instruments that, if applicable, could cause the timing, amount and character of a U.S. Holder's income, gain or loss with respect to the Notes to be different from those described below. We intend to treat the possibility of our making any of the above payments as not causing the Notes to be contingent payment debt instruments. Our treatment will be binding on all U.S. Holders, except a U.S. Holder that discloses its differing treatment in a statement attached to its timely filed U.S. federal income tax return for the taxable year during which such U.S. Holder acquired its Notes. However, our treatment is not binding on the U.S. Internal Revenue Service (the "**IRS**"). If the IRS were to challenge our treatment, a U.S. Holder might be required to accrue income on the Notes in excess of stated interest and to treat as ordinary income, rather than capital gain, gain recognized on the disposition of the Notes. The remainder of this discussion assumes that the Notes will not be treated as contingent payment debt instruments.

Interest on the Notes

In general, interest payable on a Note (without reduction for any non-U.S. tax withheld with respect to such payment) will be taxable to a U.S. Holder as ordinary interest income when it is received or accrued, in accordance with such U.S. Holder's regular method of accounting for U.S. federal income tax purposes. The Notes are not expected to be issued with more than *de minimis* original issue discount ("**OID**"). However, if the Notes are issued with more than *de minimis* OID, each U.S. Holder generally will be required to include OID in income (as interest) as it accrues, regardless of its regular method of accounting for U.S. federal income tax purposes, using a constant yield method, before such U.S. Holder receives any payment attributable to such income. The remainder of this discussion assumes that the Notes are not issued with more than *de minimis* OID.

Interest income on the Notes generally will be treated as income from sources outside the United States and generally will be categorized for U.S. foreign tax credit purposes as "passive category income" or, in the case of some U.S. Holders, as "general category income." A U.S. Holder may be eligible to elect to claim a U.S. foreign tax credit against its U.S. federal income tax liability, subject to applicable limitations and holding period requirements, for any Russian or any other non-U.S. income tax withheld from payments in respect of interest on the Notes, including under the Guarantee. A U.S. Holder that does not elect to claim a U.S. foreign tax credit for non-U.S. income tax may instead claim a deduction for such tax, but only for a taxable year in which such U.S. Holder elects to do so with respect to all non-U.S. income taxes paid or accrued by such U.S. Holder in such taxable year. The rules relating to U.S. foreign tax credits are very complex, and each U.S. Holder should consult its own tax advisor regarding the application of such rules.

Sale, exchange, retirement or other disposition of the Notes

Upon the sale, exchange, retirement or other disposition of a Note, a U.S. Holder generally will recognize gain or loss in an amount equal to the difference between the amount realized on such sale, exchange, retirement or other disposition (other than any amount attributable to accrued stated interest, which, if not previously included in such U.S. Holder's income, will be taxable as interest income to such U.S. Holder) and such U.S. Holder's "adjusted tax basis" in such Note. Any gain or loss so recognized generally will be capital gain or loss and will be long-term capital gain or loss if such U.S. Holder has held such Note for more than one year at the time of such sale, exchange, retirement or other disposition. Net long-term capital gain of certain non-corporate U.S. Holders generally is subject to preferential rates of tax. The deductibility of capital losses is subject to limitations. Such gain or loss generally will be from sources within the United States.

Substitution of the Obligor under the Notes

If another entity is substituted in place of the Issuer as the obligor under the Notes as described above under the heading "Terms and Conditions of the Notes – Substitution", such substitution could be treated for U.S. federal income tax purposes as a taxable exchange of the Notes for new notes of the new obligor.

In such event, a U.S. Holder could be required to recognize gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes) and such U.S. Holder's adjusted tax basis in the Notes, with the consequences described above under the heading "Sale, Exchange Retirement or Other Disposition of the Notes", and such new notes could have OID or premium. U.S. Holders should consult their own tax advisors as to the U.S. federal income tax considerations relating to a substitution of the obligor under the Notes.

Medicare tax

In addition to regular U.S. federal income tax, certain U.S. Holders that are individuals, estates or trusts are subject to a 3.8 per cent tax on all or a portion of their "net investment income," which may include all or a portion of their interest income on a Note and net gain from the sale, exchange, retirement or other disposition of a Note.

Information reporting and backup withholding

Under certain circumstances, information reporting and/or backup withholding may apply to a U.S. Holder with respect to payments of interest on, or proceeds from the sale, exchange, retirement or other disposition of, a Note, unless an applicable exemption is satisfied. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against a U.S. Holder's U.S. federal income tax liability if the required information is furnished by such U.S. Holder on a timely basis to the Internal Revenue Service.

Disclosure requirements for specified foreign financial assets

Individual U.S. Holders (and certain U.S. entities specified in U.S. Treasury Department guidance) who, during any taxable year, hold any interest in any "specified foreign financial asset" generally will be required to file with their U.S. federal income tax returns certain information on IRS Form 8938 if the aggregate value of all such assets exceeds certain specified amounts. "Specified foreign financial asset" generally includes any financial account maintained with a non-U.S. financial institution and may also include the Notes if they are not held in an account maintained with a financial institution. Substantial penalties may be imposed, and the period of limitations on assessment and collection of U.S. federal income taxes may be extended, in the event of a failure to comply. U.S. Holders should consult their own tax advisors as to the possible application to them of this filing requirement.

SUBSCRIPTION AND SALE

Bank GPB International S.A., J.P. Morgan Securities plc, Renaissance Securities (Cyprus) Limited, SIB (Cyprus) Limited and VTB Capital plc (the "**Joint Lead Managers**") have, pursuant to a Subscription Agreement dated 24 October 2016 severally and not jointly agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at 100 per cent of their principal amount in the amount of US$500,000,000.

The Issuer, failing whom the Guarantor, has agreed to pay to the Joint Lead Managers a combined management, underwriting and selling commission, where applicable. In addition, the Issuer, failing whom the Guarantor, have agreed to reimburse the Joint Lead Managers, where applicable, for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer and the Guarantor have in the Subscription Agreement agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Notes, including liabilities under the Securities Act.

The Joint Lead Managers and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer and its affiliates (including its shareholders and the Guarantor) and for which they will receive customary fees.

The Joint Lead Managers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer and the Group in the ordinary course of their respective businesses.

No Securities Commission Approval

The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission (the "SEC"), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Securities or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

General

The Joint Lead Managers, the Issuer and the Guarantor severally and not jointly have agreed that it has in all material respects (to the best of its knowledge and belief) complied and will comply with all applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes. The Joint Lead Managers, the Issuer and the Guarantor severally and not jointly undertake that it will use its reasonable efforts not to, directly or indirectly, offer or sell any Notes in any country or jurisdiction except under circumstances that will (to the best of its knowledge and belief) result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in accordance with Rule 144A or pursuant to an exemption from the registration requirements of the Securities Act. The Notes are being offered and sold outside of the United States in reliance on Regulation S.

The Joint Lead Managers have severally and not jointly represented that they had not offered and sold Notes, and agreed that they will not offer and sell the Notes only in accordance with Rule 903 of Regulation S or Rule 144A. Accordingly, neither they, their affiliates (as defined in Rule 501(b) of Regulation D), nor any persons acting on their or their affiliates' behalf had engaged or will engage in any directed selling efforts (as defined in Regulation S) or in any form of general solicitation or general advertising (within the meaning of Regulation D) with respect to the Notes.

The Subscription Agreement provides that the Joint Lead Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes in the United States only to persons whom they reasonably believe are QIBs that are also QPs who can represent that (a) they are QPs who are QIBs within the meaning of Rule 144A; (b) they are not broker-dealers that own and invest on a discretionary basis less than US$25 million in securities of unaffiliated issuers; (c) they are not participant directed employee plans, such as a 401(k) plan; (d) they are acting for their own account, or the account of one or more QIBs each of which is also a QP; (e) they are not formed for the purpose of investing in the Issuer or the Notes; (f) each account for which they are purchasing will hold and transfer at least US$200,000 in principal amount of Notes at any time; (g) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositaries; and (h) they will provide notice of the transfer restrictions set forth in this Prospectus to any subsequent transferees.

The Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States other than any QIB who is also a QP and to whom an offer has been made directly by one of the Joint Lead Managers or its U.S. broker-affiliate. Distribution of this Prospectus by any person outside the United States or by any QIB who is also a QP within the United States to any person within the United States other than any QIB who is also a QP, and those persons, if any, retained to advise such person outside the United States or QIB who is also a QP with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any person within the United States other than any QIB who is also a QP and those persons, if any, retained to advise such person outside the United States or QIB who is also a QP, is prohibited.

United Kingdom

The Joint Lead Managers have severally and not jointly represented, warranted and undertaken that:

(a) **Financial promotion**: they have only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) received by them in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) **General compliance**: they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russian Federation

The Joint Lead Managers have severally and not jointly agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law.

INDEPENDENT AUDITORS

The consolidated financial statements of the Group as of and for the year ended 31 December 2014 have been audited by Deloitte LLP of 2 New Street Square London EC4A 3BZ, United Kingdom, independent auditors, as stated in their reports appearing herein. Deloitte LLP is a member of the Institute of Chartered Accountants in England and Wales.

The consolidated financial statements of the Group as of and for the year ended 31 December 2015 have been audited by ZAO Deloitte & Touche CIS of 5 Lesnaya Street, Moscow, 125047, Russia, independent auditors, as stated in their report appearing herein.

The consolidated financial statements of the Group as of and for the six months ended 30 June 2016 have been reviewed by ZAO Deloitte & Touche CIS of 5 Lesnaya Street, Moscow, 125047, Russia, independent auditors, as stated in their report appearing herein. ZAO Deloitte & Touche CIS is a member of the Audit Chamber of Russia.

GENERAL INFORMATION

1 The Notes have been accepted for clearance through the facilities of DTC, Euroclear and Clearstream, Luxembourg. For the Regulation S Notes, the International Security Identification Number (ISIN) is XS1405766384 and the Common Code is 140576638. For the Rule 144A Notes, the ISIN is US73180YAB02, the Common Code is 098266640 and the CUSIP number is 73180YAB0. The address of DTC is 55 Water Street, New York, New York 10041-10099, United States of America. The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210, Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855, Luxembourg.

2 It is expected that admission of the Notes to the Official List and to trading on the London Stock Exchange's regulated market will be granted on or before 26 October 2016, subject only to the issue of the Notes. Transactions will normally be effected for settlement in U.S. dollars and for delivery on the third business day after the day of the transaction.

3 The Company and the Guarantor have obtained all necessary consents, approvals, authorisations or other orders for the issue of the Notes and the other documents to be entered into by the Company in connection with the issue of the Notes. The issue of the Notes was authorised by a decision of the Board of Directors of the Company on 14 October 2016.

4 The Company was incorporated in Jersey on 26 September 2005 with registered number 91264 under the Jersey Companies Law as a private company limited by shares with the name KazakhGold Group Limited and converted to a public company on 21 November 2005. On 26 July 2011, the Company changed its name to Polyus Gold International Limited. The Company's legal and commercial name is Polyus Gold International Limited. The Company has its registered offices at Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES, Channel Islands. The head office and principal place of business of the Company is Ergon House, Dean Bradley Street, London SWP 2AL, United Kingdom, telephone +44 (0) 203 713 4290.

5 The Guarantor is a joint-stock company organised under the laws of the Russian Federation with the legal name Joint-Stock Company Gold-Mining Company Polyus. The Guarantor was registered in the Russian Federation on 26 May 1993 with registration number 1022401504740. The Guarantor's registered address is Ulitsa Belinskogo 2 B, Severo-Eniseyskiy townside, Krasnoyarsk region 663280, Russia. The Guarantor's principal place of business is 15/1 Tverskoy Boulevard, Moscow 123104, Russian Federation, telephone +7 (495) 641 33 77.

6 The Company is a holding company for its operating and intermediary holding subsidiaries that together (including, without limitation, the Guarantor) comprise the Group. As a holding company, the Company is dependent on its operating subsidiaries for its income. The Guarantor is an indirect subsidiary of the Company and an operating company and a holding company for its operating and intermediary holdings subsidiaries that together comprise the business of the Group. See "*Business — Group Structure*".

The strategic development of the Group (including, without limitation, the Guarantor) is carried out under the supervision of the Board of Directors of the Company. In particular, the Board is responsible, among other things, for monitoring the activities of the Group, evaluating business strategies and monitoring their implementation, monitoring the performance of existing assets and new business initiatives, monitoring key performance indicators, monitoring the auditing and control mechanisms, ensuring the management of operational business and financial risk to which the Group is exposed and ensuring continued adherence to disclosure provisions of relevant legislation.

7 The table below shows the directors of the Guarantor. The business address for the directors of the Guarantor is 15/1 Tverskoy Boulevard, Moscow 123104, Russian Federation.

Name	***Year of Birth***	***Position***
Mr. Pavel Grachev	1973	General Director of MC Polyus LLC (management company for the Guarantor)
Mr. Mikhail Stiskin	1983	Chairman of the Board of Directors of the Guarantor
Mr. Vladimir Polin	1962	Member of the Board of Directors of the Guarantor
Ms. Elena Zhavoronkova	1970	Member of the Board of Directors of the Guarantor
Mr. Ruslan Gadzhiev	1978	Member of the Board of Directors of the Guarantor
Mr. Sergei Zhuravlev	1970	Member of the Board of Directors of the Guarantor

As of 1 May 2016, the competence of the sole executive bodies of the Guarantor and of certain other subsidiaries were transferred to a wholly-owned subsidiary of PJSC Polyus, MC Polyus LLC in order to simplify the management of the Group and for the Group to have a direct operating control over the mining subsidiaries, in addition to a corporate control exercised at the level of shareholders and board of directors of such subsidiaries. MC Polyus LLC is currently fulfilling the functions of the sole executive bodies of these companies under management agreements entered into among MC Polyus LLC and each of the companies. Members of the senior management of JSC Polyus were transferred to similar positions at MC Polyus LLC and Pavel Grachev has been appointed as General Director of MC Polyus LLC.

8 As at and for the year ended 31 December 2015, the EBITDA of the Guarantor and its consolidated subsidiaries accounted for 101 per cent of the total EBITDA of the Group (100 per cent in the first six months of 2016) and its consolidated net assets accounted for 103 per cent of the total net assets of the Group (103 per cent in the first six months of 2016). As at and for the year ended 31 December 2015, and as at and for the year ended 31 December 2014, on an unaudited basis, the EBITDA of the non-Guarantor subsidiaries of the Company, which do not form part of the Guarantor and its consolidated subsidiaries, accounted for minus 2 per cent of the total EBITDA of the Group in 2015 (minus 1 per cent in the first six months of 2016) and minus 1 per cent of the total EBITDA of the Group in 2014, and their consolidated net assets accounted for minus 3 per cent of the total net assets of the Group in 2015 (plus 11 per cent to net liabilities in the first six months of 2016) and their consolidated net liabilities accounted for minus 7 per cent of the total net assets of the Group in 2014.

9 There are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of the Company towards the Company and their private interests or other duties.

10 There are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of the Guarantor towards the Guarantor and their private interests or other duties.

11 The estimated expenses associated with admission to the Official List and to trading on the London Stock Exchange's regulated market of the Notes are expected to be approximately £6,200.

12 For as long as any Notes are outstanding, copies (and certified English translations where documents at issue are not in English) of the following documents may be inspected at and are available in physical form from the head office and principal place of business of the Company at Ergon House, Dean Bradley Street, London SWP 2AL, United Kingdom and the offices of the Principal Paying Agent in London at One Canada Square, London E14 5AL, United Kingdom during usual business hours on any business day (Saturdays, Sundays and public holidays excepted):

(a) a copy of this Prospectus, together with any supplement to this Prospectus;

(b) the memorandum and articles of association of the Company;

(c) a copy of the charter of the Guarantor (together with an English translation thereof);

(d) the Financial Statements, including the report thereon, of the Group in respect of the financial years ended 31 December 2015, 2014 and 2013, and for the six months ended 30 June 2016 and 30 June 2015;

(e) the Paying Agency Agreement; and

(f) the Trust Deed, which includes the forms of the Global Certificate and the Certificates.

13 Save as disclosed in the Prospectus, there has been no significant change in the financial or trading position of the Company, the Guarantor or of the Group since 30 June 2016, and there has been no material adverse change in the prospects of the Company, the Guarantor or of the Group since 31 December 2015.

14 There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company and the Guarantor is aware), during the previous 12 months in relation to the Company or the Guarantor, which may have, or have had in the recent past, significant effects on the Company's, the Guarantor's and/or the Group's financial position or profitability.

15 Save for the fees payable to the Joint Lead Managers, the Trustee, the Principal Paying Agent and the Registrar, so far as the Company is aware, no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.

16 The Bank of New York Mellon (Luxembourg) S.A. will act as Registrar in relation to the Notes.

17 BNY Mellon Corporate Trustee Services Limited is a professional trustee company, which is providing its services in relation to the Notes on an arm's length basis in consideration for a fee. Under the terms of the Trust Deed, the power of appointing new trustees is vested in the Company but a trustee so appointed must in the first place be approved by an Extraordinary Resolution of Noteholders. The Noteholders have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees. The removal of any trustee is only effective if following the removal there remains a trustee (being a trust corporation) in office after such removal. In addition, BNY Mellon Corporate Trustee Services Limited, or any other trustee duly appointed, may retire at any time upon giving not less than three months' notice in writing to the Company. The retirement of any trustee is only effective if, following the retirement, there remains a trustee (being a trust corporation) in office after such retirement. If the trustee has given notice of its desire to retire and the Company is unable to procure a new trustee to be appointed and the Company has not by the expiry of such notice (with the prior written consent of the Company) appointed a new trustee, the trustee shall have the power of appointing new trustee(s).

18 The Trust Deed provides, among other things, that the Trustee may rely on any certificate or report prepared by accountants pursuant to the Trust Deed (whether or not addressed to the

Trustee), notwithstanding whether or not the accountants' liability in respect thereof is limited by a monetary cap or otherwise.

19 The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

GLOSSARY OF TERMS

Term or expression	*Meaning*
bio-leaching	Oxidation of sulphide minerals exposed to bacteria in an aqueous environment with metal extraction through desalination
CIL	carbon-in-leach, a process in which carbon is added to the solution following leaching in order to extract gold
cut-off grade	lowest grade of mineralised material considered economic, used in the calculation of ore resources
cyanide leaching	a method of extracting exposed gold or silver from crushed or ground ore by dissolving them in a weak cyanide solution. It may be carried out in slurry in tanks or in large heaps of ore
deposit	the aggregation of a mineral on the surface of the Earth or in the Earth's crust, suitable in terms of quantity, quality and mode of occurrence for commercial mining
flotation	a mineral separation process in which valuable mineral particles are induced to become attached to bubbles and float as other particles sink
flotation concentrate	the product of flotation. The resultant gold concentrate is then filtered to form flotation concentrate
FSU Classification	the reserves and resources classification system of the former Soviet Union
FVTPL	fair value through profit or loss
gold doré	unrefined gold bullion bars, which will be further refined to almost pure metal (99.9 per cent gold)
grade	the quality of metal per unit mass of ore expressed as grams of gold per tonne of ore
gravitation	gold particles in slurry which are separated based on their specific gravity
g/t	grams per tonne
heap leaching	an ore processing technology used to process low-grade oxide ores, although it is the lowest-cost method of processing, recovery rates are only approximately 60 per cent.
indicated mineral resource	as defined in the JORC Code, that part of a mineral resource which has been sampled by drill holes, underground openings or

other sampling procedures at locations that are too widely spaced to ensure continuity but close enough to give a reasonable indication of continuity and where geoscientific data are known with a reasonable degree of reliability. An indicated mineral resource will be based on more data and therefore will be more reliable than an inferred mineral resource estimate

inferred mineral resource — as defined in the JORC Code, is that part of a mineral resource for which the tonnage and grade and mineral content can be estimated with a low level of confidence. It is inferred from the geological evidence and has assumed but not verified geological and/or grade continuity. It is based on information gathered through the appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability

JORC Code — the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves

LBMA — the London Bullion Market Association

LTIFR — lost time injury frequency rate

measured mineral resource — defined in the JORC Code, that part of a measured mineral resource for which the resource has been intersected and tested by drill holes, underground openings or other sampling procedures at locations which are spaced closely enough to confirm continuity and where geoscientific data are reliably known. A measured mineral resource estimate will be based on a substantial amount of reliable data, interpretation and evaluation which allows a clear determination to be made of the shapes, sizes, densities and grades

mine — an excavation from which valuable materials are recovered

mineable — portion of a mineralised deposit for which extraction is technically and economically feasible

mineral deposit — a body of mineralisation that represents a concentration of valuable metals. The limits can be defined by geological contracts or assay cut-off grade criteria

mineral reserve — under the FSU Classification, the equivalent of the western mineral resource and ore reserve. Mineral reserves are subdivided into A, B, C1 and C2 categories depending on the level of definition and technological study

mineral resource — a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such a form that there are reasonable prospects for the eventual economic extraction. The location, quantity, grade geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided into inferred mineral resources, indicated mineral resources and measured mineral resources

open pit — a mine that is entirely on the Earth's surface; also referred to as open-cut or open-cast mine

ore — natural mineral matter containing metals or metal compounds in quantities and in a form suitable for commercial extraction

ore body — a distinct naturally occurring agglomeration of ore defined structurally and geologically by a particular element or combination thereof

ore reserve — according to the JORC Code, the economically mineable part of a measured and/or indicated mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could be reasonably justified. Ore reserves are sub-divided in order of increasing confidence into probable ore reserves and proven ore reserves

P&P reserve — probable and proven reserve

probable ore reserve — according to the JORC Code, the economically mineable part of an indicated and/or measured mineral resource. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified

proven ore reserve — according to the JORC Code, the economically mineable part of a measured mineral resource. It is estimated with a high level of confidence. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified

reserves	the part of a mineral deposit, extraction of which from the Earth's crust is economically and legally feasible at the time the reserves are identified
SPPP	Strategic Price Protection Programme
stripping	activities undertaken to remove waste material and gain access to a specific section of the ore body
tailings	material that remains after all metals/minerals considered economic have been removed from the ore
TOE	Total Operational Efficiency
tonne	1,000 kilogrammes
underground mining	extraction of minerals from the Earth's crust using a system of underground mine workings
vein	a tabular deposit of mineralised rock

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* Certain references included in each of the independent auditors' reports for the years ended 31 December 2015 and 31 December 2014 are referring to sections of the Group's annual reports for those years. These annual reports are neither included nor incorporated by reference herein. The same statement applies to any other cross-reference included in the annual consolidated financial statements of the Group, which cross-refers to a section not included in the index list above.

Polyus Gold International Limited

Consolidated financial statements for the year ended 31 December 2015

Statement of Directors' responsibility

The responsibility statement below has been prepared in connection with the Group's full Annual Report for the year ended 31 December 2015. Certain parts thereof are not included within this announcement.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole;

- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

- the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information to assess the Company's performance, business model and strategy.

The Annual Report and consolidated financial statements of the Group for the year ended 31 December 2015 were approved on 10 March 2016 by the Board of Directors.

By order of the Board,

Executive Director

Sergei Nossoff

Independent auditor's report

to the members of Polyus Gold International Limited

Opinion on consolidated financial statements of Polyus Gold International Limited
In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the Companies (Jersey) Law 1991.

The consolidated financial statements comprise the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes on pages 159 to 211. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Going concern
We have reviewed the Directors' Statement on page 68 that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement
The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Independent auditor's report

to the members of Polyus Gold International Limited continued

Risk	How the scope of our audit responded to the risk
Potential impairment of fixed assets Given the risk that the carrying value of the fixed assets, capital construction in progress and mine under development described in note 12 to the consolidated financial statements may not be recoverable, management has performed a review for indicators of impairment across the portfolio of assets held. As a consequence of the operational performance in the period and the depreciation of the Russian rouble no indicators of impairment or impairment reversals were identified with the exception of: • An indicator of impairment at the Natalka mine under development within the Magadan Business Unit was identified. This follows the downgrading of the estimate of reserves announced on 13 November 2014 and the temporary reduction of construction activity pending the finalisation of the resequencing of the project. The carrying value at 31 December 2015 was $1,053 million after the depreciation in the Rouble in the period having reduced the value by $270 million through translation losses. Management has completed a value in use calculation based on a life of mine model, and using specialist input on key operational assumptions, which determined a discounted cash flow value significantly higher than the carrying value, and accordingly no impairment was recorded. The operational plans for the mining asset have been refined following the change in reserves identified. It reflects key financial assumptions including a forecast gold price of $1,270/oz converted at the forecast dollar exchange rate of RUB 74.5 to the US dollar to derive the expected Rouble revenue cash flows and a discount rate of approximately 10%. The calculated net present value is highly sensitive to these assumptions.	We challenged management's significant assumptions regarding the Natalka impairment test by: • visiting the Natalka project to review the plans with operational management and perform physical observation of construction; • discussing assumptions used in the mining plan with the independent experts used by Management; • reviewing the accuracy of key assumptions used in the model; • assessing the long term gold price forecast methodology and benchmarking the long term gold price forecasts to other external forecasts; • considering the discount rates used by recalculation and comparison to other gold producers; • running a range of sensitivities to confirm that no impairment was required if a range of less optimistic assumptions were adopted instead of the forecast rate and the discount rate applied; • discussing the plans with the Directors and Senior Operational Management to confirm the plans and obtaining representations that these are considered management's best estimates of the key assumptions at the time of publishing the annual report; and • assessing whether the accounts disclose the key judgements taken so that a reader of the accounts is aware of the impact on the financial statements of changes to key assumptions that may lead to impairment.
Valuation and hedge accounting for financial instruments During 2014 and 2015, the Group entered into a number of different derivatives contracts to mitigate exposure to gold price, currency fluctuations and reduce interest rate exposure. These are summarised in note 13. The most complex of these transactions is a commodity hedge known as the "Revenue Stabiliser" to hedge the gold price. The two tranches of the Revenue Stabiliser entered into in 2014 were restructured during 2015, and a third tranche was entered into in 2015, which is not hedge accounted. The Revenue Stabiliser is a "cap-collar" instrument with a "knock-in, knock-out" feature. In addition there are forward contracts to fix the price of gold over 310 koz of forecast production over a two year period. There is risk that the financial instrument accounting for these instruments with a mark-to-market value of $220 million and the associated hedge accounting applied by management is not in line with IFRS. In addition there has been income on the currency and associated interest rate derivative financial instruments of $5 million in the period which are not hedge accounted. The valuation of these, which reflect debit valuation adjustments in respect of own credit risk required by the relevant accounting standards, involve the application of management judgement.	We: • involved financial instruments specialists to perform an independent valuation on a sample of these derivatives, including the process for deriving the gold price and exchange rate applied; • assessed the appropriate accounting treatment of the restructuring and new 2015 tranche of the Revenue stabiliser; • reviewed management's methodology for assessment of credit risk against the requirements set out in IFRS 13; • assessed the appropriateness of applying hedge accounting to the revenue stabiliser and forward contracts for gold on a sample basis; • assessed the allocation of changes in fair values of derivatives between equity or the income statement, as appropriate; and • reviewed the disclosures required by IFRS 7 in the Group accounts as appropriate.

Risk	How the scope of our audit responded to the risk
Potential impairment of exploration and evaluation (“E&E”) assets The Group capitalises E&E expenditure in line with IFRS 6: *Exploration for and Evaluation of Mineral Resources*. The assessment of each asset’s future prospectivity requires significant judgement, management’s accounting policy on E&E assets is set out in note 3. There is a risk that amounts are capitalised which no longer meet the recognition criteria of IFRS 6. During the year, management has completed a strategic review of their E&E portfolio with a value of $100 million. As set out in note 12 to the consolidated financial statements no impairment was recognised in the year.	We: • held discussions with key operational and finance staff to understand the exploration and appraisal activities; • reviewed and evaluated management’s assessment of the existence of impairment indicators in the portfolio of E&E assets by assessing the appropriateness of management’s assumptions and estimates; • reviewed the exploration licence conditions for any potential breaches; and • reviewed management’s approved exploration budgets for 2016 in order to check that exploration projects were ongoing and committed.

The risks described above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 142. In the prior year Audit report the previous auditor included a risk focussed on the potential obsolescence of stores and spares inventory. This matter was not considered necessary to be included in the Audit report in the current year following the comprehensive review of stores and spares undertaken by management through 2014 and 2015 as part of an on-going optimisation programme. The initial effects of this programme have been realised during 2015, with a corresponding reduction in the stores and spares balance, and accordingly the risk of obsolescence has been reduced.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the consolidated financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be $90 million (2014: $25 million). We adopted an approach focused on 8% of the Group’s profit before tax adjusted for derivatives, impairments and foreign exchange gains. These items have been added back because of their nature and/or the expected infrequency of the underlying events are not considered immediately indicative of continuing operations of the Group and which if included, would distort materiality year on year.

Lower materiality levels of between $45 million and $72 million (2014: $12.5 million to $20 million) have been applied for the component audits.

We agreed with the Directors that we would report all audit differences in excess of $1.8 million (2014: $0.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Directors on disclosure matters that we identified when assessing the overall presentation of the consolidated financial statements.

An overview of the scope of our audit

In assessing our Group audit scope we continued to build upon our understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on our continuing assessment, we focused our Group audit scope primarily on the audit work at Krasnoyarsk and Yakutia business units which were subject to a full scope audit, and the Magadan and Capital construction business units, where we performed a full audit of capital construction in progress (“CCIP”) and mine under development additions.

Independent auditor's report

to the members of Polyus Gold International Limited continued

The components subject to a full scope or full audit account for 83% of the Group's gold sales revenue (2014: 81%), 81% of the Group's production (2014: 81%), 87% of the Group's operating profit before impairment charges (2014: 92%), 65% of the Group's fixed assets (2014: 83%) and 94% of the Group's CCIP and mine under development additions (2014: 98%). In addition, other Business Units (Irkutsk Alluvial, Irkutsk Ore and Exploration) were subject to specified audit procedures to address the risks of material misstatement identified above.

At the parent entity level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit or audit of specified account balances.

The Group audit engagement team also continued to perform site visits on a cyclical basis. The Group team visited the Krasnoyarsk, Yakutia and Magadan Business Units during the year.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited consolidated financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Directors which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Other matter

Although not required to do so, the directors have voluntarily chosen to make a corporate governance statement detailing the extent of their compliance with the UK Corporate Governance Code. We reviewed the part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Respective responsibilities of Directors and auditor
As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and/or those further matters we have expressly agreed to report to them on in our engagement letter and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the consolidated financial statements
An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the consolidated financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited consolidated financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

S. Hakobyan

Srbuhi Hakobyan ACCA
for and on behalf of JSC Deloitte and Touche CIS
Moscow, Russian Federation
10 March 2016

Polyus Gold International Limited

Consolidated financial statements for the year ended 31 December 2015

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Polyus Gold International Limited

Consolidated statement of profit or loss for the year ended 31 December
(in millions of US Dollars, except for earnings per share data)

	Notes	2015	2014
Gold sales	5	2,159	2,197
Other sales		30	42
Total revenue		**2,189**	**2,239**
Cost of gold sales	6	(876)	(1,174)
Cost of other sales		(26)	(33)
Gross profit		**1,287**	**1,032**
Selling, general and administrative expenses	7	(166)	(183)
Reversal of impairment	8	22	17
Other expenses, net		(2)	(20)
Operating profit		**1,141**	**846**
Finance costs	9	(48)	(26)
Interest income on bank deposits		59	31
Gain / (loss) on derivative financial instruments and investments, net	10	12	(934)
Foreign exchange gain, net		149	123
Profit before income tax		**1,313**	**40**
Income tax expense	11	(194)	(222)
Profit / (loss)		**1,119**	**(182)**
Attributable to:			
Shareholders of the Company		1,033	(164)
Non-controlling interests		86	(18)
		1,119	**(182)**
Weighted average number of ordinary shares (million)	18	3,032	3,032
Earnings / (loss) per share (US Cents), basic		34	(5)
Earnings / (loss) per share (US Cents), diluted[1]		34	(5)

[1] There were no financial instruments or any other instances which could cause an antidilutive effect on the earnings per share calculation.

Polyus Gold International Limited

Consolidated statement of comprehensive income for the year ended 31 December

(in millions of US Dollars)

	Notes	2015	2014
Profit / (loss) for the year		**1,119**	**(182)**
Other comprehensive income / (loss) for the year			
Items that may be subsequently reclassified to profit or loss:			
Increase in revaluation of cash flow hedge reserve on revenue stabiliser	13	115	132
Increase in revaluation of cash flow hedge reserve on gold forward	13	15	36
Deferred tax relating to increase in revaluation of cash flow hedge reserve		(32)	(26)
Effect of translation to presentation currency		(678)	(1,751)
		(580)	**(1,609)**
Items that have been reclassified through profit or loss:			
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser	13	(91)	(35)
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward	13	(25)	(6)
Deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss		22	7
		(94)	**(34)**
Other comprehensive loss for the year		**(674)**	**(1,643)**
Total comprehensive income / (loss) for the year		**445**	**(1,825)**
Total comprehensive income / (loss) for the year attributable to:			
Shareholders of the Company		417	(1,705)
Non-controlling interests		28	(120)
		445	**(1,825)**

Polyus Gold International Limited

Consolidated statement of financial position at 31 December
(in millions of US Dollars)

Assets	**Notes**	**2015**	**2014**
Non-current assets			
Property, plant and equipment	12	2,023	2,351
Derivative financial instruments and investments	13	212	172
Inventories	14	184	227
Deferred tax assets	20	46	47
Other non-current assets		8	3
		2,473	**2,800**
Current assets			
Inventories	14	296	440
Derivative financial instruments and investments	13	20	-
Deferred expenditures		13	13
Other receivables		14	11
Advances paid to suppliers and prepaid expenses		18	16
Taxes receivable	15	63	48
Bank deposits	16	-	269
Cash and cash equivalents	17	2,039	1,217
		2,463	**2,014**
Total assets		**4,936**	**4,814**
Equity and liabilities			
Capital and reserves			
Share capital	18	1	1
Additional paid-in capital	18	2,159	2,152
Cash flow hedge revaluation reserve	13	112	108
Translation reserve		(2,665)	(2,045)
Retained earnings		2,107	1,258
Equity attributable to shareholders of the Company		**1,714**	**1,474**
Non-controlling interests		163	146
		1,877	**1,620**
Non-current liabilities			
Site restoration, decommissioning and environmental obligations		32	49
Borrowings	19	2,147	1,723
Derivative financial instruments	13	509	423
Deferred tax liabilities	20	133	150
Other non-current liabilities		21	22
		2,842	**2,367**
Current liabilities			
Borrowings	19	38	90
Derivative financial instruments	13	–	547
Trade, other payables and accrued expenses	21	150	154
Taxes payable	22	29	36
		217	**827**
Total liabilities		**3,059**	**3,194**
Total equity and liabilities		**4,936**	**4,814**

Polyus Gold International Limited

Consolidated statement of changes in equity for the year ended 31 December
(in millions of US Dollars)

	Notes	Number of outstanding shares, (million)	Share capital	Additional paid-in capital	Cash flow hedge revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
			Equity attributable to shareholders of the Company							
Balance at 31 December 2013		**3,032**	**1**	**2,152**	**–**	**(396)**	**1,922**	**3,679**	**275**	**3,954**
Profit for the year		–	–	–	–	–	(164)	**(164)**	(18)	**(182)**
Increase in cash flow hedge revaluation reserve					108			**108**		**108**
Effect of translation to presentation currency[1]		–	–	–		(1,649)	**–**	**(1,649)**	(102)	**(1,751)**
Total comprehensive income		**–**	**–**	**–**	**108**	**(1,649)**	**(164)**	**(1,705)**	**(120)**	**(1,825)**
Dividends declared and paid to shareholders of the Company	18	–	–	–	–	–	(500)	**(500)**	–	**(500)**
Dividends declared and paid to shareholders of non-controlling interests		–	–	–	–	–	–	**–**	(9)	**(9)**
Balance at 31 December 2014		**3,032**	**1**	**2,152**	**108**	**(2,045)**	**1,258**	**1,474**	**146**	**1,620**
Profit for the year		–	–	–	–	–	1,033	**1,033**	86	**1,119**
Increase in cash flow hedge revaluation reserve	13	–	–	–	4	–	–	**4**	–	**4**
Effect of translation to presentation currency[1]		–	–	–	–	(620)	–	**(620)**	(58)	**(678)**
Total comprehensive income		**–**	**–**	**–**	**4**	**(620)**	**1,033**	**417**	**28**	**445**
Equity-settled share-based payment plans (Long Term Incentive Plan)	18	–	–	7	–	–	–	**7**	–	**7**
Dividends declared and paid to shareholders of the Company	18	–	–	–	–	–	(184)	**(184)**	–	**(184)**
Dividends declared and paid to shareholders of non-controlling interests	18	–	–	–	–	–	–	**–**	(11)	**(11)**
Balance at 31 December 2015		**3,032**	**1**	**2,159**	**112**	**(2,665)**	**2,107**	**1,714**	**163**	**1,877**

[1] Following a decrease in exchange rate of the Russian Rouble against the US Dollar a translation loss of USD 678 million was recognised in other comprehensive income, mainly relates to property, plant and equipment (2014: translation loss of USD 1751 million).

Polyus Gold International Limited

Consolidated statement of cash flows for the year ended 31 December
(in millions of US Dollars)

	Notes	2015	2014
Operating activities			
Profit before income tax		**1,313**	**40**
Adjustments for:			
Reversal of impairment	8	(22)	(17)
Finance costs	9	48	26
Interest income on bank deposits		(59)	(31)
(Gain) / loss on derivative financial instruments and investments	10	(12)	934
Depreciation and amortisation	12	128	182
Foreign exchange gain, net		(149)	(123)
Other		5	10
		1,252	**1,021**
Movements in working capital			
Inventories		42	(121)
Deferred expenditures		(3)	(5)
Other receivables		(7)	6
Advances paid to suppliers and prepaid expenses		(11)	(2)
Taxes receivable		(11)	123
Trade, other payables and accrued expenses		27	53
Other non-current liabilities		5	1
Taxes payable		(1)	(25)
Cash flows from operations		**1,293**	**1,051**
Income tax paid		(217)	(185)
Net cash generated from operating activities		**1,076**	**866**
Investing activities			
Purchases of property, plant and equipment		(327)	(570)
Interest received		62	29
Cash placed on bank deposits		(74)	(475)
Proceeds from redemption of bank deposits		340	248
Proceeds from derivatives		–	43
Payment for currency collars		(494)	(55)
Other		6	6
Net cash utilised in investing activities		**(487)**	**(774)**
Financing activities			
Interest paid[1]		(122)	(77)
Net proceeds on exchange of interest payments under interest and cross currency rate swaps	9	52	20
Dividends paid to shareholders of the Company	18	(184)	(500)
Dividends paid to non-controlling interests		(9)	(10)
Proceeds from borrowings		621	1,254
Repayment of borrowings		(89)	(294)
Net cash generated from financing activities		**269**	**393**
Net increase in cash and cash equivalents		**858**	**485**
Cash and cash equivalents at beginning of the year	17	**1,217**	**809**
Effect of foreign exchange rate changes on cash and cash equivalents		(36)	(77)
Cash and cash equivalents at end of the year	17	**2,039**	**1,217**

[1] Interest paid for the period was reclassified from the cash flow from operating activities into the cash flows from financing activities, because this provides better presentation of Cash flows from operating activities considering the nature of the Group's business, respectively amounts for comparative period were reclassified.

1. General

Polyus Gold International Limited (the "Company") was incorporated on 26 September 2005 in Jersey and re-registered as a public limited company under the Companies (Jersey) Law 1991 on 18 November 2005. The Company's registered office is located at Queensway House, Hilgrove Street, St Helier, Jersey.

On 19 June 2012, the Company was admitted to the Official List of the UK Listing Authority and commenced trading on the London Stock Exchange's premium listed market. In December 2015, the Company completed its delisting from the London Stock Exchange's premium listed market.

The principal activities of the Company and its controlled entities (the "Group") are the mining (including initial processing) 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 27.1.

2. Basis of preparation and presentation

Going concern

In assessing its going concern status, 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, considerations of the 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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU"). IFRS includes 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 International Financial Reporting Standards (IFRS) as adopted by the EU. Accordingly, such financial information has been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS as adopted by the EU.

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

During the review of the preparation of the financial statements for the year ended 31 December 2015 the Directors have reconsidered the previous presentation of interest paid in the cash flow statement as an operating cash flow and concluded that it should now more appropriately be included as a financing cash flow as this provides a better reflection of the current financing position of the Group. This change is presentational only and the change has no impact on any of the primary statements other than the statement of cash flows, nor does it have any impact on the overall net increase in cash and cash equivalents as disclosed previously.

(in millions of US Dollars)

Under Article 105(11) of the Companies (Jersey) Law 1991 the directors of a holding company need not prepare separate accounts (i.e. company only accounts) if consolidated accounts for the company are prepared, unless required to do so by the members of the company by ordinary resolution. The members of the Company have not passed a resolution requiring separate accounts and, in the Directors' opinion, the Company meets the definition of a holding company.

IFRS standards update

The following amendments to the IFRS standards endorsed by the EU became effective for the year ended 31 December 2015:

Title	Subject	Effective for annual periods beginning on or after	Effect on the consolidated financial statements
IAS 19	Amendments to the standard	1 February 2015	No effect
Annual Improvements to IFRSs 2010–2012 Cycle (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38, IAS 24)	Amendments to the standards	1 February 2015	No effect
Annual Improvements to IFRSs 2011–2013 Cycle (IFRS 3, IFRS 13, IAS 40)	Amendments to the standards	1 January 2015	No effect

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

Title	Subject	IASB effective for annual periods beginning on or after	Effect on the consolidated financial statements in future periods
IFRS 9	Financial instruments	1 January 2018	To be determined
IFRS 14	Regulatory deferral accounts	1 January 2016	To be determined
IFRS 15	Revenue from contracts with customers	1 January 2018	To be determined
IFRS 16	Leases	1 January 2019	To be determined
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception	1 January 2016	To be determined
Amendments to IAS 1	Disclosure initiative	1 January 2016	To be determined
Annual Improvements to IFRSs 2012–2014 Cycle	Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	1 January 2016	To be determined
Amendments to IAS 27	Equity method in separate financial statements	1 January 2016	To be determined
Amendments to IAS 16 and IAS 41	Agriculture: bearer plants	1 January 2016	To be determined
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation	1 January 2016	To be determined
Amendments to IFRS 11	Accounting for acquisition of interests in joint operations	1 January 2016	To be determined
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016	To be determined

Management is currently considering the potential impact of the adoption of these standards and amendments. However, it is not practicable to provide a reasonable estimate of their effect until a detailed review has been completed.

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 acquiree'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 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.

(in millions of US Dollars)

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 is the US Dollar. The Russian Rouble ("RUB") is the functional currency of all the subsidiaries of the Group.

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;
- starting from 1 January 2015 all income and expenses are translated at the average quarterly 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. Starting from 1 January 2015 all cash flows are translated at the average quarterly exchange rates, except for significant transactions that are translated at rates on the date of the transaction.

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

	2015	2014
Russian Rouble/US Dollar		
Year end rate	72.88	56.26
Average for the year	60.96	38.42

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 of shipment from the refining plant when the Group has received confirmation of sale from the third party. 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. Revenue from the sale of electricity is recognised when it is supplied 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 acquiree's identifiable assets, liabilities and contingent liabilities over the net book value.

3.6 Operating leases

The leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. 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.

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

Blagodatnoye	16 years
Olimpiada	13 years
Verninskoye	12 years
Kuranakh	8 years
Titimukhta	2 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 above-mentioned criteria are met, the stripping costs are included in the *Production cost* of inventory which are expensed in the consolidated statement of profit or loss as *Cost of gold sales* as and when they are sold.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of the ore body, plus an allocation of directly attributable overhead costs. The costs associated with incidental operations are not included in the costs of the stripping activity asset. The 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. Those capitalised costs are depreciated or amortised on a systematic basis, by using the units of production method, once production begins.

3.9 Capital construction-in-progress

Assets under construction at operating mines are accounted for as capital construction-in-progress, and are carried at cost, less any recognised impairment loss. The cost of capital construction-in-progress comprises its purchase price and any directly attributable costs to bringing it into working condition for its intended use and finance costs capitalised in accordance with the Group's accounting policy.

Capital construction-in-progress is not depreciated.

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.

3.10 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, depreciation 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 and finance costs capitalised in accordance with the Group's accounting policy.

3.11 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.

3.12 Impairment of long-lived tangible assets (Fixed assets, Capital construction-in-progress 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, but at least at the end of each reporting period, 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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. 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.

3.13 Exploration and evaluation assets

Exploration and evaluation assets represent capitalised expenditures 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 expenditures 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.

Impairment of exploration and evaluation assets

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, but at least at the end of each reporting period, 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.

3.14 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 either held for trading or it is designated as a FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading 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.

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.

Derecognition of financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense, respectively, over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments, as applicable, through the expected life of the financial asset or liability, or, where appropriate, a shorter period. Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

Financial liabilities

Financial liabilities are classified as 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 either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading 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 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 interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement.

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.

Derecognition 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. Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each consolidated statement of financial position 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 designates certain derivative financial instruments as cash flow hedges.

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.

3.15 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. Derivative financial instruments used for hedging purposes are measured at fair value in the consolidated statement of financial position.

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 the consolidated statement of changes 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 the consolidated statement of changes 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 the consolidated statement of changes in equity is recognised immediately in the consolidated statement of profit or loss.

3.16 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 and 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.

3.17 Deferred expenditures

Deferred expenditures relate to the preparation for the seasonal alluvial mining activities comprised of excavation costs and general production costs.

3.18 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.

3.19 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.

3.20 Site restoration, decommissioning and environmental obligations

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

Ongoing restoration costs are expensed when incurred.

3.21 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. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 18.

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.

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;
- determination of functional currency; and
- cash flow hedge designation.

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 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.

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 production*. Determination of this date requires judgement.

Depreciation is calculated based 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.

Borrowing costs capitalisation

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset.

Such borrowing costs are capitalised whilst projects are in progress. Natalka mine construction has been restarted in the second half of the 2015 year, and, respectively, the Group commenced the capitalisation of the related borrowing costs starting from 1 July 2015.

Capitalisation of interest ceases once the asset is complete and available for use. Interest is then charged to the income statement as a depreciation expense over the life of the relevant asset.

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.

Cash flow hedge designation

The Group applies its judgement in identification of the forecast selling price of the expected gold sale for the purpose of calculation of the intrinsic value of the options designated as a cash flow hedge and for hedge effectiveness testing.

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 the tangible 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; and
- interpretation of the tax legislation in accounting for income taxes.

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.

Impairment of tangible assets

The Group reviews the carrying amounts of its tangible assets including mine under development 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 the 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.

There are certain key differences between Russian Resource Reporting Code and JORC estimates. The Russian Resource Reporting Code estimates are constant at the time of the submission to the Russian Authorities as part of an agreed mining approach and are generally not (though there are certain exclusions) changed subsequently, whereas the JORC estimates are updated annually. Reflecting the longer time between the estimates there is a greater likelihood of differences in input parameters.

The Russian Resource Reporting Code estimates allocate the "geological" amount of ore and do not incorporate certain other mining parameters including dilution and losses while JORC estimates are based on modifying factors developed at pre-feasibility or feasibility stages. These estimates identify the value of the part of the resources which could be mined with profit. Further the Russian Resource Reporting Code estimates are limited by wireframes and in some cases this excludes the haloes of lower grade mineralization that is likely to be mined by open pit means

As a first approximation only the Russian Resource Reporting Code reserves are reconciled with JORC resources. The effect on the current year financial statements of seeking to apply a unit of production depreciation methodology based on Russian Resource Reporting Code instead of JORC is also considered to be immaterial.

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 relates 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.

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 (Inventories expected to be recovered after 12 months) is based on approved mine operating plans.

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.

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.

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"), identified as the Management Board (previously, Executive Committee). The following is a description of operations of the Group's seven identified reportable segments and those that do not meet the quantitative reporting threshold for reporting:

- ***Krasnoyarsk business unit*** (Krasnoyarsk region of the Russian Federation) – mining (including initial processing) and sale of gold from the Olimpiada, Blagodatnoye and Titimukhta mines, as well as research, exploration and development work at the Olimpiada and Blagodatnoye deposits;
- ***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;
- ***Exploration business unit*** (Krasnoyarsk region, Irkutsk region, Amur region, and others) – Research and exploration works in several regions of the Russian Federation;
- ***Capital construction unit*** - Represented by LLC "Polyus Stroy", JSC "TaigaEnergoStroy" and JSC "VitimEnergoStroy" which perform construction works at Natalka, 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;
- total cash cost per number of ounce of gold sold (TCC);
- adjusted earnings before interest, tax, depreciation and amortisation and other items (Adjusted EBITDA); and
- capital expenditures.

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	Adjusted EBITDA	Total cash cost per ounce of gold sold (USD per ounce)	Capital expenditures
For the year ended 31 December 2015					
Business units					
Krasnoyarsk	1,611	1,293	1,007	399	58
Irkutsk alluvial	191	168	76	582	5
Irkutsk ore	189	161	115	417	21
Yakutia Kuranakh	165	144	70	598	10
Exploration	3	2	3	694	7
Magadan	–	–	–	–	111
Capital construction	–	–	1	–	53
Unallocated	–	–	(4)	–	3
Total	**2,159**	**1,768**	**1,268**	**424**	**268**
For the year ended 31 December 2014					
Business units					
Krasnoyarsk	1,602	1,219	822	541	84
Irkutsk alluvial	234	190	70	735	17
Irkutsk ore	186	146	89	594	38
Yakutia Kuranakh	175	136	50	868	6
Exploration	–	–	(5)	–	6
Magadan	–	–	(5)	–	308
Capital construction	–	–	(3)	–	54
Unallocated	–	–	(7)	–	12
Total	**2,197**	**1,691**	**1,011**	**585**	**525**

Gold sales reported above represent revenue generated from external customers (note 25). There were no inter-segment gold sales during the years ended 31 December 2015 and 2014. Included within gold sales in 2015 are realised gains on derivatives of USD 116 million (note 13) (2014: USD 41 million).

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

	Year ended 31 December	
	2015	**2014**
Profit / (loss)	**1,119**	**(182)**
Income tax expense	194	222
Depreciation and amortisation (note 12)	128	182
Finance costs (note 9)	48	26
Delisting expenses	15	–
Long Term Incentive Plan (note 18)	7	–
Foreign exchange gain, net	(149)	(123)
Interest income on bank deposits	(59)	(31)
Reversal of impairment	(22)	(17)
Gain / (loss) on derivative financial instruments and investments, net (note 10)	(12)	934
Other	(1)	–
Adjusted EBITDA	**1,268**	**1,011**

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

Cost of gold sales	**876**	**1,174**
Adjusted for:		
Depreciation and amortisation (note 12)	(126)	(174)
Other non-cash items in cost of gold sales	(1)	(11)
TCC	**749**	**989**
Ounces of gold sold, in thousands	1,768	1,691
TCC per ounce of gold sold (USD per ounce)	**424**	**585**

Capital expenditures primarily related to the following projects:

- at the Magadan business unit: works inside the production units and buildings and spending on the pilot plant, the construction of the main crushed ore conveyor was completed, construction of the tailings thickener, the ore crushing and conveyor complex, a 110 kV power line, the main stepdown substation, as well as circulating pump and slurry pump stations.
- at the Krasnoyarsk business unit: launching works to reconfigure the Titimukhta mill and preparations for connecting to the new Razdolinskaya-Taiga grid, upgrading and expanding the Blagodatnoye mill.
- at the Yakutia Kuranakh business unit: projects to increase equipment productivity and preparation works related to heap leach installation.
- at the Construction business unit: the construction of the Razdolinskaya-Taiga electricity grid.

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

6. Cost of gold sales

	Year ended 31 December	
	2015	**2014**
Labour	239	320
Consumables and spares	205	281
Tax on mining	140	154
Fuel	74	131
Power	35	44
Outsourced mining services	12	19
Refining costs	3	4
Other	57	67
Total cash operating costs	**765**	**1,020**
Depreciation and amortisation of operating assets (note 12)	126	174
Total cost of production	**891**	**1,194**
Increase in stockpiles, gold-in-process and refined gold inventories	(15)	(20)
Total	**876**	**1,174**

(in millions of US Dollars)

7. Selling, general and administrative expenses

	Year ended 31 December	
	2015	**2014**
Salaries	103	124
Professional services	31	16
Taxes other than mining and income taxes	12	22
Depreciation and amortisation (note 12)	3	4
Other	17	17
Total	**166**	**183**

8. Reversal of impairment

	Year ended 31 December	
	2015	**2014**
Mine under development (note 12)	19	(37)
Exploration and evaluation assets (note 12)	5	(1)
Fixed assets (note 12)	–	29
Stripping activity asset (note 12)	–	13
Capital construction-in-progress (note 12)	–	(6)
Long-term stockpiles	(2)	19
Total reversal of impairment	**22**	**17**

Following the announcement on 13 November 2014 regarding the reduced reserves identified at Natalka the Company has considered the carrying value of the associated costs capitalised in the balance sheet principally within *Mine under development*. A detailed discounted cash flow model has been used to consider whether the value held is impaired which concluded that no impairment was required.

Impairment test was performed as of 31 December 2015.

There are a number of subjective factors that are necessarily incorporated into such a review, both operational and financial, using the best evidence available. The values derived are particularly sensitive to the assumptions regarding the planned mining operations and flowsheet and the financial assumptions for the RUB to USD exchange rate, gold price and discount rates.

The operational considerations reflect the most likely and optimal updated mining plan developed using the revised JORC reserves estimate and with the advice of the mining consultants.

The financial assumptions include significant judgements associated with forecast gold prices determined at a volatile time for our markets.

The key long-term assumptions that were used in the impairment testing were a weighted average long-term gold price of USD 1,270 per ounce, exchange rate of 74.5 RUB for 1 USD and a post-tax discount rate of approximately 10%. The assumptions are provided in real terms. The impairment test is particularly sensitive to the assumption for the RUB to USD exchange rate, gold price and discount rate. An impairment would be required:

- if the Rouble strengthened to below 59.6 RUB for 1 US Dollar; or
- if the gold price decreased below US Dollar 1,076 per oz; or
- if the discount rate increased above 15.3%.

During the year ended 31 December 2015, certain previously impaired items were requested for use in construction of the Natalka mine and accordingly, a reversal of impairment for USD 19 million was made.

(in millions of US Dollars)

9. Finance costs

	Year ended 31 December	
	2015	**2014**
Interest on borrowings	134	100
Unwinding of discounts on site restoration, decommissioning and environmental liabilities	4	4
Gain on exchange of interest payments under cross currency swap (note 13)	(39)	(16)
Gain on exchange of interest payments under interest rate swaps (note 13)	(13)	(4)
Other	2	2
Sub-total finance cost	**88**	**86**
Interest capitalised in the cost of Mine under development	(40)	(60)
Total finance cost expensed	**48**	**26**

Interest on borrowings includes USD 4 million of consent fees paid to the bondholders of the Notes due in 2020 (Eurobonds) (note 19) to provide the flexibility for a potential Group restructuring involving a change in the issuer of the Eurobonds and/or a change in the parent company of the Group, and to amend certain related covenants.

10. Gain / (loss) on derivative financial instruments and investments, net

	Year ended 31 December	
	2015	**2014**
Gain / (loss) on currency collars (note 13)	53	(594)
Revaluation loss on cross currency swaps (note 13)	(106)	(403)
Revaluation gain on ineffective part of the revenue stabiliser under Tranches 1 and 2 (note 13)	19	15
Revaluation gain on ineffective part of the revenue stabiliser under Tranche 3 (note 13)	45	–
Revaluation gain on interest rate swap (note 13)	2	9
Other	(1)	5
Gain on initial exchange of cross currency swaps (note 13)	–	34
Total	**12**	**(934)**

11. Income tax expense

	Year ended 31 December	
	2015	**2014**
Current tax expense	198	220
Deferred tax (benefit) / expense	(4)	2
Total	**194**	**222**

The corporate income tax rates in the countries where the Group has a taxable presence vary from 0% (British Virgin Islands) to 20% (in the United Kingdom and in the Russian Federation).

(in millions of US Dollars)

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	
	2015	**2014**
Profit before income tax	**1,313**	**40**
Income tax at statutory rate applicable to principal entities (20%)	263	8
Unrecognized deferred tax assets and write-off / (reversal) of losses carried forward resulted from impairments	(6)	19
Allowance for deferred tax assets on derivative financial instruments and deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss	(37)	185
Effect of different tax rates of subsidiaries operating in other jurisdictions	(9)	–
Income tax effect of impairment reversals	(4)	(6)
Tax effect of non-deductible expenses and other permanent differences	-	23
Other	(13)	(7)
Income tax expense	**194**	**222**

(in millions of US Dollars)

12. 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 2013	**2,466**	**1,584**	**221**	**299**	**510**	**5,080**
Additions	–	308	109	205	12	**634**
Transfers from capital construction-in-progress	163	–	–	(163)	–	**–**
Change in site restoration, decommissioning and environmental obligations	8	1	–	–	–	**9**
Disposals	(19)	–	–	–	–	**(19)**
Effect of translation to presentation currency	(1,080)	(759)	(127)	(142)	(215)	**(2,323)**
Balance at 31 December 2014	**1,538**	**1,134**	**203**	**199**	**307**	**3,381**
Additions	-	111	104	146	11	**372**
Transfers from capital construction-in-progress	134	–	–	(134)	–	**–**
Change in site restoration, decommissioning and environmental obligations	(6)	–	–	–	–	**(6)**
Disposals	(38)	(3)	–	(1)	–	**(42)**
Reclassifications	15	–	–	(3)	3	**15**
Effect of translation to presentation currency	(360)	(274)	(64)	(54)	(72)	**(824)**
Balance at 31 December 2015	**1,283**	**968**	**243**	**153**	**249**	**2,896**
Accumulated amortisation, depreciation and impairment						
Balance at 31 December 2013	**(1,113)**	**(11)**	**(68)**	**(21)**	**(336)**	**(1,549)**
Charge	(214)	–	(16)	–	–	**(230)**
Disposals	17	–	–	–	–	**17**
Reversal of impairment / (impairment losses) (notes 8)	29	(37)	13	(6)	(1)	**(2)**
Effect of translation to presentation currency	528	16	33	17	140	**734**
Balance at 31 December 2014	**(753)**	**(32)**	**(38)**	**(10)**	**(197)**	**(1,030)**
Charge	(134)	–	(21)	–	–	**(155)**
Disposals	36	–	–	–	–	**36**
Reversal of impairment (notes 8)	–	19	–	–	5	**24**
Effect of translation to presentation currency	188	4	14	3	43	**252**
Balance at 31 December 2015	**(663)**	**(9)**	**(45)**	**(7)**	**(149)**	**(873)**
Net book value at						
31 December 2014	**785**	**1,102**	**165**	**189**	**110**	**2,351**
31 December 2015	**620**	**959**	**198**	**146**	**100**	**2,023**

(in millions of US Dollars)

Fixed assets

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

	31 December	
	2015	**2014**
Mineral rights	46	45

Exploration and evaluation assets

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

	31 December	
	2015	**2014**
Chertovo Koryto	23	30
Razdolinskoye	16	18
Olympiada	14	16
Panimba	13	15
Bamsky	11	12
Smezhny	7	8
Blagodatnoye	6	6
Burgakhchan area	5	–
Medvezhy Zapadny	2	4
Other	3	1
Total	**100**	**110**

Depreciation and amortisation charge is allocated as follows:

	Year ended 31 December	
	2015	**2014**
Cost of gold sales	122	174
Depreciation in change in inventory	4	–
Sub-total: Cost of production (note 6)	**126**	**174**
Selling, general and administrative expenses (note 7)	3	4
Cost of other sales	3	4
Capitalised within capital construction-in-progress	23	48
Total	**155**	**230**

Mine under development

Mine under development includes only the Natalka mine (Magadan business unit).

Included within *Mine under development* are capitalised borrowing costs consisted of the following:

	Year ended 31 December	
	2015	**2014**
Interest expenses	40	60
Foreign exchange losses	1	33
Interest income on bank deposits	(5)	(7)
Total	**36**	**86**

Following temporary cessation of the active construction at Natalka during the year ended 31 December 2014 borrowing costs capitalization has been suspended until 30 June 2015. Natalka mine construction has been restarted in the second half of the 2015 year, and, respectively, the Group commenced the capitalisation of the related borrowing costs starting from 1 July 2015.

(in millions of US Dollars)

The carrying values of mineral rights relating to and included within a mine project under development were as follows:

	31 December	
	2015	**2014**
Mineral rights	28	37

13. Derivative financial instruments and investments

	31 December	
	2015	**2014**
Non-current assets		
Revenue stabiliser	200	132
Interest rate swaps	11	9
Loans receivable	1	1
Gold forward	–	30
Sub-total	**212**	**172**
Current assets		
Gold forward	20	–
Total assets	**232**	**172**
Non-current liabilities		
Cross currency swaps	509	403
Revenue stabiliser	–	20
Sub-total	**509**	**423**
Current liabilities		
Currency collars	–	547
Total liabilities	**509**	**970**

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.

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.

During the year ended 31 December 2015, the Group successfully completed the restructuring of Tranches 1 and 2 of the revenue stabiliser programme and started to sign agreements under Tranche 3.

Restructuring of Tranches 1 and 2 resulted in the close out of a part of the fourth year options and lowering barriers on the remaining options for the first three years.

The allocation of volumes, strikes and barriers between years under the revenue stabiliser agreements after restructuring is presented below:

(in millions of US Dollars)

	Years ended 31 December								
	2014	**2015**	**2016**	**2017**		**2018**		**2019**	**Total**
Revenue stabiliser volumes under put and call option agreements (thousand ounces)									
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)									
Total as per options agreements	225	300	300	75	315	–	105	–	**1,320**
Exercised	(225)	(300)	–	–	–	–	–	–	**(525)**
Outstanding as of 31 December 2015	–	–	**300**	**75**	**315**	–	**105**	–	**795**
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)									
Total as per options agreements	60	120	120	60	180	–	180	–	**720**
Exercised	(60)	(120)	–	–	–	–	–	–	**(180)**
Outstanding as of 31 December 2015	–	–	**120**	**60**	**180**	–	**180**	–	**540**
Tranche 3 (covering the period 1 January 2016 – 31 December 2019)									
Total as per options agreements	–	–	280	280	–	280	–	840	**1,680**
Exercised	–	–	–	–	–	–	–	–	–
Outstanding as of 31 December 2015	–	–	**280**	**280**	–	**280**	–	**840**	**1,680**
Total outstanding as of 31 December 2015	–	–	**700**	**415**	**495**	**280**	**285**	**840**	**3,015**

(in millions of US Dollars)

	Years ended 31 December					
	2014	2015	2016	2017		2018
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)						
First three years (put)						
Strike	1,383	1,383	1,383	1,383	–	–
Knock-out barrier	950	950	921	911	–	–
First three years (call)						
Strike	1,518	1,518	1,518	1,518	–	–
Knock-in barrier	1,662	1,655	1,634	1,634	–	–
Fourth year (put)						
Strike	–	–	–	–	1,107	1,107
Knock-out barrier	–	–	–	–	900	900
Fourth year (call)						
Strike	–	–	–	–	1,551	1,551
Knock-in barrier	–	–	–	–	1,750	1,750
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)						
First three years (put)						
Strike	1,359	1,359	1,359	1,359	–	–
Knock-out barrier	950	950	950	950	–	–
First three years (call)						
Strike	1,425	1,425	1,425	1,425	–	–
Knock-in barrier	1,525	1,525	1,525	1,525	–	–
Fourth year (put)						
Strike	–	–	–	–	1,100	1,100
Knock-out barrier	–	–	–	–	900	900
Fourth year (call)						
Strike	–	–	–	–	1,500	1,500
Knock-in barrier	–	–	–	–	1,650	1,650

(in millions of US Dollars)

	Years ended 31 December							
	2014	**2015**	**2016**	**2017**		**2018**		**2019**
Tranche 3 (covering the period 1 January 2016 – 31 December 2019)								
First three years (put)								
Strike	–	–	1,232	1,232	–	1,232	–	971
Knock-out barrier	–	–	900	900	–	900	–	921
First three years (call)								
Strike	–	–	1,350	1,350	–	1,350	–	1,391
Knock-in barrier	–	–	1,450	1,450	–	1,450	–	1,591
Fourth year (put)								
Strike	–	–	–	–	–	–	–	971
Knock-out barrier	–	–	–	–	–	–	–	921
Fourth year (call)								
Strike	–	–	–	–	–	–	–	1,391
Knock-in barrier	–	–	–	–	–	–	–	1,591
Weighted average strikes for Tranches 1, 2 and 3								
Leg 1 (put)								
Strike	1,378	1,377	1,319	1,278	–	–	–	–
Knock-out barrier	950	950	918	909	–	–	–	–
Leg 2 (call)								
Strike	1,498	1,491	1,435	1,391	–	–	–	–
Knock-in barrier	1,633	1,618	1,542	1,494	–	–	–	–
Leg 3 (put)								
Strike	–	–	–	–	1,105	1,232	1,103	971
Knock-out barrier	–	–	–	–	900	900	900	921
Leg 4 (call)								
Strike	–	–	–	–	1,533	1,350	1,519	1,391
Knock-in barrier	–	–	–	–	1,714	1,450	1,687	1,591

As a result of Tranche 1 of the revenue stabiliser, the Group ensures a minimum weighted 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 does not fall below USD 921 per ounce. During the first three years the Group benefits from price increases until the gold price reaches USD 1,634 per ounce, in which case the weighted average price is capped at USD 1,518 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted 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 ensures a minimum weighted 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 does not fall below USD 950 per ounce. During the first three years the Group benefits from price increases until the gold price reaches USD 1,525 per ounce, in which case the weighted average price is capped at USD 1,425 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted 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.

During the year ended 31 December 2015, the Group entered into several new revenue stabilizer agreements under the Tranche 3 of the revenue stabiliser programme. As per the agreements the Group ensures a minimum weighted 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 weighted average price is capped at USD 1,350 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted 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.

The revenue stabiliser options are exercised quarterly in equal amounts.

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 volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13.

Tranche 1 and 2 of the revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity, whilst the remaining change in the fair value of USD 19 million gain is reflected in the consolidated statement of profit or loss (note 10) (the year ended 31 December 2014: gain of USD 15 million).

During the year ended 31 December 2015, under Tranches 1 and 2, USD 115 million was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity (the year ended 31 December 2014: USD 132 million) and following the sale of the hedged volume of gold and the exercise of certain options USD 91 million was subsequently reclassified to Gold sales within the consolidated statement of profit or loss (the year ended 31 December 2014: USD 35 million).

Tranche 3 is accounted at fair value through profit and loss. Gain resulted from the change in its fair value totalled USD 45 million and is presented within the note 10 of the consolidated statement of profit or loss.

(in millions of US Dollars)

Gold forward

During the year ended 31 December 2014, the Group has entered into financing contracts to sell a total of 310 thousand ounces of gold monthly in equal quantities over a period of two years starting from 1 July 2014 and ending on 30 June 2016 at a fixed price of USD 1,321 per ounce. The gold forwards (thousand ounces) are exercised in the following years:

	Years ended 31 December		
	2014	**2015**	**2016**
Forward agreements	77.5	155.0	77.5
Exercised	(77.5)	(155.0)	–
Outstanding as of 31 December 2015	**–**	**–**	**77.5**

The gold forward contract is designated as a cash flow hedge. Any change in the forward fair value is recognised in *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity. During the year ended 31 December 2015, USD 15 million was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity (the year ended 31 December 2014: USD 36 million) and following the sale of the hedged amount of gold USD 25 million was reclassified from the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity into *Gold sales* within the consolidated statement of profit or loss (the year ended 31 December 2014: USD 6 million). The remaining balance is expected to be evenly reclassified monthly to the consolidated statement of profit or loss through to 30 June 2016.

The fair value is determined using the Black-Scholes valuation technique. Input data used in the valuation model (forward gold prices and volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13. The Group performs prospective and retrospective effectiveness testing for the instruments designated as a cash flow hedge at least at each reporting date.

Currency collars

During the year ended 31 December 2014, in order to economically hedge its Russian rouble denominated expenses, the Group simultaneously purchased put options and sold call options for the total amount of USD 1,900 million allocated monthly as following:

	2014	**2015**
Volume of option agreements (million USD)	400	1,500
Exchange rates for puts, RUB/USD	36.83	37.47
Exchange rates for calls, RUB/USD	40.06	40.38

During the year ended 31 December 2015 all remaining options matured and resulted in a gain of USD 53 million (the year ended 31 December 2014: loss USD 594 million). No currency collars options remained as of 31 December 2015.

The Group classified these contracts as financial instruments at FVTPL. The fair value was determined using the Black-Scholes valuation technique using the inputs (forward currency exchange rates and volatility) which were observable in the market and correspondently classified as Level 2 in accordance with the hierarchy of fair value.

Cross currency swaps

RUB denominated credit facilities with fixed interest rate

The revenue of the Group is linked to US dollars, because the gold price is denominated in US dollars. The Group entered into cross currency swaps with leading Russian banks to economically hedge interest payments and principal amounts exchange nominated in RUB.

According to the cross currency swap agreements the Group quarterly pays to the banks LIBOR + Margin 2.32% in USD and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group exchanges principal amounts paying USD 1,023 million and receiving RUB 35,999 million.

(in millions of US Dollars)

Rusbonds

The Group entered into cross currency swaps with leading Russian banks for a total amount of RUB 10 billion to economically hedge interest payments and principal amounts exchange for Rusbonds. According to the cross currency swap agreements the Group will semi-annually pay to the banks 6MLIBOR + Margin 4.45% in USD and receive from the banks 12.1% in RUB; and at maturity (16 July 2021) the Group will exchange principal amounts paying USD 173 million and receiving RUB 10 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 which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps for the year ended 31 December 2015 resulted in a revaluation loss of USD 106 million recognised in the Consolidated statement of profit or loss (note 10) (the year ended 31 December 2014: loss USD 403 million). The gain on the exchange of interest payments in amount of USD 39 million is recognised within the Finance cost (note 9) (the year ended 31 December 2014: USD 16 million).

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

During the year ended 31 December 2014, the Group entered into an 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 is to decrease the effective interest rate for the USD 750 million Eurobonds (note 19). 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 which was determined using a discounted cash flow valuation technique.

During the year ended 31 December 2015, gain on changes in the fair value of the interest rate swaps in the amount of USD 2 million is recognised in the Consolidated statement of profit or loss (note 10) (the year ended 31 December 2014: gain USD 9 million). The gain on the exchange of interest payments in amount of USD 13 million is recognised within the Finance cost (note 9) (the year ended 31 December 2014: USD 4 million).

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.

14. Inventories

	31 December	
	2015	**2014**
Inventories expected to be recovered after 12 months		
Stockpiles	174	224
Gold-in-process	10	3
Sub-total	**184**	**227**
Inventories expected to be recovered in the next 12 months		
Stockpiles	44	79
Gold-in-process	59	63
Refined gold	13	17
Stores and materials	188	292
Less: Net realisable value provision for stores and materials	(8)	(11)
Sub-total	**296**	**440**
Total	**480**	**667**

(in millions of US Dollars)

15. Taxes receivable

	31 December 2015	31 December 2014
Reimbursable value added tax	43	45
Income tax prepaid	15	1
Other prepaid taxes	5	2
Total	**63**	**48**

16. Bank deposits

During the year ended 31 December 2015, the Group modified certain bank deposit agreements, so that as of 31 December 2015 all of the deposits were available on demand and respectively were presented under the cash and cash equivalents caption (note 17).

As of 31 December 2014, all Group's deposits were denominated in USD and had rates varying from 1.4% to 3.6% per annum.

17. Cash and cash equivalents

	31 December 2015	31 December 2014
Bank deposits		
- USD	1,630	1,093
- RUB	71	50
Current bank accounts		
- USD	273	42
- RUB	33	12
Other cash and cash equivalents	32	20
Total	**2,039**	**1,217**

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 denominated in RUB and USD and accrue interest at the following rates:

Interest rates on bank deposits denominated in:		
- USD	1.0-6.0%	0.6-6.0%
- RUB	8.0-11.1%	8.9-25.0%

18. Share capital

The authorised share capital of the Company comprises 3,600 million ordinary shares with a par value of GBP 0.0001 per share.

The issued and fully paid up share capital of the Company comprises 3,032 million ordinary shares issued at a premium, resulting in share capital of USD 482,000 and additional paid-in-capital of USD 2,159 million (31 December 2014: USD 2,152 million).

Dividends to shareholders of the Company

		Year ended 31 December 2015	Year ended 31 December 2014
Dividend declared and paid during the year:			
	USD million	184	500
	US cents per share	6	16

(in millions of US Dollars)

Dividends in the total amount of USD 184 million (US 6 cents per share) were declared and paid off during the year ended 31 December 2015.

Equity-settled share-based payment plans (Long Term Incentive Plan)

During the year ended 31 December 2015, the Company 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 the Company's ordinary shares linked to the achievement of a combination of financial and non-financial performance conditions.

The LTIP stipulates three 3-year rolling performance periods (i.e. 2015-2017, 2016-2018 and 2017-2019). The total number of shares that may be distributed under the LTIP is up to 1% of the total share capital of the Company which can be granted from newly issued ordinary shares or from treasury shares, if any. At the end of each performance period the shares shall be transferred to the members of top management depending on whether the performance conditions have been achieved.

Fair value of a share was identified at the grant date of 19 May 2015 as the closing price per London Stock Exchange. Total expense for the reporting period arising from LTIP was immediately recognized in the consolidated statement of profit and loss within the line *Salaries* included within *Selling, general and administrative expenses* in the amount of USD 7 million.

Weighted average number of ordinary shares for the year ended 31 December 2015 including dilutive effect of potentially issuable shares is presented below:

	Number of shares, million
Ordinary shares in issue at the beginning of the year ended 31 December 2015	3,032
Dilutive effect of LTIP (9 million shares starting from 19 May 2015)	5
Weighted average number of ordinary shares for the year ended 31 December 2015	**3,037**

19. Borrowings

	Nominal rate %	31 December 2015	31 December 2014
Credit facilities with financial institutions nominated in USD with variable interest rates	USD LIBOR + margins ranging from 0.55% to 4.95%	785	365
Notes due in 2020 (Eurobonds)	5.625%	746	745
Credit facilities with financial institutions nominated in RUR with fixed interest rates	10.35%	461	596
Notes due in 2025 (Rusbonds) with noteholders' early repayment option in 2021	12.1%	137	–
Letters of credit with deferred payments terms with variable rates	Cost of fund (COF) + 2.7%,Euribor +1.8%, USD LIBOR + 2.35%	38	107
Credit facilities with financial institutions nominated in RUR with variable interest rates	Central bank rate + 2.3%	18	–
Sub-total		**2,185**	**1,813**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(38)	(90)
Long-term borrowings		**2,147**	**1,723**

(in millions of US Dollars)

The Company and subsidiaries of the Group from time to time obtain credit facilities from different financial institutions, raise financing from the noteholders to fund its general corporate purposes and to finance its capital investment projects.

Unused credit facilities

In 2014, one of the companies of the Group, entered into a five year RUB 40,000 million credit line with a bank to fund its general corporate purposes. As of 31 December 2015 and 31 December 2014, the amount of unused credit facilities was RUB 40,000 million equivalent to USD 549 million and USD 711 million, respectively.

In 2015, one of the companies of the Group, entered into an eleven year RUB 6,054 million credit line with a bank to fund deployment of Razdolinskaya-Taiga power grid construction. As of 31 December 2015, the credit facilities in the amount of USD 65 million (RUB 4,707 million) were unused.

Other matters

JSC "Gold Mining Company Polyus" guaranteed liabilities of all the companies in the Group for all borrowings.

There were a number of financial covenants under several loan agreements in effect as of 31 December 2015 according to which the respective subsidiaries of the Company and the Company itself are limited:

- in the distribution of their assets. The Group is not allowed to divest more than 10% of its assets in any form of transaction without prior consent of the banks. This limitation is applicable to the most significant subsidiaries of the Group;
- in its right to dispose of the controlling share in certain significant subsidiaries of the Group; and
- in the transfer of non-core assets between certain subsidiaries of the Group.

The Group was in compliance with all these covenants as of 31 December 2015.

The fair value of the Notes due in 2020 and 2021 are within Level 1 of the fair value hierarchy. Whilst measured at amortised cost, the fair value of all of the borrowings, except for the Notes, are within Level 2 of the fair value hierarchy in accordance with IFRS 13. The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB interest 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 the borrowings as of 31 December 2015 was equal to USD 2,013 million (31 December 2014: USD 1,437 million).

20. Deferred tax assets and liabilities

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

	Year ended 31 December	
	2015	**2014**
Net deferred tax liability at beginning of the year	**103**	**134**
Recognised in the consolidated statement of profit or loss	(4)	2
Recognised in the consolidated statement of comprehensive income	10	19
Effect of translation to presentation currency	(22)	(52)
Net deferred tax liability at end of the year	**87**	**103**

(in millions of US Dollars)

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.

	31 December 2015	31 December 2014
Property, plant and equipment	155	160
Inventory	43	60
Deferred expenditures	3	3
Derivative financial instruments and investments	-	27
Offset of deferred tax asset and liability within the same taxable entity	(68)	(100)
Total deferred tax liabilities	**133**	**150**
Tax losses carried-forward	106	131
Property, plant and equipment	1	2
Accrued expenses	3	4
Payables	4	10
Offset of deferred tax asset and liability within the same taxable entity	(68)	(100)
Total deferred tax assets	**46**	**47**

Unrecognised deferred tax asset

	2015	2014
Unrecognised deferred tax asset resulting from losses on derivative financial instruments	115	185
Unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit	18	30
Unrecognized deferred tax assets resulted from impairments	33	48
Total	**166**	**263**

Deferred tax assets on losses from derivative financial instruments and those resulted from impairments were not recognised as of 31 December 2015 because there is no enough evidence that those tax losses might be utilised.

Tax losses carried forward expire in periods up to ten years, and some are not recognised as management does not believe it is probable that future taxable profit will be available against which the respective entities can utilise the benefits.

Unrecognised deferred tax liability

	2015	2014
The unrecognised deferred tax liability for taxable temporary differences associated with investments in subsidiaries	16	63

The deferred tax liability presented above was 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.

21. Trade, other payables and accrued expenses

	31 December 2015	31 December 2014
Wages and salaries payable	56	57
Interest payable	29	24
Trade payables to third parties	24	21
Other accounts payable and accrued expenses	24	31
Accrued annual leave	16	19
Dividends payable to non-controlling interests	1	2
Total	**150**	**154**

(in millions of US Dollars)

The average credit period for trade payables at 31 December 2015 was 21 days, (2014: 18 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.

22. Taxes payable

	31 December	
	2015	**2014**
Tax on mining	10	11
Value added tax	6	3
Social taxes	5	6
Income tax payable	4	11
Property tax	2	2
Other taxes	2	3
Total	**29**	**36**

23. Related parties

Related parties include substantial shareholders, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of business, enter into purchase and service transactions with related parties.

The Group had no transactions with its shareholders during years ended 31 December 2015 and 2014.

Entities under common ownership

The Group had no balances and transactions with entities under common control as of 31 December 2014 and 2015.

Key management personnel

	Year ended 31 December	
	2015	**2014**
Short-term compensation of key management personnel including LTIP (Note 18)	23	31
including termination benefits to the former key management personnel	1	8

24. Commitments and contingencies

Commitments

Capital commitments

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

	31 December	
	2015	**2014**
Contracted capital expenditure commitments	30	23
- including contracted capital expenditure commitments related to the Natalka project	9	11

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 2060.

Future minimum lease payments due under non-cancellable operating lease agreements at the end of the year were as follows:

	31 December	
	2015	**2014**
Due within one year	4	3
From one to five years	18	8
Thereafter	17	20
Total	**39**	**31**

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.

Insurance

The insurance industry is not yet well developed in the Russian Federation and many forms of insurance protection common in more economically developed countries are not yet available on comparable terms. The Group does not have full insurance coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations, other than limited coverage required by law.

The Group, as a participant in exploration and mining activities, may become subject to liability for risks that cannot be insured against, or against which it may elect not to be insured because of high premium costs. Losses from uninsured risks may cause the Group to incur costs that could have a material adverse effect on the Group's business and financial condition.

Taxation contingencies in the Russian Federation

Laws and regulations 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. [Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities]. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

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 modernises 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.

In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. In the first quarter of 2015 international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

25. 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 19) less banks deposits (note 16) and cash and cash equivalents (note 17), and equity of the Group.

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, derivative financial instruments and investments and trade and other 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, bank deposits, trade and other receivables, derivative financial instruments and investments.

(in millions of US Dollars)

	31 December	
	2015	**2014**
Financial assets		
Cash and cash equivalents	2,039	1,217
Derivative financial instruments and investments	231	171
Trade and other receivables	14	11
Loans receivable	1	1
Bank deposits	–	269
Total financial assets	**2,285**	**1,669**
Financial liabilities		
Borrowings	2,185	1,813
Derivative financial instruments and investments	509	970
Trade and other payables	134	135
Total financial liabilities	**2,828**	**2,918**

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.

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 1/3 of its annual gold sales. During 2014, 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 13).

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 2015 gold sales for the year would have increased / decreased by USD 134 million / USD 138 million, respectively (the year ended 31 December 2014: USD 181 million / USD 175 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. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's current policy considering the relatively low LIBOR rates is to borrow funds in USD with floating interest rates. During the year ended 31 of December 2014 and 2015, the Group, in order to align its borrowings with the policy, entered into a number of derivative transactions (note 13):

- to swap cash flows under a Rouble denominated credit facility with a fixed interest rate of 10.35% into USD dollar denominated cash flows with a floating interest rate of LIBOR+2.32%. The credit facility was initially arranged in RUB with the view to swapping it into a USD denominated cash flow, because this was more cost effective than obtaining funding directly in USD (note 19);
- to swap interest payments under the 750 million Eurobond from a fixed rate of 5.625% into a floating rate of LIBOR+3.55% (note 19);
- to swap cash flows under a 10 billion Rouble denominated bonds with a fixed coupon of 12.1% into USD dollar denominated cash flows with a floating interest rate of 6MLIBOR+4.45%. The bond was initially arranged in RUB with the view to swapping it into a USD denominated cash flow, because this was more cost effective than obtaining funding directly in USD (note 19).

(in millions of US Dollars)

If the interest rate was 0.5% higher / lower during the year ended 31 December 2015 interest expense excluding effect of change in fair value of interest rate and cross currency swaps for year ended 31 December 2015 would have increased / decreased by USD 8 million (the year ended 31 December 2014: USD 5 million).

If interest rates used in calculations of fair values of interest rate and cross currency swaps as of 31 December 2015 would be 0.5% higher / lower, the gain on revaluation would be USD 39 million lower / higher, respectively (31 December 2014: USD 44 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 expenditures 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.

During 2014, the Group entered into a number of derivative agreements, in the form of currency collars (note 13) in order to economically hedge its Russian rouble denominated expenses. As of 31 December 2015, no currency collars remained outstanding.

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	
	2015	**2014**
Assets		
USD	2,135	1,581
EURO (presented in USD at closing exchange rate)	1	17
Total	**2,136**	**1,598**
Liabilities		
USD	2,084	2,135
EURO (presented in USD at closing exchange rate)	14	71
Total	**2,098**	**2,206**

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 2015 and year ended 31 December 2014 compared to RUB as of the end of respective year, the Group would have incurred the following (gain) / loss:

	31 December	
	2015	**2014**
Gain / (loss) (USD exchange rate increased compared to RUB)	(13)	139
Loss (EURO exchange rate increased compared to RUB)	3	13

(in millions of US Dollars)

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 granted, advances paid, trade 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 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 4 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. There were no outstanding receivables for gold sales as of 31 December 2015.

Gold sales to the Group's major customers are presented as follows:

	Year ended 31 December	
	2015	**2014**
Otkritie Bank	668	704
Sberbank	651	220
VTB Bank	**493**	841
MDM Bank	**166**	298
Bank of Moscow	**–**	85
Other	**181**	49
Gold sales	**2,159**	**2,197**

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.

(in millions of US Dollars)

The Group's cash management procedures include medium-term forecasting (a budget approved each financial year and updated on a quarterly basis), short-term forecasting (monthly cash-flow budgets are established for each business unit and a review of each entity's daily cash position is performed using a two-week rolling basis).

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2015 based on undiscounted contractual payments / (receipts), including interest payments:

	Borrowings		Trade and other	
	Principal	**Interest**	**payables**	**Total**
Due in the first year	38	138	105	281
Due in the second year	258	135	–	393
Due in the third year	418	129	–	547
Due in the fourth year	578	86	–	664
Due in the fifth year	762	38	–	800
Due in the period between sixth to eight years	144	17	–	161
Total	**2,198**	**543**	**105**	**2,846**

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2014 based on undiscounted contractual payments, including interest payments:

	Borrowings		Trade and other	
	Principal	**Interest**	**payables**	**Total**
Due in the first year	90	118	111	319
Due in the second year	38	116	–	154
Due in the third year	87	115	–	202
Due in the fourth year	136	111	–	247
Due in the fifth year	710	76	–	786
Due in the period between sixth to eight years	764	22	–	786
Total	**1,825**	**558**	**111**	**2,494**

Maturity of the derivative financial instruments in presented within Note 13.

26. Events after the reporting date

In January 2016, the Group completed an execution of a joint venture agreement with Polymetal International plc ("Polymetal"), under which Polymetal will participate in advancing the development of the Group's Nezhdaninskoye gold deposit in Yakutia, Russia. The arrangement will allow Polymetal to acquire up to 50% in the joint venture entity holding 100% of JSC South-Verkhoyansk Mining Company through an earn-in mechanism.

In January and February 2016, the Group signed the following new credit facility agreements with banks:

- USD 2,500 million credit facility agreement with maturity in 2023 at LIBOR + 4.5%;
- USD 100 million credit facility agreement with maturity in 2019 at LIBOR + 4.5%.

In February 2016, the Group continued to economically hedge its gold sales by entering into the new revenue stabilizer agreements for an annual amount of 100 thousand ounces during the first three years and 300 thousand ounces during the fourth year.

(in millions of US Dollars)

27. Investments in significant subsidiaries

27.1 Information about significant subsidiaries of the Group

Subsidiaries[2]	Nature of business	Effective % held[1] at 31 December 2015	Effective % held[1] at 31 December 2014
Incorporated in Russian Federation			
PJSC "Polyus Gold"	Management company	95	95
JSC "Gold Mining Company Polyus"	Mining (open pit)	95	95
JSC "Aldanzoloto GRK"	Mining (open pit)	95	95
JSC "Pervenets"	Mining (open pit)	95	95
PJSC "Lenzoloto"	Market agent	61	61
JSC "ZDK Lenzoloto"	Mining (alluvial)	63	63
JSC "Svetliy"	Mining (alluvial)	53	53
JSC "Matrosova Mine"	Mining (development stage)	95	95
LLC "Polyus Stroy"	Construction	95	95
CJSC "TaigaEnergoStroy"	Construction	95	95
Incorporated in British Virgin Islands			
Polyus Exploration Limited	Geological research	95	98

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

The summarised financial information below represents amounts before intragroup eliminations.

Summarized statements	PJSC "Polyus Gold" consolidated		PJSC "Lenzoloto" consolidated	
	2015	2014	2015	2014
Information as of 31 December				
Current assets	2,438	2,009	179	155
Non-current assets	2,672	2,996	51	46
Current liabilities	217	830	15	16
Non-current liabilities	2,845	2,373	11	10
Equity attributable to the shareholders of the subsidiary	1,900	1,656	136	110
Non-controlling interests	148	146	68	65
Information for the years ended 31 December				
Revenue	2,189	2,197	197	234
Profit / (loss) for the year	1,061	(1,081)	72	89
Profit / (loss) attributable to non-controlling interests	14	(18)	15	37
Total comprehensive income / (loss)	459	(2,720)	72	89
Net cash inflow from operating activities	1,100	673	56	65
Net cash (outflow) / inflow from investing activities	(677)	(1,169)	70	(61)
Net cash inflow / (outflow) from financing activities	223	992	(12)	(10)
Dividends paid to non-controlling interests	12	10	12	10

[1] Effective % held by the Company, including holdings by other subsidiaries of the Group.
[2] Following change in legislation, most of the significant subsidiaries were renamed from open joint stock company (OJSC) and from closed joint stock company (CJSC) into joint stock company (JSC).

27.3 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 the distributable profits and reserves in these consolidated financial statements.

Polyus Gold International Limited

Consolidated financial statements for the year ended 31 December 2014

Statement of Directors' responsibility

The responsibility statement below has been prepared in connection with the Group's full Annual Report for the year ended 31 December 2014. Certain parts thereof are not included within this announcement.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

The Annual Report and consolidated financial statements of the Group for the year ended 31 December 2014 were approved on 12 March 2015 by the Board of Directors.

On behalf of the Board of Directors:

Pavel Grachev

Chief Executive Officer and Director

London, 12 March 2015.

Independent auditor's report

to the Members of Polyus Gold International Limited

Opinion on consolidated financial statements of Polyus Gold International Limited

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the Companies (Jersey) Law 1991.

The consolidated financial statements comprise the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is the applicable laws and IFRSs as adopted by the European Union.

Going concern

We have reviewed the Directors' statement on page 50 that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk

Potential impairment of fixed assets

Given the risk that the carrying value of the mining assets, capital construction in progress and mine under development described in notes 14, 15 and 16 to the consolidated financial statements may not be recoverable, management has performed a review for indicators of impairment across the portfolio of assets held.

As a consequence of the operational performance in the period and the depreciation of the Russian rouble no indicators of impairment or impairment reversals were identified with the exception of:

- An indicator of impairment reversal was identified at the Kuranakh mines within the Yakutia Kuranakh business unit where the carrying value following an impairment provision of $138 million at 31 December 2013 was $72 million. This follows the improved results and the depreciation of the rouble. Following a detailed impairment test, management recorded a reversal of the previous impairment valued at $66 million as disclosed in note 10. The value of the reversal is lower than the original impairment due to the depreciation of the rouble in the period.
- An indicator of impairment at the Natalka mine under development within the Magadan business unit was identified. This follows the downgrading of the estimate of reserves announced on 13 November 2014 and the temporary reduction of construction activity pending the finalisation of the resequencing of the project. The carrying value at 31 December 2014 was $1,216 million after the depreciation in the rouble in the period having reduced the value by $743 million through translation losses.

How the scope of our audit responded to the risk

We challenged the underlying assumptions used in the Kuranakh model and we considered whether there were indicators of impairment associated with the other operating mines.

We challenged management's significant assumptions regarding the Natalka impairment test by:

- visiting the Natalka project with our internal mining specialists to review the plans with operational management;
- using our internal mining specialists to perform a high level review of the mine plan for Natalka including the operating and capital expenditure and the recovery from the declared ore reserves;
- assessing the screening and photometric separation techniques with our internal mining specialists and discussing these assumptions with the independent experts used by Management;
- reviewing the accuracy of key assumptions used in the model;
- assessing the long term gold price forecast methodology and benchmarking the long term gold price forecasts to other external forecasts;
- considering the discount rates used with the involvement of our valuation specialists by recalculation and comparison to other gold producers;
- running a range of sensitivities to confirm that no impairment was required if a range of less optimistic assumptions were adopted particularly including the year end exchange rate of USD/RUB 56.6 instead of the forecast rate and the discount rate applied;
- discussing the plans with the Board and Senior Operational Management to confirm the plans and obtaining representations that these are considered management's best estimates of the key assumptions at the time of publishing the annual report; and
- assessing whether the accounts disclose the key judgements taken so that a reader of the accounts is aware of the impact on the financial statements of changes to key assumptions that may lead to impairment.

Risk	How the scope of our audit responded to the risk
Potential impairment of fixed assets continued Management has completed a value in use calculation based on a life of mine model, and using specialist input on key operational assumptions, which determined a discounted cash flow value significantly higher than the carrying value, and accordingly no impairment was recorded. The operational plans for the mining asset have been refined following the change in reserves identified. The revised approach reflects operational decisions to include screening and photometric separation techniques to deliver an enhanced ore grade for processing. It also reflects key financial assumptions including a forecast gold price of $1,294 per oz converted at the forecast dollar exchange rate of 67.8 roubles to the US dollar to derive the expected rouble revenue cash flows and a discount rate of approximately 9%. The calculated net present value is highly sensitive to these assumptions.	
Valuation and hedge accounting for financial instruments During the year, the Group has entered into a number of different derivatives contracts to mitigate exposure to gold price, currency fluctuations and reduce interest rate exposure. These are summarised in note 18. The most complex of these new transactions is a commodity hedge known as the 'Revenue Stabiliser' to hedge the gold price. This is a 'cap-collar' instrument with a 'knock-in, knock-out' feature. In addition there are forward contracts to fix the price of gold over 310 koz of forecast production over a two year period. There is risk that the financial instrument accounting for these instruments with a mark-to-market value of $142 million and the associated hedge accounting applied by management is not in line with IFRS. In addition there have been losses on the currency and associated interest rate derivative financial instruments of $934 million in the period which are not hedge accounted. The valuation of these, which reflect debit valuation adjustments in respect of own credit risk required by the relevant accounting standards, involve the application of management judgement.	We: • involved our financial instruments specialists to perform an independent valuation on a sample of these derivatives, including the process for deriving the gold price and exchange rate applied; • reviewed management's methodology for assessment of credit risk against the requirements set out in IFRS 13; • assessed the appropriateness of applying hedge accounting to the revenue stabiliser and forward contracts for gold on a sample basis; • assessed the allocation of changes in fair values of derivatives between equity or the income statement, as appropriate; and • reviewed the disclosures required by IFRS 7 in the Group accounts as appropriate.
Potential impairment of exploration and evaluation ('E&E') assets The Group capitalises E&E expenditure in line with IFRS 6: Exploration for and Evaluation of Mineral Resources. The assessment of each asset's future prospectivity requires significant judgement, management's accounting policy on E&E assets is set out in note 3. There is a risk that amounts are capitalised which no longer meet the recognition criteria of IFRS 6. Management has performed a review of the E&E portfolio of assets with a value of $110 million. As set out in note 17 to the consolidated financial statements no significant impairment was recognised in the year.	We: • held discussions with key operational and finance staff to understand the exploration and appraisal activities; • reviewed and evaluated management's assessment of the existence of impairment indicators in the portfolio of E&E assets by assessing the appropriateness of management's assumptions and estimates; • reviewed the exploration licence conditions for any potential breaches; and • reviewed management's approved exploration budgets for 2015 in order to check that exploration projects were ongoing and committed.
Potential obsolescence of stores and spares inventory Inventory, as set out in note 19 to the consolidated financial statements, is required to be carried at the lower of its cost and net realisable value. The high stores and spares inventory balance of $292 million reflects the need for key spares to be available on site given the logistical complexity and delays in obtaining spares in the event of mechanical failure. The significance of the balance and the difficulty in extracting management information on inventory ageing could result in a heightened risk of obsolescence. During 2014, management undertook a comprehensive review of stores and spares as part of an on-going optimisation programme with updates made to the provision required.	We: • held meetings with business unit and head office management to understand the procedures undertaken as part of the stores and spares inventory review; • reviewed management's assessment of slow moving stock and corresponding provision for obsolescence to assess whether they are valued appropriately; • attended inventory counts at the Krasnoyarsk, Irkutsk Ore and Natalka business units; • performed an analysis of slow moving stock; and • reviewed the analysis of stores and spares throughput.

Our assessment of risks of material misstatement continued
The risks described above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 118. In the prior year audit report we included a risk focussed on the net realisable value of gold in circuit and ore stockpiles. This matter was not considered necessary to be included in the Audit Report in the current year following the depreciation of the rouble and corresponding reduction in the remaining cost of production and a relatively stable gold price.

Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the consolidated financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality
We define materiality as the magnitude of misstatement in the consolidated financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be US$25 million (2013 $30 million). We continue to adopt an approach focussed on 5% of the Group's profit before tax adjusted for derivatives, impairments and foreign exchange gains. These items have been added back because of their nature and/or the expected infrequency of the underlying events are not considered immediately indicative of continuing operations of the Group and which if included, would distort materiality year on year.

There was a significant increase in profitability in the second half of 2014, particularly in the final quarter, principally as a consequence of the significant devaluation of the rouble against the US dollar. We did not adjust our materiality assessment to reflect this increased profitability.

Lower materiality levels of between $12.5 million and $20 million (2013: $15 million to $24 million) have been applied for the component audits.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $500,000 (2013: $600,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the consolidated financial statements.

An overview of the scope of our audit
In assessing our Group audit scope we continued to build upon our understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on our continuing assessment, we focused our Group audit scope primarily on the audit work at Krasnoyarsk and Irkutsk Ore business units which were subject to a full scope audit, and the Magadan and Capital construction business units, where we performed a full audit of capital construction in progress ('CCIP') and mine under development additions.

The components subject to a full scope or full audit account for 81% of the Group's gold sales revenue (2013: 84%), 81% of the Group's production (2013: 86%), 92% of the Group's operating profit before impairment charges (2013: 99%), 83% of the Group's fixed assets (2013: 86%) and 98% of the Group's CCIP and mine under development additions (2013: 94%). In addition, other business units (Irkutsk Alluvial, Yakutia Kuranakh and Exploration) were subject to specified audit procedures to address the risks of material misstatement identified above.

At the parent entity level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit or audit of specified account balances.

The Group audit engagement team also continued to perform site visits on a cyclical basis. This year the Group audit partner visited the Natalka site in addition to regular visits with his team to the headquarters in Moscow. At the direction of the Group audit team the component audit team in Russia also visited the Krasnoyarsk, Irkutsk and Magadan business units during the year.

Matters on which we are required to report by exception
Adequacy of explanations received and accounting records
Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the consolidated financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Corporate governance statement
Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited consolidated financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Other matter – Directors' remuneration
In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the provisions of the UK Companies Act 2006 as if that Act had applied to the Company.

Respective responsibilities of Directors and auditor
As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and/or those further matters we have expressly agreed to report to them on in our engagement letter and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the consolidated financial statements
An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the consolidated financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited consolidated financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Douglas King

Douglas King FCA
for and on behalf of Deloitte LLP
Chartered Accountants and Recognised Auditor
London, United Kingdom
12 March 2015

Polyus Gold International Limited

Consolidated financial statements for the year ended 31 December 2014

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Polyus Gold International Limited

Consolidated statement of profit or loss for the year ended 31 December
(in millions of US Dollars, except for earnings per share data)

	Notes	2014	2013
Continuing operations			
Gold sales	6	2,197	2,259
Other sales		42	70
Total revenue		**2,239**	**2,329**
Cost of gold sales	7	(1,174)	(1,347)
Cost of other sales		(33)	(47)
Gross profit		**1,032**	**935**
Selling, general and administrative expenses	8	(183)	(226)
Other expenses, net	9	(20)	(15)
Reversal of impairment / (impairment losses)	10	17	(472)
Operating profit		**846**	**222**
Finance costs	11	(26)	(14)
Interest income on bank deposits		31	27
Loss on derivative financial instruments and investments, net	12	(934)	(5)
Foreign exchange gain		123	4
Profit from continuing operations before income tax		**40**	**234**
Income tax expense	13	(222)	(91)
(Loss) / profit from continuing operations		**(182)**	**143**
Profit from discontinued operations	5	-	6
(Loss) / profit for the year		**(182)**	**149**
(Loss) / profit for the year from continuing operations attributable to:			
Shareholders of the Company		(164)	134
Non-controlling interests		(18)	9
		(182)	**143**
Profit for the year from discontinued operations attributable to:			
Shareholders of the Company		-	6
Non-controlling interests		-	-
		-	**6**
Number of ordinary shares in issue during the year (million)		3,032	3,032
(Loss) / earnings per share (US Cents) from continuing operations, basic and diluted[1]		(5)	4
Earnings per share (US Cents) from discontinued operations, basic and diluted[1]		-	-

[1] There were no financial instruments or any other instances which could cause an antidilutive effect on the earnings per share calculation.

Polyus Gold International Limited

Consolidated statement of comprehensive income for the year ended 31 December
(in millions of US Dollars)

		2014	2013
(Loss) / profit for the year		**(182)**	**149**
Other comprehensive loss for the year			
Items that may be subsequently reclassified to profit or loss:			
Increase in revaluation of cash flow hedge reserve on revenue stabiliser	18	132	-
Increase in revaluation of cash flow hedge reserve on gold forward	18	36	
Deferred tax relating to increase in revaluation of cash flow hedge reserve		(26)	-
Effect of translation to presentation currency		(1,751)	(319)
		(1,609)	**(319)**
Items that have been reclassified through profit or loss:			
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser	18	(35)	-
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward	18	(6)	
Deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss		7	-
		(34)	**-**
Other comprehensive loss for the year		**(1,643)**	**(319)**
Total comprehensive loss for the year		**(1,825)**	**(170)**
Total comprehensive (loss) / income for the year from continuing operations attributable to:			
Shareholders of the Company		(1,705)	(185)
Non-controlling interests		(120)	9
		(1,825)	**(176)**
Total comprehensive income for the year from discontinued operations attributable to:			
Shareholders of the Company		-	6
Non-controlling interests		-	-
		-	**6**

Polyus Gold International Limited

Consolidated statement of financial position at 31 December
(in millions of US Dollars)

Assets	Notes	2014	2013
Non-current assets			
Property, plant and equipment	14	950	1,506
Capital construction-in-progress	15	189	278
Mine under development	16	1,102	1,573
Exploration and evaluation assets	17	110	175
Derivative financial instruments and investments	18	172	2
Inventories	19	227	295
Deferred tax assets	27	47	-
Other non-current assets		3	-
		2,800	**3,829**
Current assets			
Inventories	19	440	702
Deferred expenditures		13	16
Other receivables	20	11	27
Advances paid to suppliers and prepaid expenses		16	28
Taxes receivable	21	48	250
Bank deposits	22	269	48
Cash and cash equivalents	23	1,217	809
		2,014	**1,880**
Total assets		**4,814**	**5,709**
Equity and liabilities			
Capital and reserves			
Share capital	24	1	1
Additional paid-in capital	24	2,152	2,152
Cash flow hedge revaluation reserve		108	-
Translation reserve		(2,045)	(396)
Retained earnings		1,258	1,922
Equity attributable to shareholders of the Company		**1,474**	**3,679**
Non-controlling interests		146	275
		1,620	**3,954**
Non-current liabilities			
Site restoration, decommissioning and environmental obligations	25	49	69
Borrowings	26	1,723	937
Derivative financial instruments	18	423	-
Deferred tax liabilities	27	150	134
Other non-current liabilities		22	33
		2,367	**1,173**
Current liabilities			
Borrowings	26	90	269
Derivative financial instruments	18	547	-
Trade, other payables and accrued expenses	28	154	260
Taxes payable	29	36	53
		827	**582**
Total liabilities		**3,194**	**1,755**
Total equity and liabilities		**4,814**	**5,709**

Polyus Gold International Limited

Consolidated statement of changes in equity for the year ended 31 December
(in millions of US Dollars)

			Equity attributable to shareholders of the Company						Non-controlling interests	Total
	Notes	**Number of outstanding shares, (million)**	**Share capital**	**Additional paid-in capital**	**Cash flow hedge revaluation reserve**	**Translation reserve**	**Retained earnings**	**Total**		
Balance at 31 December 2012		**3,032**	**1**	**2,152**	**-**	**(77)**	**2,111**	**4,187**	**282**	**4,469**
Profit for the year		-	-	-	-	-	140	140	9	**149**
Other comprehensive (loss) / income		-	-	-	-	(319)	-	(319)	-	**(319)**
Total comprehensive income		**-**	**-**	**-**	**-**	**(319)**	**140**	**(179)**	**9**	**(170)**
Effect of disposal of subsidiaries		-	-	-	-	-	(9)	(9)	9	**-**
Dividends declared and paid to shareholders of the Company	24	-	-	-	-	-	(320)	(320)	-	**(320)**
Dividends declared and paid to shareholders of non-controlling interests		-	-	-	-	-	-	-	(25)	**(25)**
Balance at 31 December 2013		**3,032**	**1**	**2,152**	**-**	**(396)**	**1,922**	**3,679**	**275**	**3,954**
Profit for the year		-	-	-	-	-	(164)	(164)	(18)	**(182)**
Increase in cash flow hedge revaluation reserve		-	-	-	108	-	-	108	-	**108**
Other comprehensive loss[1]		-	-	-		(1,649)	-	(1,649)	(102)	**(1,751)**
Total comprehensive income		**-**			**108**	**(1,649)**	**(164)**	**(1,705)**	**(120)**	**(1,825)**
Dividends declared and paid to shareholders of the Company	24	-	-	-	-	-	(500)	(500)	-	**(500)**
Dividends declared and paid to shareholders of non-controlling interests		-	-	-	-	-	-	-	(9)	**(9)**
Balance at 31 December 2014		**3,032**	**1**	**2,152**	**108**	**(2,045)**	**1,258**	**1,474**	**146**	**1,620**

[1] Following a decrease in exchange rate of the Russian Rouble against the US Dollar a translation loss of USD 1,751 million was recognised in other comprehensive income, of which translation loss USD 743 million related to mine under development, USD 646 million to property, plant and equipment and remaining amounts related to working capital accounts, borrowings, capital construction in progress and other items.

Polyus Gold International Limited

Consolidated statement of cash flows for the year ended 31 December
(in millions of US Dollars)

	Notes	2014	2013
Operating activities			
Profit from continuing operations before income tax		**40**	**234**
Adjustments for:			
(Reversal of impairment) / impairment losses	10	(17)	472
Finance costs	11	26	14
Interest income on bank deposits		(31)	(27)
Loss on derivative financial instruments and investments	12	934	5
Amortisation and depreciation	14	182	214
Foreign exchange gain		(123)	(4)
Other		10	2
		1,021	**910**
Movements in working capital			
Inventories		(121)	(246)
Deferred expenditures		(5)	1
Other receivables		6	11
Advances paid to suppliers and prepaid expenses		(2)	(6)
Taxes receivable		123	(32)
Trade and other payables and accrued expenses		53	16
Other non-current liabilities		1	9
Taxes payable		(25)	(37)
Cash flows from operations		**1,051**	**626**
Interest paid		(77)	(32)
Gain on exchange of interest payments under Interest and cross currency rate swaps	11	20	-
Income tax paid		(185)	(175)
Net cash generated from continuing operations		809	419
Net cash generated from discontinued operations		-	3
Net cash generated from operating activities		**809**	**422**
Investing activities			
Proceeds from subsidiaries' disposal, net of cash disposed (USD 6 million for the year ended 31 December 2013)	5	-	291
Purchases of capital construction-in-progress, exploration and evaluation assets and assets for mine under development		(461)	(1,347)
Payments for stripping activity asset		(109)	(38)
Interest received		29	31
Increase in bank deposits		(475)	(147)
Proceeds from redemption of bank deposits		248	186
Proceeds from derivatives		43	-
Payment for derivatives		(55)	-
Other		6	4
Net cash utilised in continuing operations		(774)	(1,020)
Net cash utilised in discontinued operations		-	(3)
Net cash utilised in investing activities		**(774)**	**(1,023)**
Financing activities			
Dividends paid to shareholders of the Company	24	(500)	(320)
Dividends paid to non-controlling interests		(10)	(43)
Proceeds from borrowings	26	1,254	1,092
Repayment of borrowings	26	(294)	(236)
Net cash generated from continuing operations		450	493
Net cash utilised in discontinued operations		-	-
Net cash generated from financing activities		**450**	**493**
Net increase / (decrease) in cash and cash equivalents		**485**	**(108)**
Cash and cash equivalents at beginning of the year	23	**809**	**960**
Effect of foreign exchange rate changes on cash and cash equivalents		(77)	(43)
Cash and cash equivalents at end of the year	23	**1,217**	**809**

1. General

Polyus Gold International Limited (the “Company”) was incorporated on 26 September 2005 in Jersey and re-registered as a public limited company under the Companies (Jersey) Law 1991 on 18 November 2005.

On 19 June 2012, the Company was admitted to the Official List of the UK Listing Authority and commenced trading on the London Stock Exchange’s premium listed market.

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 34.1.

2. Basis of preparation and presentation

Going concern

In assessing its going concern status, 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, considerations of the 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 International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union (“EU”). IFRS includes 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 as adopted by the EU. Accordingly, such financial information has been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS as adopted by the EU.

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

Under Article 105(11) of the Companies (Jersey) Law 1991 the directors of a holding company need not prepare separate accounts (i.e. company only accounts) if consolidated accounts for the company are prepared, unless required to do so by the members of the company by ordinary resolution. The members of the Company have not passed a resolution requiring separate accounts and, in the Directors' opinion, the Company meets the definition of a holding company. As permitted by the law, the Directors have elected not to prepare separate accounts.

(in millions of US Dollars)

The following is a list of standards that have been adopted during the year ended 31 December 2014 and new or amended IFRS standards that have been issued by the IASB and endorsed by the EU:

Title	Subject	Effective for annual periods beginning on or after	Effect on the consolidated financial statements in current and / or future periods
IAS 27 (revised May 2011)	Separate Financial Statements	1 January 2014	Adopted. No effect.
IAS 28 (revised May 2011)	Investments in Associates and Joint Ventures	1 January 2014	Adopted. No effect.
Amendments to IAS 32 (Dec 2011)	Offsetting Financial Assets and Financial Liabilities	1 January 2014	Adopted. No effect.
Amendments to IAS 36 (May 2013)	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014	Adopted. No effect.
Amendments to IAS 39 (Jun 2013)	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	Adopted. No effect.
Amendments to IFRS 10, IFRS 12 and IAS 27 (Oct 2012)	Investment Entities	1 January 2014	Adopted. No effect.
IFRS 10	Consolidated Financial Statements	1 January 2014	Adopted. No effect.
IFRS 11	Joint Arrangements	1 January 2014	Adopted. No effect.
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014	Adopted. No effect.
IFRIC 21	Levies. New standard	1 January 2014	Adopted. No effect.
IAS 19	Defined Benefit Plans: Employee Contributions	1 July 2014	Adopted. No effect.
Annual improvements	Annual improvements to IFRS 2010-2012	1 July 2014	Adopted. No effect.
Annual improvements	Annual improvements to IFRS 2011-2013	1 July 2014	Adopted. No effect.

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

	Effective for annual periods beginning on or after
Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 16 and IAS 41– Bearer Plants	
Amendments to IAS 27 – Equity method in Separate Financial Statements	1 January 2016
Amendments to IFRS 11 – Joint Arrangements	1 January 2016
IFRS 15 – Revenue from Contracts with Customers	1 January 2017
IFRS 9 – Financial Instruments	1 January 2018

Management is currently considering the potential impact of the adoption of these Standards and amendments. However, it is not practicable to provide a reasonable estimate of their effect until a detailed review has been completed.

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 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 acquiree'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 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.

(in millions of US Dollars)

When the Group loses control of a subsidiary, the profit and loss on disposal is calculated as the difference between the aggregate of the fair value of the consideration received and the fair value of any retained interest and 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 is the US Dollar. The Russian Rouble (“RUB”) is the functional currency of all the subsidiaries of the Group, except for Polyus Investments Limited registered in Cyprus whose functional currency is the US Dollar.

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 average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of such transactions. The average exchange rate is derived by taking an average of the daily exchange rate over the course of the year;
- 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 average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of the transaction.

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

	2014	2013	2012
Russian Rouble/US Dollar			
Year end rate	56.26	32.73	30.37
Average for the year	38.42	31.85	31.09

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 of shipment from the refining plant when the Group has received confirmation of sale from the third party. 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. 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.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 acquiree’s identifiable assets, liabilities and contingent liabilities over the net book value.

3.6 Operating leases

The leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. 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.

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 Mining assets, Capital construction-in-progress, Mines under development or Exploration and evaluation assets.

Mining assets

Mining assets are recorded at cost less accumulated depreciation. Mining 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.

Mining 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 of 7 to 16 years 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 production.

The estimated remaining useful lives of the Group’s significant mines based on the mine operating plans are as follows:

Blagodatnoye	15 years
Olimpiada	13 years
Verninskoye	10 years
Kuranakh	9 years
Titimukhta	6 years

Non-mining assets

Non-mining assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the economic useful lives of such assets:

Building, structures, plant and equipment	5-50 years
Transport	3-11 years
Other assets	3-10 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.

The stripping activity asset is accounted for as a part of property, plant and equipment. Starting from 1 January 2014, the basis of amortisation for the Stripping activity assets has changed from the straight-line method to the units of production method. The effect of the application of this method is an increase in the depreciation charge by USD 5 million during the year ended 31 December 2014, with a similar impact on the prior year.

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

3.9 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 bringing it into working condition for its intended use.

Capital construction-in-progress is not depreciated.

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 mining assets.

3.10 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.

3.11 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.

3.12 Impairment of long-lived tangible assets (Property, plant and equipment, Capital construction-in-progress 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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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.

3.13 Exploration and evaluation assets

Exploration and evaluation assets represent capitalised expenditures 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 expenditures 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.

Impairment of exploration and evaluation assets

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.

3.14 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;
- held-to-maturity investments 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 either held for trading or it is designated as a FVTPL.

A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading 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 (Loss)/income from investments line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 18.

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.

Held-to-maturity investments

Promissory notes with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with income recognised on an effective yield basis.

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.

Derecognition of financial assets

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

Effective interest method

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

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

Financial liabilities

Financial liabilities are classified as 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 either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading 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 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 interest paid on the financial liability and is included in the ‘other gains and losses’ line item in the income statement.

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.

Derecognition 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.

Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each consolidated statement of financial position 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 designates certain derivative financial instruments as cash flow hedges.

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.

3.15 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. Derivative financial instruments used for hedging purposes are measured at fair value in the consolidated statement of financial position.

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.

3.16 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 and 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.

3.17 Deferred expenditures

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

3.18 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.

3.19 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.

3.20 Site restoration, decommissioning and environmental obligations

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

Ongoing restoration costs are expensed when incurred.

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.

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;
- determination of functional currency and
- cash flow hedge designation.

Economic useful lives of property, plant and equipment

The Group's mining 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.

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 mining assets and their carrying value.

Non-mining property, plant and equipment are depreciated on a straight-line basis over their economic useful lives. 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.

Depreciation method for property, plant and equipment

Mining 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 production. Determination of this date requires judgement.

Depreciation is calculated based straight line method which we monitor 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.

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.

Cash flow hedge designation

The Group applies its judgement in identification of the forecast selling price of the expected gold sale for the purpose of calculation of the intrinsic value of the options designated as a cash flow hedge and for hedge effectiveness testing.

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 the tangible 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 and
- interpretation of the tax legislation in accounting for income taxes.

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.

Impairment of tangible assets

The Group reviews the carrying amounts of its tangible assets including mine under development 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 the 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. Refer to Note 10 for further detail.

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 relates 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.

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 (Inventories expected to be recovered after 12 months) is based on approved mine operating plans.

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.

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.

5. Discontinued operations and disposal of subsidiaries

During 2013, the Group completed the transaction for the sale of its operating subsidiaries in Kazakhstan and Kyrgyzstan representing the Kazakhstan business unit for a total consideration of USD 297 million, recognizing a profit from discontinued operations of USD 6 million.

These operating subsidiaries mainly comprised the following mining operations in Northern and Eastern Kazakhstan: the Aksu mine (which consists of the Aksu mine and adjacent Quartzite Hills deposits), the Bestobe mine, the Zholymbet mine and the Akzhal mine. In addition, these assets include development properties in Northern, Eastern and Central Kazakhstan as well as exploration projects at Yuzhny Karaultube and Kaskabulak.

There were no contingent liabilities or deferred consideration applicable to the sale. All the proceeds were received in cash.

6. 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"), identified as the Management Board (previously, Executive Committee). The following is a description of operations of the Group's seven identified reportable segments and those that do not meet the quantitative reporting threshold for reporting:

- ***Krasnoyarsk business unit*** (Krasnoyarsk region of the Russian Federation) – Extraction, refining and sale of gold from the Olimpiada, Blagodatnoye and Titimukhta mines, as well as research, exploration and development work at the Olimpiada and Blagodatnoye deposits;
- ***Irkutsk alluvial business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – Extraction, refining and sale of gold from several alluvial deposits;
- ***Irkutsk ore business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – Extraction, refining 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) – Extraction, refining and sale of gold from the Kuranakh mines;
- ***Magadan business unit*** (Magadan region of the Russian Federation) – Represented by OJSC "Matrosova Mine" which performs development works at the Natalka deposit;
- ***Exploration business unit*** (Krasnoyarsk region, Irkutsk region, Amur region, and others) – Research and exploration works in several regions of the Russian Federation;
- ***Capital construction unit*** - Represented by LLC "Polyus Stroy", CJSC "Taigaenergostroy" and CJSC "Vitimenergostroy" which perform construction works at Natalka, 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. Starting from 1 January 2014, 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;
- total cash cost per number of ounce of gold sold (TCC);
- earnings before interest, tax, depreciation and amortisation and other items (Adjusted EBITDA) and
- capital expenditures (CAPEX).

Accordingly, the information presented in this note is restated from that provided in prior periods.

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

The Group does not allocate the results of companies that perform management, investing activities and certain other administrative functions within its internal reporting.

	Gold sales	Ounces of gold sold in thousands	Adjusted EBITDA	Total cash cost per ounce of gold sold (USD per ounce)	Capital expenditures
For the year ended 31 December 2014					
Business units					
Krasnoyarsk	1,602	1,219	822	541	84
Irkutsk alluvial	234	190	70	735	17
Irkutsk ore	186	146	89	594	38
Yakutia Kuranakh	175	136	50	868	6
Magadan	-	-	(5)	-	308
Exploration	-	-	(5)	-	6
Capital construction	-	-	(3)	-	54
Unallocated	-	-	(7)	-	12
Total	**2,197**	**1,691**	**1,011**	**585**	**525**
For the year ended 31 December 2013					
Business units					
Krasnoyarsk	1,669	1,198	772	633	217
Irkutsk alluvial	277	205	80	880	18
Irkutsk ore	122	89	37	869	59
Yakutia Kuranakh	191	139	29	1,085	16
Magadan	-	-	-	-	1,024
Exploration	-	-	6	-	20
Capital construction	-	-	(9)	-	68
Unallocated	-	-	(5)	-	18
Total	**2,259**	**1,631**	**910**	**707**	**1,440**

Gold sales reported above represent revenue generated from external customers (note 32). There were no inter-segment gold sales during the years ended 31 December 2014 and 2013. Included within gold sales in 2014 are realised gains on derivatives of USD 41 million (note 18) (2013: nil).

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

	Year ended 31 December	
	2014	**2013**
(Loss) / profit for the year	**(182)**	**143**
Income tax	222	91
Depreciation and amortisation	182	214
Finance costs	26	14
Interest income on bank deposits	(31)	(27)
Loss / (gain) on derivative financial instruments and investments	934	5
Foreign exchange gain	(123)	(4)
Loss from disposal of property, plant and equipment	-	2
(Reversal of impairment) / impairment losses	(17)	472
Adjusted EBITDA	**1,011**	**910**

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

Cost of gold sales	**1,174**	**1,347**
Adjusted for:		
Depreciation and amortisation (Note 14)	(174)	(209)
Other non-cash items in cost of gold sales	(11)	15
TCC	**989**	**1,153**
Ounces of gold sold, in thousands	1,691	1,631
TCC per ounce of gold sold (USD per ounce)	**585**	**707**

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

7. Cost of gold sales

	Year ended 31 December	
	2014	**2013**
Labour	320	386
Consumables and spares	281	359
Fuel	131	184
Tax on mining	154	166
Power	44	58
Outsourced mining services	19	26
Refining costs	4	6
Other	67	83
Total cash operating costs	**1,020**	**1,268**
Amortisation and depreciation of operating assets (Note 14)	174	209
Total cost of production	**1,194**	**1,477**
Increase in stockpiles, gold-in-process and refined gold inventories	(20)	(130)
Total	**1,174**	**1,347**

(in millions of US Dollars)

8. Selling, general and administrative expenses

	Year ended 31 December	
	2014	**2013**
Salaries	124	151
Taxes other than mining and income taxes	22	25
Professional services	16	21
Amortisation and depreciation (note 14)	4	5
Other	17	24
Total	**183**	**226**

9. Other expenses, net

	Year ended 31 December	
	2014	**2013**
Change in estimations of site restoration, decommissioning and environmental liabilities (note 25)	1	(5)
Change in allowance for reimbursable value added tax	(1)	2
Donations	6	4
Loss on disposal of property, plant and equipment and capital construction-in-progress	-	3
Maintenance expenses related to previously impaired Exploration and evaluation assets	5	8
Other	9	3
Total	**20**	**15**

10. Reversal of impairment / (impairment losses)

	Year ended 31 December	
	2014	**2013**
Mining assets (note 14)	29	-
Stripping activity asset (note 14)	13	-
Capital construction-in-progress (note 15)	5	-
Long-term stockpiles	19	-
Sub-total reversal of impairment	**66**	**-**
Mining assets (note 14)	-	(59)
Stripping activity asset (note 14)	-	(28)
Capital construction-in-progress (note 15)	(11)	(19)
Mine under development (note 16)	(37)	-
Exploration and evaluation assets (note 17)	(1)	(317)
Gold-in-process	-	(15)
Long-term stockpiles	-	(34)
Sub-total impairment	**(49)**	**(472)**
Total reversal of impairment / (impairment losses)	**17**	**(472)**

Yakutia Kuranakh business unit

As at 30 June 2013, the group recorded an impairment charge of USD 138 million in respect of the Kuranakh mine in the Yakutia region, following the significant fall in the gold price which is described in the annual consolidated financial statements for the year ended 31 December 2013. Following a significant devaluation of the Russian Rouble against the USD, a relatively stable gold price and cost cutting initiatives during 2014, a reversal of impairment losses recognised during 2013 was made as of 31 December 2014.

The value-in-use of Mining assets, Stripping activity asset and Capital construction-in-progress as well as the net realisable value of long-term stockpiles of the Yakutia Kuranakh business unit increased above its previously impaired carrying amount. The pre-tax reversal of impairment of USD 66 million was recognised during 2014 (net post-tax USD 61 million).

The key assumptions that were used in the impairment testing were a weighted average long term gold price of USD 1,294 per oz and a post-tax discount rate of approximately 8%.

Natalka mine under development

Following the announcement on 13 November 2014 regarding the reduced reserves identified at Natalka the Company has considered the carrying value of the associated costs capitalised in the balance sheet principally within Mine under development. A detailed discounted cash flow model has been used to consider whether the value held is impaired which concluded that no impairment was required.

There are a number of subjective factors that are necessarily incorporated into such a review, both operational and financial, using the best evidence available. The values derived are particularly sensitive to the assumptions regarding the planned mining operations and flowsheet and the financial assumptions for the RUB to USD exchange rate, gold price and discount rates.

The operational considerations reflect the most likely and optimal updated mining plan developed using the revised JORC reserves estimate and with the advice of the mining consultants and incorporate screening techniques including photometric separation.

The financial assumptions include significant judgements associated with forecast gold prices determined at a volatile time for our markets. For instance the RUB has varied between 36 RUB to the USD in August 2014 to 69 in January 2015, and gold prices have been above USD 1,800 and below USD 1,200 per ounce over the past 4 years.

The key long term assumptions that were used in the impairment testing were a weighted average long term gold price of USD 1,294 per ounce, exchange rate of 68 RUB for 1 USD and a post-tax discount rate of approximately 9%. The assumptions are provided in real terms. The impairment test is particularly sensitive to the assumption for the RUB to USD exchange rate, gold price and discount rate. An impairment would be required:

- if the Rouble strengthened to above 55 RUB for 1 US Dollar; or
- if the gold price decreased below US Dollar 1,114 per oz; or
- if the discount rate increased above 14%.

In addition, some construction materials related to the Mine under development and Capital construction-in-progress were identified as obsolete as of 31 December 2014 and therefore an impairment provision was recognised.

(in millions of US Dollars)

11. Finance costs

	Year ended 31 December	
	2014	**2013**
Interest on borrowings	100	43
Gain on exchange of interest payments under cross currency swap (note 18)	(16)	-
Gain on exchange of interest payments under interest rate swaps (note 18)	(4)	-
Unwinding of discounts on site restoration, decommissioning and environmental liabilities (note 25)	4	5
Other	2	-
Sub-total finance cost	**86**	**48**
Interest capitalised in the cost of Mine under development and Capital construction-in progress	(60)	(34)
Total finance cost expensed	**26**	**14**

12. Loss on derivative financial instruments and investments, net

	Year ended 31 December	
	2014	**2013**
Revaluation loss on currency collars (note 18)	(547)	-
Revaluation loss on cross currency swaps (note 18)	(403)	-
Realised loss on currency collars (note 18)	(47)	-
Gain on initial exchange of cross currency swaps (note 18)	34	-
Revaluation gain on ineffective part of the revenue stabiliser (note 18)	15	-
Revaluation gain on interest rate swap (note 18)	9	-
Other	5	(5)
Total	**(934)**	**(5)**

13. Income tax expense

	Year ended 31 December	
	2014	**2013**
Current tax expense	220	132
Deferred tax expense / (benefit)	2	(41)
Total	**222**	**91**

The corporate income tax rates in the countries where the Group has a taxable presence vary from 0% (British Virgin Islands) to 20% (in the United Kingdom and in the Russian Federation).

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:

	2014	2013
Profit from continuing operations before income tax	**40**	**234**
Income tax at statutory rate applicable to principal entities (20%)	8	47
Allowance for deferred tax assets on derivative financial instruments (note 27)	185	-
Tax effect of non-deductible expenses and other permanent differences	23	6
Unrecognized deferred tax assets and write-off of losses carried forward resulted from impairments	19	47
Income tax effect of impairment reversals	(6)	-
Other	(7)	(9)
Income tax expense	**222**	**91**

(in millions of US Dollars)

14. Property, plant and equipment

	Mining assets	Non-mining assets	Stripping activity assets	Total
Cost				
Balance at 31 December 2012	**2,580**	**78**	**199**	**2,857**
Additions	-	-	38	38
Transfers from capital construction-in-progress (note 15)	371	16	-	387
Reclassifications	22	(22)	-	-
Change in site restoration, decommissioning and environmental obligations (Note 25)	(6)	-	-	(6)
Disposals	(42)	(4)	-	(46)
Disposals of subsidiaries	(353)	(3)	-	(356)
Effect of translation to presentation currency	(167)	(4)	(16)	(187)
Balance at 31 December 2013	**2,405**	**61**	**221**	**2,687**
Additions	-	-	109	109
Transfers from capital construction-in-progress (note 15)	158	5	-	163
Change in site restoration, decommissioning and environmental obligations (Note 25)	8	-	-	8
Disposals	(19)	-	-	(19)
Effect of translation to presentation currency	(1,053)	(27)	(127)	(1,207)
Balance at 31 December 2014	**1,499**	**39**	**203**	**1,741**
Accumulated amortisation, depreciation and impairment				
Balance at 31 December 2012	**(1,003)**	**(28)**	**(23)**	**(1,054)**
Charge	(223)	(4)	(18)	(245)
Reclassifications	(5)	5	-	-
Disposals	38	2	-	40
Disposals of subsidiaries	91	-	-	91
Impairment (note 10)	(59)	-	(28)	(87)
Effect of translation to presentation currency	71	2	1	74
Balance at 31 December 2013	**(1,090)**	**(23)**	**(68)**	**(1,181)**
Charge	(208)	(6)	(16)	(230)
Disposals	17	-	-	17
Reversal of impairment (notes 10)	29	-	13	42
Effect of translation to presentation currency	517	11	33	561
Balance at 31 December 2014	**(735)**	**(18)**	**(38)**	**(791)**
Net book value				
31 December 2013	**1,315**	**38**	**153**	**1,506**
31 December 2014	**764**	**21**	**165**	**950**

During the year ended 31 December 2014, reversal of impairment of mining assets for USD 29 million (including USD 19 million related to mineral rights) and stripping activity assets for USD 13 million was made (note 10).

The carrying values of mineral rights included in mining assets were as follows:

	31 December 2014	31 December 2013
Mineral rights	45	49

Amortisation and depreciation charge is allocated as follows:

	Year ended 31 December	
	2014	**2013**
Cost of gold sales		
continuing operations (note 7)	174	209
discontinued operations	-	4
Selling, general and administrative expenses		
continuing operations (note 8)	4	5
discontinued operations	-	-
Cost of other sales	4	-
Capitalised within capital construction-in-progress	48	27
Total	**230**	**245**

(in millions of US Dollars)

15. Capital construction-in-progress

	Business units					
	Krasnoyarsk	Capital construction	Irkutsk ore	Yakutia Kuranakh	Other	Total
Balance at 31 December 2012	**78**	**37**	**147**	**36**	**66**	**364**
Additions	210	68	52	16	37	**383**
Transfers to property, plant and equipment (note 14)	(113)	(55)	(149)	(26)	(44)	**(387)**
Disposals of subsidiaries	-	-	-	-	(41)	**(41)**
Impairment (Note 10)	(2)	-	-	(17)	-	**(19)**
Effect of translation to presentation currency	(9)	(2)	(7)	(2)	(2)	**(22)**
Balance at 31 December 2013	**164**	**48**	**43**	**7**	**16**	**278**
Additions	78	54	38	6	29	205
Transfers to property, plant and equipment (note 14)	(87)	(13)	(35)	(4)	(24)	(163)
(Impairment) / reversal of impairment (Note 10)	(6)	(5)	-	5	-	(6)
Effect of translation to presentation currency	(64)	(32)	(19)	(3)	(7)	(125)
Balance at 31 December 2014	**85**	**52**	**27**	**11**	**14**	**189**

Capital construction-in progress principally relates to the following projects:

- expansion of the bio-oxidation facility at Olimpiada, completion of hydraulic tests of new tanks at sulphuric acid stock and the sustaining capital expenditures programme (Krasnoyarsk BU)
- construction of the Peleduy-Mamakan grid in order to provide cheaper and more reliable power supply to Verninskoye (Capital Construction BU)
- a number of projects aimed at improving processing plant efficiency along with the sustaining capital expenditures programme at Verninskoye mill (Irkutsk BU)

(in millions of US Dollars)

16. Mine under development

	2014	2013
Balance at 1 January	**1,573**	**624**
Additions	308	1,024
Change in site restoration, decommissioning and environmental obligations (note 25)	1	(1)
Impairment (note 10)	(37)	-
Effect of translation to presentation currency	(743)	(74)
Balance at 31 December	**1,102**	**1,573**

The carrying values of mineral rights relating to and included within a mine project under development were as follows:

Mineral rights	37	63

Mine under development includes only the Natalka mine (Magadan business unit). The reduction in the amount is due to the effect of translation to the presentation currency.

Included within Mine under development are capitalised borrowing costs consisted of the following:

	Year ended 31 December	
	2014	2013
Interest expenses	60	33
Foreign exchange losses	33	18
Interest income on bank deposits	(7)	(7)
Total	**86**	**44**

Some construction materials related to the Mine under development were identified as obsolete as at 31 December 2014 and therefore an impairment provision was recognised in the amount of USD 37 million (note 10).

(in millions of US Dollars)

17. Exploration and evaluation assets

	Exploration and evaluation assets											
	Chertovo Korito	**Razdo-linskoye**	**Panimba**	**Olympiada**	**Bamsky**	**Smezhny**	**Medvezhy Zapadny**	**Blagodat-noye**	**Other**	**Nezhda-ninskoye**	**Degdekan-skoye**	**Total**
Balance at 31 December 2012	**47**	**27**	**29**	**24**	**22**	**10**	**5**	**-**	**40**	**263**	**52**	**519**
Additions	4	5	-	3	1	6	-	5	2	7	-	**33**
Change in site restoration, decommissioning and environmental obligations (Note 25)	-	-	-	-	-	-	-	-	-	(3)	-	**(3)**
Impairment (notes 10)	-	-	-	-	-	-	-	-	(21)	(248)	(48)	**(317)**
Disposals of subsidiaries	-	-	-	-	-	-	-	-	(19)	-	-	**(19)**
Effect of translation to presentation currency	(3)	(2)	(2)	(2)	(2)	(1)	-	(1)	(2)	(19)	(4)	**(38)**
Balance at 31 December 2013	**48**	**30**	**27**	**25**	**21**	**15**	**5**	**4**	**-**	**-**	**-**	**175**
Additions	4	-	-	2	-	-	1	4	1	-	-	12
Impairment (notes 10)	(1)	-	-	-	-	-	-	-	-	-	-	(1)
Effect of translation to presentation currency	(21)	(12)	(12)	(11)	(9)	(7)	(2)	(2)	-	-	-	(76)
Balance at 31 December 2014	**30**	**18**	**15**	**16**	**12**	**8**	**4**	**6**	**1**	**-**	**-**	**110**

(in millions of US Dollars)

18. Derivative financial instruments and investments

	31 December 2014	31 December 2013
Non-current assets		
Revenue stabiliser	132	-
Gold forward	30	-
Interest rate swaps	9	-
Loans receivable	1	2
Total assets	**172**	**2**
Non-current liabilities		
Cross currency swaps	403	-
Revenue stabiliser	20	-
Sub-total	**423**	-
Current liabilities		
Currency collars	547	-
Total liabilities	**970**	**-**

Strategic Price Protection Programme

In March 2014, CJSC "Gold Mining Company Polyus", a subsidiary of 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.

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, strikes and barriers between years under the revenue stabiliser agreements is presented below:

(in millions of US Dollars)

	Years ended 31 December					
	2014	**2015**	**2016**	**2017**		**2018**
Revenue stabiliser volumes under put and call option agreements (thousand ounces)						
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)						
Total as per options agreements	225	300	300	75	675	225
Exercised	(225)	-	-	-	-	-
Outstanding as of 31 December 2014	-	300	300	75	675	225
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)						
Total as per options agreements	60	120	120	60	180	180
Exercised	(60)	-	-	-	-	-
Outstanding as of 31 December 2014	-	120	120	60	180	180
Total outstanding as of 31 December 2014 under Tranches 1 and 2	**-**	**420**	**420**	**135**	**855**	**405**
Weighted average strikes and barriers as per put and call option agreements (USD per ounces)						
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)						
First three years (put)						
Strike	1,383	1,383	1,383	1,383	-	-
Knock-out barrier	950	950	950	950	-	-
First three years (call)						
Strike	1,518	1,518	1,518	1,518	-	-
Knock-in barrier	1,662	1,662	1,662	1,662	-	-
Fourth year (put)						
Strike	-	-	-	-	1,037	1,037
Knock-out barrier	-	-	-	-	907	907
Fourth year (call)						
Strike	-	-	-	-	1,559	1,559
Knock-in barrier	-	-	-	-	1,748	1,748
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)						
First three years (put)						
Strike	1,359	1,359	1,359	1,359	-	-
Knock-out barrier	950	950	950	950	-	-
First three years (call)						
Strike	1,425	1,425	1,425	1,425	-	-
Knock-in barrier	1,525	1,525	1,525	1,525	-	-
Fourth year (put)						
Strike	-	-	-	-	1,100	1,100
Knock-out barrier	-	-	-	-	900	900
Fourth year (call)						
Strike	-	-	-	-	1,500	1,500
Knock-in barrier	-	-	-	-	1,650	1,650
Weighted average strikes and barriers for Tranches 1 and 2						
First three years (put)						
Strike	1,377	1,377	1,377	1,373	-	-
Knock-out barrier	950	950	950	950	-	-
First three years (call)						
Strike	1,491	1,491	1,491	1,476	-	-
Knock-in barrier	1,623	1,623	1,623	1,601	-	-
Fourth year (put)						
Strike	-	-	-	-	1,050	1,065
Knock-out barrier	-	-	-	-	905	903
Fourth year (call)						
Strike	-	-	-	-	1,546	1,533
Knock-in barrier	-	-	-	-	1,728	1,705

(in millions of US Dollars)

As a result of Tranche 1 of the revenue stabiliser, the Group ensures a minimum weighted 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 does not fall below USD 950 per ounce. During the first three years the Group benefits from price increases until the gold price reaches USD 1,662 per ounce, in which case the weighted average price is capped at USD 1,518 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted average price of USD 1,037 per ounce for the price-protected amount of 900 thousand ounces, provided the gold price does not fall below USD 907 per ounce. Additionally, in the fourth year of the Programme, the Group will have an obligation to sell 900 thousand ounces of gold at USD 1,559 per ounce should the gold price exceed USD 1,748 per ounce.

As a result of Tranche 2 of the revenue stabiliser, the Group ensures a minimum weighted 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 does not fall below USD 950 per ounce. During the first three years the Group benefits from price increases until the gold price reaches USD 1,525 per ounce, in which case the weighted average price is capped at USD 1,425 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted 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.

The revenue stabiliser options are exercised quarterly in equal amounts.

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 volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13.

The revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the Cash flow hedge revaluation reserve within Equity, whilst the remaining change in the fair value of USD 15 million is reflected in the Consolidated statement of profit or loss (note 12).

During the year ended 31 December 2014, under Tranches 1 and 2, USD 132 million was recognised in the Cash flow hedge revaluation reserve within Equity and following the sale of the hedged volume of gold and the exercise of certain options USD 35 million was subsequently reclassified to Gold sales within the Consolidated statement of profit or loss.

Gold forward

During the year ended 31 December 2014, the Group has entered into financing contracts to sell a total of 310 thousand ounces of gold monthly in equal quantities over a period of two years starting from 1 July 2014 and ending on 30 June 2016 at a fixed price of USD 1,321 per ounce. The gold forwards (thousand ounces) are exercised in the following years:

	Years ended 31 December		
	2014	**2015**	**2016**
Forward agreements	77.5	155.0	77.5
Exercised	(77.5)	-	-
Outstanding as of 31 December 2014	**-**	**155.0**	**77.5**

The gold forward contract is designated as a cash flow hedge. Any change in the forward fair value is recognised in Cash flow hedge revaluation reserve within Equity. During 2014, USD 36 million was recognised in the Cash flow hedge revaluation reserve within Equity and following the sale of the hedged amount of gold USD 6 million were reclassified from the Cash flow hedge revaluation reserve within Equity into Gold sales within the Consolidated statement of profit or loss. The remaining balance is expected to be monthly evenly reclassified to the Consolidated statement of profit or loss through to June 30, 2016.

(in millions of US Dollars)

The fair value is determined using the Black-Scholes valuation technique. Input data used in the valuation model (forward gold prices and volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13.

The Group performs prospective and retrospective effectiveness testing for the instruments designated as a cash flow hedge at least at each reporting date.

Currency collars

During 2014, in order to economically hedge its Russian rouble denominated expenses, CJSC "Gold Mining Company Polyus" simultaneously purchased put options and sold call options for the total amount of USD 1,900 million allocated monthly as following:

	2014	**2015**
Volume of option agreements (million USD)	400	1,500
Exchange rates for puts, RUB/USD	36.83	37.47
Exchange rates for calls, RUB/USD	40.06	40.38

The effect of the USD 400 million options matured in 2014 resulted in a loss of USD 47 million as presented in note 12 within Realised loss on currency collars line.

The Group classifies these contracts as financial instruments at FVTPL. The fair value is determined using the Black-Scholes valuation technique using the inputs (forward currency exchange rates and volatility) which are observable in the market and correspondently classified as Level 2 in accordance with the hierarchy of fair value. The change in the fair value of the currency collars for 2014 resulted in a revaluation loss of USD 547 million (note 12).

Cross currency swaps

During 2014, CJSC "Gold Mining Company Polyus", a subsidiary of the Group, signed a 5 year RUB 36 billion credit facility agreement with Sberbank (note 26). The interest rate for this credit facility is 10.35%.

The revenue of the Group is linked to US dollars, because the gold price is denominated in US dollars. The Group entered into cross currency swaps with leading Russian banks for a total amount of USD 1,023 million to economically hedge interest payments and principal amounts exchange.

According to the cross currency swap agreements the Group will quarterly pay to the banks LIBOR + Margin 2.32% in USD and receive from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group will exchange principal amounts paying USD 1,023 million and receiving RUB 35,999 million.

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 which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps for 2014 resulted in a revaluation loss of USD 403 million recognised in the Consolidated statement of profit or loss (note 12). The gain on the exchange of interest payments in amount of USD 16 million is recognised within the Finance cost (note 11). A gain on initial exchange of nominal amounts under the cross currency swap agreements in the amount of USD 34 million was recognised during the year (note 12).

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
During the year 2014, CJSC "Gold Mining Company Polyus", a subsidiary of the Group, entered into an 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 is to decrease the effective interest rate for the USD 750 million Eurobonds (note 26).

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 which was determined using a discounted cash flow valuation technique.

Gain on changes in the fair value of the interest rate swaps in the amount of USD 9 million is recognised in the Consolidated statement of profit or loss (note 12). The gain on interest paid and received during 2014 under interest rate swap agreements in the amount of USD 4 million is recognised within the Finance costs (note 11).

Maturity profile of undiscounted contractual payments on derivative financial instruments
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.

Presented below is the maturity profile of undiscounted contractual receipts / (payments) in millions of US Dollars on the Group's derivative financial instruments based on USD/RUB exchange rate, spot gold price and LIBOR as of 31 December 2014.

	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
Revenue stabiliser	74	74	23	-	-	-	171
Gold forward	19	9	-	-	-	-	28
Currency collars	(423)	-	-	-	-	-	(423)
Cross currency swaps	38	38	38	38	(372)	-	(220)
Interest rate swaps	13	13	13	13	13	4	69
Total	**(279)**	**134**	**74**	**51**	**(359)**	**4**	**(375)**

19. Inventories

	31 December	
	2014	**2013**
Inventories expected to be recovered after 12 months		
Stockpiles	224	292
Gold-in-process	3	3
Sub-total	**227**	**295**
Inventories expected to be recovered in the next 12 months		
Stockpiles	79	111
Gold-in-process	63	87
Refined gold	17	28
Stores and materials	292	480
Less: Net realisable value provision for stores and materials	(11)	(4)
Sub-total	**440**	**702**
Total	**667**	**997**

(in millions of US Dollars)

20. Other receivables

	31 December 2014	31 December 2013
Other receivables	22	39
Less: Allowance for doubtful debts	(11)	(12)
Total	**11**	**27**

Substantially all gold sales are made to banks in Russian Roubles (linked to the official exchange rate of USD to RUB at the date of transaction and at a gold price with a reference to London Metal Exchange quotations) with immediate payment terms.

Other receivables include amounts receivable from sales of electricity, transportation, handling, warehousing services and other services.

21. Taxes receivable

	31 December 2014	31 December 2013
Reimbursable value added tax	45	218
Other prepaid taxes	2	7
Income tax prepaid	1	25
Total	**48**	**250**

22. Bank deposits

	31 December 2014	31 December 2013
Bank deposits denominated in:		
- USD	**269**	**48**

Bank deposits have an original maturity within a period of three to twelve months, and accrue interest at the following rates:

	2014	2013
Interest rates on bank deposits denominated in:		
- USD	1.4-3.6%	6.6-7.1%

(in millions of US Dollars)

23. Cash and cash equivalents

	31 December 2014	31 December 2013
Bank deposits		
- RUB	50	453
- USD	1,093	191
Current bank accounts		
- RUB	12	73
- USD	42	91
Other cash and cash equivalents	20	1
Total	**1,217**	**809**

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 denominated in RUB and USD and accrue interest at the following rates:

	2014	2013
Interest rates on bank deposits denominated in:		
- RUB	8.9-25.0%	4.0-5.1%
- USD	0.6-6.0%	4.0-7.5%

24. Share capital

The authorised share capital of the Company comprises 3,600 million ordinary shares with a par value of GBP 0.0001 per share.

The issued and fully paid up share capital of the Company comprises 3,032 million ordinary shares issued at a premium, resulting in share capital of USD 482,000 and additional paid-in-capital of USD 2,152 million.

Dividends to shareholders of the Company

		Year ended 31 December 2014	Year ended 31 December 2013
Dividend declared and paid during the year:			
	USD million	500	320
	US cents per share	0.16	0.11

The Board of Directors approved the payment by the Company of a special dividend of US 16.49 cents per ordinary share (the “Special Dividend”) or USD 500 million in total. Dividends were paid in full in December 2014.

(in millions of US Dollars)

25. Site restoration, decommissioning and environmental obligations

	Business units							
	Krasnoyarsk	**Irkutsk alluvial**	**Irkutsk ore**	**Yakutia Kuranakh**	**Magadan**	**Exploration**	**Kazakhstan**	**Total**
Balance at 31 December 2012	**41**	**7**	**14**	**12**	**2**	**8**	**35**	**119**
Change in estimation (notes 9, 14, 16, 17)	(8)	-	(1)	(1)	(1)	(4)	-	(15)
Unwinding of discount on site restoration, decommissioning and environmental obligations (note 11)	3	1	-	1	-	-	-	5
Disposal of subsidiaries (note 5)	-	-	-	-	-	-	(35)	(35)
Effect of translation to presentation currency	(3)	(1)	(1)	-	-	-	-	(5)
Balance at 31 December 2013	**33**	**7**	**12**	**12**	**1**	**4**	**-**	**69**
Change in estimation (notes 9, 14, 16, 17)	6	-	1	1	1	1		10
Unwinding of discount on site restoration, decommissioning and environmental obligations (note 11)	2	-	1	1	-	-	-	4
Effect of translation to presentation currency	(16)	(3)	(6)	(6)	(1)	(2)		(34)
Balance at 31 December 2014	**25**	**4**	**8**	**8**	**1**	**3**	**-**	**49**

The principal assumptions used for the estimation of site restoration, decommissioning and environmental obligations were as follows:

	31 December	
	2014	**2013**
Discount rates (RUB)	8.8-9.5%	5.8 - 8.7%
Inflation rates (RUB)	7.0 -11.8%	5.0 - 6.5%
Expected maturity of liability	2015-2045	2014 - 2045

The present value of costs to be incurred for settlement of the site restoration, decommissioning and environmental obligations is as follows:

	31 December	
	2014	**2013**
Due from 2nd to 5th year	7	8
Due from 6th to 10th year	16	15
Due from 11th to 15th year	18	28
Due from 16th to 20th year	7	17
Due thereafter	1	1
Total	**49**	**69**

(in millions of US Dollars)

26. Borrowings

		Nominal rate %	31 December 2014	31 December 2013
Notes due in 2020 (Eurobonds)	(i)	5.625%	745	744
Sberbank credit facility to CJSC “Gold Mining Company Polyus”	(ii)	10.35%	596	-
Unicredit Bank credit facility to CJSC “Gold Mining Company Polyus”	(iii)	3 months USD LIBOR + 2.75%	190	-
Unicredit Bank credit facility to OJSC “Matrosova Mine”	(iii)	6 months USD LIBOR + 2.02%	47	56
Unicredit Bank credit facility to OJSC “Pervenets”	(iii)	3 months USD LIBOR + 2.4%	-	22
Société Générale credit facility to CJSC “Gold Mining Company Polyus”	(iv)	3 months USD LIBOR + 3.5%	50	-
Société Générale export financing credit facility agreement to CJSC “Gold Mining Company Polyus”	(iv)	6 months USD LIBOR + 0.55%	14	26
Société Générale credit facility to OJSC “Pervenets”	(iv)	3 months USD LIBOR + 2.4%	-	22
Deutsche Bank credit facility to OJSC “Matrosova Mine”	(v)	6 months USD LIBOR + 1.35%	15	20
Deutsche Bank letters of credit with deferred payment issued by the order of OJSC “Matrosova Mine”	(v)			
- nominated in USD		6 month USD LIBOR + 2.4%	-	21
- nominated in EUR		Cost of fund (COF) + 2.7%	48	92
VTB Bank letters of credit with deferred payment issued by the order of OJSC “Matrosova Mine”	(vi)			
- nominated in USD		6 months USD LIBOR + 1.7%	-	49
- nominated in EUR		Euribor +1.8%	21	32
Rosbank credit facility to CJSC “Gold Mining Company Polyus”	(vii)	3 months USD LIBOR + 3.5%	49	-
Rosbank letters of credit with deferred payment issued by the order of CJSC “Gold Mining Company Polyus”	(vii)	6 months USD LIBOR + 2.35%	38	22
HSBC credit facility	(viii)	3 months USD LIBOR+3%	-	100
Sub-total			**1,813**	**1,206**
Less: Short-term borrowings and current portion of long-term borrowings due within 12 months			(90)	(269)
Long-term borrowings			**1,723**	**937**

Summary of borrowing agreements

(i) Notes due in 2020 (Eurobonds)

On 29 April 2013, the Company issued USD 750 million Notes maturing in 2020 with a fixed coupon rate of 5.625% paid semi-annually. The Notes are accounted for at amortised cost at the effective interest rate. Interest expense in the amount of USD 43 million (2013: USD 29 million) was fully capitalised into the Mine under development balance at the effective interest rate of 5.835%.

(ii) Sberbank

On 11 April 2014, CJSC "Gold Mining Company Polyus", subsidiary of the Group, entered into a five year RUB 36 billion credit facility agreement with Sberbank as a lender. The Group intends to use the proceeds for refinancing of its existing loans and for general corporate purposes, including financing of capital investment projects. The facility has a bullet principal repayment at 10 April 2019 with prepayment options for the borrower. Interest expense in the amount of USD 12 million was capitalised into the Mine under development balance at the effective interest rate of 10.5%. As of 31 December 2014, RUB 2 billion (USD 40 million) was not utilised.

(iii) Unicredit Bank

On 15 August 2014, CJSC "Gold Mining Company Polyus", entered into a five year USD 190 million term loan facility agreement with Unicredit Bank as a lender to fund general corporate purposes.

On 26 April 2013, OJSC "Matrosova Mine", a subsidiary of the Group, entered into a USD 59 million (USD equivalent of EUR 48 million) credit facility agreement arranged by Unicredit Bank and guaranteed by OeKB (the Austrian export credit agency) to fund the acquisition of mining equipment. Scheduled repayments were made during 2014. The maturity of the outstanding amounts varies from 2015 to 2021.

On 4 October 2011, OJSC "Pervenets", a subsidiary of the Group, entered into a three year USD 100 million term loan facility agreement with Société Générale as a lender to fund general corporate purposes. On 6 October 2011, Société Générale transferred USD 50 million of the facility [see note (iv) below] to a new lender Unicredit Bank. The facility was to be repaid in nine equal instalments at intervals of three months starting from 4 October 2012. As of 31 December 2014, the facility was fully repaid.

(iv) Société Générale

On 7 November 2014, CJSC "Gold Mining Company Polyus", entered into a five year USD 50 million term loan facility agreement with Société Générale as a lender to fund general corporate purposes. The facility is to be repaid in thirteen equal instalments at intervals of three months starting from 7 December 2016.

As of 31 December 2014, USD 14 million was outstanding out of a USD 68 million export financing credit facility agreement between CJSC "Gold Mining Company Polyus" and Société Générale for financing to be used for the purchase of mining equipment. The facility was established for facilitation of exports from the United States of America and guaranteed by Export-Import Bank of the United States. The maturity of the outstanding amounts varies from 2015 to 2016. The credit facility is secured by the pledge of plant and equipment with a net book value of USD 17 million (31 December 2013: USD 47 million).

On 4 October 2011, OJSC "Pervenets" entered into a three year USD 100 million term loan facility agreement with Société Générale as a lender to fund general corporate purposes. On 6 October 2011, Société Générale transferred USD 50 million of the facility to a new lender, Unicredit Bank [see note (iii) above]. The facility was to be repaid in nine equal instalments at intervals of three months starting from 4 October 2012. As of 31 December 2014, the facility was fully repaid.

(v) Deutsche Bank

On 7 August 2013, OJSC "Matrosova Mine" entered into a USD 22 million credit facility agreement arranged by Deutsche Bank and guaranteed by EKN (the Swedish export credit agency) to fund the acquisition of mining equipment. Scheduled repayments were made during 2014. The maturity of the outstanding amounts varies from 2015 to 2018.

As of 31 December 2014, OJSC "Matrosova Mine" had outstanding a number of letter of credit agreements with Deutsche Bank nominated in Euro for the acquisition of mining equipment with deferred payment terms. The maturity of the outstanding amounts varies from 2015 to 2017.

During 2014, letters of credit nominated in USD issued by Deutsche Bank to OJSC “Matrosova Mine” were fully repaid.

(vi) VTB Bank

As of 31 December 2014, OJSC “Matrosova Mine” had outstanding a number of letter of credit agreements with VTB Bank nominated in EURO for the acquisition of mining equipment with deferred payment terms. The maturity of the outstanding amounts varies from 2015 to 2017.

During the year 2014, letters of credit nominated in USD issued by VTB Bank to OJSC “Matrosova Mine” were fully repaid.

(vii) Rosbank

On 7 November 2014, CJSC “Gold Mining Company Polyus”, entered into a five year USD 50 million term loan facility agreement with Rosbank as a lender to fund general corporate purposes. The facility is to be repaid in thirteen equal instalments at intervals of three months starting from 7 December 2016. The facility is accounted for at amortised cost at the effective interest rate.

As of 31 December 2014, CJSC “Gold Mining Company Polyus” had an outstanding letter of credit agreement with Rosbank for the acquisition of mining equipment with deferred payment terms. The maturity of the outstanding amounts varies from 2015 to 2016.

(viii) HSBC

During the year 2014, a three year USD 100 million credit facility with HSBC was fully repaid.

Unused credit facilities

On 14 November 2014, CJSC “Gold Mining Company Polyus” entered into a five year RUB 40 billion (approximately USD 711 million) credit line with VTB Bank to fund its general corporate purposes. The interest rate is subject to a separate agreement under each of the credit line drawdowns.

Other matters

CJSC “Gold Mining Company Polyus” guaranteed liabilities of all the companies in the Group for all borrowings.

There were a number of financial covenants under several loan agreements in effect as of 31 December 2014 according to which the respective subsidiaries of the Company and the Company itself are limited in:

- the distribution of their assets. The Group is not allowed to divest more than 10% of its assets in any form of transaction without prior consent of the banks. This limitation is applicable to the most significant subsidiaries of the Group;
- in its right to dispose of the controlling share in certain significant subsidiaries of the Group and
- in transfer of non-core assets between certain subsidiaries of the Group.

The Group was in compliance with these covenants as of 31 December 2014.

The fair value of the Notes due in 2020 are within Level 1 of the fair value hierarchy. Whilst measured at amortised cost, the fair value of all of the borrowings, except for the Notes due in 2020, are within Level 2 of the fair value hierarchy in accordance with IFRS 13. The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB interest 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 the borrowings as of 31 December 2014 was equal to USD 1,437 million, while as of 31 December 2013 they approximated their book value, except for the Notes due in 2020, whose fair value was equal to USD 728 million.

(in millions of US Dollars)

27. Deferred tax liabilities

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

	Year ended 31 December	
	2014	**2013**
Net deferred tax liability at beginning of the year	**134**	**209**
Recognised in the consolidated statement of profit or loss	2	(41)
Recognised in the consolidated statement of comprehensive income	19	
Effect of translation to presentation currency	(52)	(19)
Other	-	12
Deferred tax liability disposed as a result of discontinued operations	-	(27)
Net deferred tax liability at end of the year	**103**	**134**

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.

	31 December	
	2014	**2013**
Property, plant and equipment	147	135
Inventory	60	84
Derivative financial instruments and investments	27	-
Accounts receivable		1
Offset of deferred tax asset and liability within the same taxable entity	(84)	(86)
Total deferred tax liabilities	**150**	**134**
Tax losses carried-forward	116	69
Offset of deferred tax asset and liability within the same taxable entity	(84)	(86)
Property, plant and equipment	1	-
Accrued expenses	14	17
Total deferred tax assets	**47**	**-**

Unrecognised deferred tax asset

Unrecognised deferred tax asset resulting from losses on derivative financial instruments	185	-
Unrecognized deferred tax assets resulted from impairments	38	50
Unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit	22	38
Total	**245**	**88**

Deferred tax assets on losses from derivative financial instruments and those resulted from impairments were not recognised as of 31 December 2014 because there is no evidence that those tax losses might be utilised.

Tax losses carried forward expire in periods up to ten years, and some are not recognised as management does not believe it is probable that future taxable profit will be available against which the respective entities can utilise the benefits.

Unrecognised deferred tax liability

The unrecognised deferred tax liability for taxable temporary differences associated with investments in subsidiaries	63	26

(in millions of US Dollars)

The deferred tax liability presented above was 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.

28. Trade, other payables and accrued expenses

	31 December 2014	31 December 2013
Trade payables to third parties	21	32
Other payables		
Other accounts payable and accrued expenses	31	90
Wages and salaries payable	57	86
Dividends payable to non-controlling interests	2	6
Interest payable	24	10
Total other payables	**114**	**192**
Accrued annual leave	19	36
Total	**154**	**260**

The average credit period for trade payables at 31 December 2014 was 18 days, (2013: 19 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.

29. Taxes payable

	31 December 2014	31 December 2013
Value added tax	3	13
Income tax payable	11	1
Tax on mining	11	8
Social taxes	6	23
Property tax	2	3
Other taxes	3	5
Total	**36**	**53**

30. Related parties

Related parties include substantial shareholders, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of business, enter into purchase and service transactions with related parties.

The Group had no transactions with its shareholders during 2014 and 2013.

Entities under common ownership

The Group had no balances and investments with entities under common control as of 31 December 2013 and 2014.

Following the disposal of the Company’s shares by one of the principal shareholders in February 2013 certain entities ceased to be related parties.

(in millions of US Dollars)

Transactions with entities under common control:

	Year ended 31 December	
	2014	**2013**
Interest income	-	1

Key management personnel

Short-term compensation of key management personnel	31	48
including termination benefits to the former key management personnel	8	12

31. Commitments and contingencies

Commitments

Capital commitments

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

	31 December	
	2014	**2013**
Contracted capital expenditure commitments	23	146
- including contracted capital expenditure commitments related to the Natalka project	11	69

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 2063.

Future minimum lease payments due under non-cancellable operating lease agreements at the end of the year were as follows:

Due within one year	3	4
From one to five years	8	14
Thereafter	20	35
Total	**31**	**53**

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.

Insurance

The insurance industry is not yet well developed in the Russian Federation and many forms of insurance protection common in more economically developed countries are not yet available on comparable terms. The Group does not have full insurance coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations, other than limited coverage required by law.

The Group, as a participant in exploration and mining activities, may become subject to liability for risks that cannot be insured against, or against which it may elect not to be insured because of high premium costs. Losses from uninsured risks may cause the Group to incur costs that could have a material adverse effect on the Group's business and financial condition.

Taxation contingencies in the Russian Federation

Commercial legislation in the Russian Federation, including tax legislation, is subject to varying interpretations and frequent changes. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed with additional taxes, penalties and interest.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also, according to the clarification of the Russian Constitutional Court, the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayer has obstructed or hindered a tax inspection.

Management of the Group is confident that applicable taxes have all been accrued and, consequently, creation of provisions is not required.

Under the Russian tax legislation, the authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by the authorities could affect the Group's previously submitted and assessed tax declarations.

With regards to matters where practice concerning payment of taxes is unclear, management estimate that there were no tax exposures at 31 December 2014 and 2013.

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 modernises 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 the Russian Federation 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 the Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

(in millions of US Dollars)

Because the Russian Federation 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, which decreased significantly during 2014.

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. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in an increase of interest rates on domestic borrowings. The exchange rate of the Russian Rouble depreciated significantly. These developments have resulted in reduced access of the Russian economy to international capital and export markets, capital flight, further weakening of the Rouble and other negative economic consequences.

The impact of further political and economic developments in the Russian Federation on future operations and financial position of the Group is at this stage difficult to determine.

32. 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 26) less banks deposits (note 22) and cash and cash equivalents (note 23), and equity of the Group.

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, derivative financial instruments and investments and trade and other 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, bank deposits, trade and other receivables, derivative financial instruments and investments.

	31 December	
	2014	**2013**
Financial assets		
Cash and cash equivalents	1,217	809
Bank deposits	269	48
Derivative financial instruments and investments	171	-
Trade and other receivables	11	27
Loans receivable	1	2
Total financial assets	**1,669**	**886**
Financial liabilities		
Borrowings	1,813	1,206
Derivative financial instruments and investments	970	-
Trade and other payables	135	224
Total financial liabilities	**2,918**	**1,430**

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.

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 1/3 of its annual gold sales.

(in millions of US Dollars)

During 2014, 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 18).

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 2014 gold sales for the year would have increased / decreased by USD 181 million / USD 175 million respectively.

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. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's current policy considering the relatively low LIBOR rates is to borrow funds in USD with floating interest rates. During 2014, the Group, in order to align its borrowings with the policy, entered into a number of derivative transactions (note 18):

- to swap cash flows under a 36 billion Rouble denominated credit facility from Sberbank with a fixed interest rate of 10.35% into USD dollar denominated cash flows with a floating interest rate of LIBOR+2.32%. The credit facility was initially arranged in RUB with the view to swapping it into a USD denominated cash flow, because this was more cost effective than obtaining funding directly in USD (Note 26) and
- to swap interest payments under the 750 million Eurobond from a fixed rate of 5.625% into a floating rate of LIBOR+3.55% (Note 26).

If the interest rate was 1% higher / lower during 2014 interest expense (as well as equity and retained earnings) for the year would have increased / decreased by USD 18 million. 1% 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 expenditures 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.

During 2014, the Group entered into a number of derivative agreements, in the form of currency collars (note 18) in order to economically hedge its Russian rouble denominated expenses.

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	
	2014	**2013**
Assets		
USD	1,581	292
EURO (presented in USD at closing exchange rate)	17	2
Total	**1,598**	**294**
Liabilities		
USD	2,135	1,099
EURO (presented in USD at closing exchange rate)	71	129
Total	**2,206**	**1,228**

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.

(in millions of US Dollars)

The table below details the Group's sensitivity to changes in exchange rates by 10% 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 2014 and 10% for 2013 compared to RUB as of the end of respective year, the Group would have incurred the following losses:

	31 December	
	2014	**2013**
Loss (USD exchange rate increased compared to RUB)	139	81
Loss (EURO exchange rate increased compared to RUB)	13	13

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 granted, advances paid, trade 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 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 holding an investment grade rating, with reasonable and appropriate diversification, which decreases concentration risk by spreading the credit risk exposure across several top rated banks.

Although the Group sold more than 88% of the total gold sales in 2014 to four 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. There were no outstanding receivables for gold sales as of 31 December 2014.

Gold sales to the Group's major customers are presented as follows:

	Year ended 31 December	
	2014	**2013**
VTB Bank	841	446
Otkritie Bank	704	1,057
MDM Bank	298	125
Bank of Moscow	85	391
Other banks	269	240
Gold sales	**2,197**	**2,259**

(in millions of US Dollars)

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 have quoted CDS.

Historically the Group has not relied extensively on external financing. Following the development of new capital projects during 2013, the Group issued notes in 2013 and arranged certain external finance facilities with banks during 2014 (note 26).

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 and derivative financial instruments as at 31 December 2014 based on undiscounted contractual payments / (receipts), including interest payments:

	Borrowings				
	Principal	**Interest**	**Derivative financial instruments**	**Trade and other payables**	**Total**
Due in the first year	90	118	279	111	598
Due in the second year	38	116	(134)	-	20
Due in the third year	87	115	(74)	-	128
Due in the fourth year	136	111	(51)	-	196
Due in the fifth year	710	76	359	-	1,145
Due in the period between sixth to eight years	764	22	(4)	-	782
Total	**1,825**	**558**	**375**	**111**	**2,869**

Presented below is the maturity profile of the Group's financial liabilities and derivative financial instruments as at 31 December 2013 based on undiscounted contractual payments, including interest payments:

	Borrowings				
	Principal	**Interest**	**Derivative financial instruments**	**Trade and other payables**	**Total**
Due in the first year	269	61	-	214	544
Due in the second year	118	45	-	-	163
Due in the third year	26	44	-	-	70
Due in the fourth year	19	44	-	-	63
Due in the fifth year	9	43	-	-	52
Due in the period between sixth to eight years	771	58	-	-	829
Total	**1,212**	**295**	**-**	**214**	**1,721**

33. Events after the reporting date

There have been no material reportable events since 31 December 2014 and the date of signing the report.

(in millions of US Dollars)

34. Investments in significant subsidiaries

34.1 Information about significant subsidiaries of the Group

Subsidiaries	Nature of business	Effective % held[1] at 31 December 2014	2013
Incorporated in Russian Federation			
OJSC "Polyus Gold" [2]	Management company	95	95
CJSC "Gold Mining Company Polyus"	Mining (open pit)	95	95
OJSC "Aldanzoloto GRK"	Mining (open pit)	95	95
OJSC "Lenzoloto"	Market agent	61	61
CJSC "ZDK Lenzoloto"	Mining (alluvial)	63	63
CJSC "Lensib"[3]	Mining (alluvial)	38	38
CJSC "Svetliy"	Mining (alluvial)	53	53
CJSC "Marakan"	Mining (alluvial)	53	53
CJSC "Dalnaya Taiga"	Mining (alluvial)	52	52
CJSC "Sevzoto" [3]	Mining (alluvial)	41	41
OJSC "Matrosova Mine"	Mining (development stage)	95	95
CJSC "Tonoda"	Mining (exploration stage)	95	95
OJSC "Pervenets"	Mining (open pit)	95	95
OJSC "South-Verkhoyansk Mining Company"	Mining (exploration stage)	95	95
LLC "Polyus Stroy"	Construction	95	95
Incorporated in British Virgin Islands			
Polyus Exploration Limited	Geological research	98	95
Jenington International Incorporated	Market agent	95	95

[1] Effective % held by the Company, including holdings by other subsidiaries of the Group.
[2] Effective % includes 92.95% of ordinary shares held directly by the Company as at 31 December 2014 and 2013.
[3] The Company maintains control of these entities as it continues to govern their financial and operating policies and manage returns from them through its ability to appoint the majority in the Board of Directors. A majority of the Board members for these entities are representatives of the Company and they are therefore consolidated even though the effective interest is less than 50% as at 31 December 2014 and 2013 and for the years then ended. Direct ownership in those subsidiaries by the immediate parent is in each case exceeds 50%, and there are no other additional agreements or other instances which could have set limits on the Company's ability to execute its control over its subsidiaries.

(in millions of US Dollars)

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

The summarised financial information below represents amounts before intragroup eliminations.

Summarized statements	OJSC "Polyus Gold" consolidated		OJSC "Lenzoloto" consolidated	
	2014	2013	2014	2013
Information as at 31 December				
Current assets	2,009	1,995	155	176
Non-current assets	2,996	3,822	46	69
Current liabilities	830	536	16	25
Non-current liabilities	2,373	1,158	10	14
Equity attributable to the shareholders of the subsidiary	1,656	3,848	110	127
Non-controlling interests	146	275	65	79
Information for the years ended 31 December				
Revenue	2,197	2,259	234	277
(Loss) / profit for the year	(1,081)	(61)	89	(2)
(Loss) / profit attributable to non-controlling interests	(18)	(4)	37	13
Total comprehensive (loss) / income	(2,720)	(380)	89	(2)
Net cash inflow from operating activities	673	428	65	74
Net cash (outflow) / inflow from investing activities	(1,169)	(1,161)	(61)	5
Net cash inflow / (outflow) from financing activities	992	636	(10)	(83)
Dividends paid to non-controlling interests	10	43	10	26

34.3 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 the distributable profits and reserves in these consolidated financial statements.

Polyus Gold International Limited

Condensed consolidated interim financial statements for the six months ended 30 June 2016 (unaudited)

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RESPONSIBILITY STATEMENT FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2016

The responsibility statement below has been prepared in connection with the preparation of the condensed consolidated interim financial statements that present the financial position of the Polyus Gold International Limited (the “Company”) and its subsidiaries (collectively – the “Group”) as at 30 June 2016, and the results of its operations, cash flows and changes in equity for the six months then ended, in compliance with International Accounting Standard (IAS) 34 “Interim Financial Reporting” as adopted by the European Union (EU).

In preparing the condensed consolidated interim financial information, we 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;
- providing additional disclosures when compliance with the specific requirements in IAS 34 as adopted by the EU 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;
- making an assessment of the Group’s ability to continue as a going concern.

We 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 condensed consolidated interim financial position of the Group, and which enable them to ensure that the condensed consolidated financial interim statements of the Group comply with IAS 34 as adopted by the EU;
- maintaining statutory accounting records in compliance with applicable legislation and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The condensed consolidated interim financial statements of the Group for the 6 months ended 30 June 2016 were approved by the Board of Directors on 26 August 2016.

By order of the Board:

Sergei Nossoff
Executive Director

Deloitte.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To: Board of Directors of Polyus Gold International Limited

Introduction

We have reviewed the condensed consolidated financial information for the six months ended 30 June 2016 which comprises condensed consolidated interim statement of financial position of Polyus Gold International Limited and subsidiaries (collectively – the "Group") as of June 30, 2016 and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as adopted by the European Union (EU). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

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

Deloitte & Touche

26 August, 2016

Polyus Gold International Limited

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

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

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
Gold sales	4	1,069	1,005	2,159
Other sales		13	14	30
Total revenue		**1,082**	**1,019**	**2,189**
Cost of gold sales	5	(379)	(406)	(876)
Cost of other sales		(12)	(12)	(26)
Gross profit		**691**	**601**	**1,287**
Selling, general and administrative expenses	6	(66)	(74)	(166)
Reversal of impairment	7	1	4	22
Other expenses, net		(12)	–	(2)
Operating profit		**614**	**531**	**1,141**
Finance costs	8	(73)	(43)	(48)
Interest income on bank deposits and loans issued		17	31	59
(Loss) / gain on derivative financial instruments and investments, net	9	(142)	145	12
Foreign exchange gain / (loss), net		257	(5)	149
Profit before income tax		**673**	**659**	**1,313**
Current income tax expense		(151)	(79)	(198)
Deferred income tax (expense) / benefit		(28)	3	4
Profit for the period		**494**	**583**	**1,119**
Attributable to:				
Shareholders of the Company		460	552	1,033
Non-controlling interests		34	31	86
		494	**583**	**1,119**
Weighted average number of ordinary shares, million	15	2,477	3,032	3,032
Earnings per share (US Cents), basic		19	18	34
Earnings per share (US Cents), diluted[1]		19	18	34

[1] There were no financial instruments or any other instances which could cause an antidilutive effect on the earnings per share calculation.

Polyus Gold International Limited

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

(in millions of US Dollars)

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
Profit for the period		**494**	**583**	**1,119**
Other comprehensive income / (loss)				
Items that may be subsequently reclassified to profit or loss:				
(Decrease) / increase in revaluation of cash flow hedge reserve on revenue stabiliser	11	(51)	30	115
(Decrease) / increase in revaluation of cash flow hedge reserve on gold forward	11	(9)	1	15
Deferred tax relating to decrease / (increase) in revaluation of cash flow hedge reserve		12	–	(32)
		(48)	**31**	**98**
Items that will not be subsequently reclassified to profit or loss:				
Effect of translation to presentation currency		(62)	41	(678)
Items that have been reclassified through profit or loss:				
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser	11	(33)	(35)	(91)
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward	11	(8)	(9)	(25)
Deferred tax relating to cash flow hedge reserve reclassified to consolidated statement of profit or loss		8	19	22
		(33)	**(25)**	**(94)**
Other comprehensive (loss) / income		**(143)**	**47**	**(674)**
Total comprehensive income		**351**	**630**	**445**
Attributable to:				
Shareholders of the Company		315	594	417
Non-controlling interests		36	36	28
		351	**630**	**445**

Polyus Gold International Limited

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2016 (UNAUDITED)
(in millions of US Dollars)

	Notes	30 June 2016	30 June 2015	31 December 2015
Assets				
Non-current assets				
Property, plant and equipment	10	2,440	2,449	2,023
Derivative financial instruments and investments	11	32	148	212
Inventories	12	216	236	184
Deferred tax assets		62	62	46
Other non-current assets		23	4	8
		2,773	**2,899**	**2,473**
Current assets				
Inventories	12	374	428	296
Derivative financial instruments and investments	11	11	–	20
Deferred expenditures		25	26	13
Other receivables		21	15	14
Advances paid to suppliers and prepaid expenses		15	16	18
Taxes receivable		67	54	63
Bank deposits	13	-	49	–
Cash and cash equivalents	14	1,676	1,328	2,039
		2,189	**1,916**	**2,463**
Total assets		**4,962**	**4,815**	**4,936**
Equity and liabilities				
Capital and reserves				
Share capital	15	1	1	1
Additional paid-in capital	15	1,493	2,153	2,159
Cash flow hedge revaluation reserve	11	31	114	112
Translation reserve		(2,732)	(2,009)	(2,665)
Retained earnings		193	1,626	2,107
Equity attributable to shareholders of the Company		**(1,014)**	**1,885**	**1,714**
Non-controlling interests		1	176	163
		(1,013)	**2,061**	**1,877**
Non-current liabilities				
Site restoration, decommissioning and environmental obligations		41	46	32
Borrowings	16	4,709	1,714	2,147
Derivative financial instruments	11	646	382	509
Deferred tax liabilities		165	144	133
Other non-current liabilities		26	23	21
		5,587	**2,309**	**2,842**
Current liabilities				
Borrowings	16	138	38	38
Derivative financial instruments	11	-	214	–
Trade, other payables and accrued expenses		193	148	150
Taxes payable		57	45	29
		388	**445**	**217**
Total liabilities		**5,975**	**2,754**	**3,059**
Total equity and liabilities		**4,962**	**4,815**	**4,936**

Polyus Gold International Limited

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)
(in millions of US Dollars)

			Equity attributable to shareholders of the Company							
		Number of outstanding shares, million	**Share capital**	**Additional paid-in capital**	**Cash flow hedge revaluation reserve**	**Translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
Balance at 31 December 2014		**3,032**	**1**	**2,152**	**108**	**(2,045)**	**1,258**	**1,474**	**146**	**1,620**
Profit for the period		–	–	–	–	–	552	**552**	31	**583**
Increase in cash flow hedge revaluation reserve	11	–	–	–	6	–	–	**6**	–	**6**
Effect of translation to presentation currency		–	–	–	–	36	–	**36**	5	**41**
Total comprehensive income		**–**	**–**	**–**	**6**	**36**	**552**	**594**	**36**	**630**
Equity-settled share-based payment plans (Long Term Incentive Plan or “LTIP”)	15	–	–	1	–	–	–	**1**	–	**1**
Dividends declared to:										
shareholders of the Company	15	–	–	–	–	–	(184)	**(184)**	–	**(184)**
shareholders of non-controlling interests		–	–	–	–	–	–	**–**	(6)	**(6)**
Balance at 30 June 2015		**3,032**	**1**	**2,153**	**114**	**(2,009)**	**1,626**	**1,885**	**176**	**2,061**
Profit for the period		–	–	–	–	–	481	**481**	55	**536**
Decrease in cash flow hedge revaluation reserve		–	–	–	(2)	–	–	**(2)**	–	**(2)**
Effect of translation to presentation currency		–	–	–	–	(656)	–	**(656)**	(63)	**(719)**
Total comprehensive income / (loss)		**–**	**–**	**–**	**(2)**	**(656)**	**481**	**(177)**	**(8)**	**(185)**
Equity-settled share-based payment plans (LTIP)	15	–	–	6	–	–	–	**6**	–	**6**
Dividends declared to:										
shareholders of non-controlling interests		–	–	–	–	–	–	**–**	(5)	**(5)**
Balance at 31 December 2015		**3,032**	**1**	**2,159**	**112**	**(2,665)**	**2,107**	**1,714**	**163**	**1,877**
Profit for the period		–	–	–	–	–	460	**460**	34	**494**
Decrease in cash flow hedge revaluation reserve	11	–	–	–	(81)	–	–	**(81)**	–	**(81)**
Effect of translation to presentation currency		–	–	–	–	(64)	–	**(64)**	2	**(62)**
Total comprehensive income		**–**	**–**	**–**	**(81)**	**(64)**	**460**	**315**	**36**	**351**
Equity-settled share-based payment plans (LTIP)	15	–	–	6	–	–	–	**6**	–	**6**
Purchase of interest from non-controlling shareholder		–	–	–	–	–	(2)	**(2)**	(1)	**(3)**
Buy-back and cancelation of treasury stock	15	(943)	–	(672)	–	–	(2,375)	**(3,047)**	(190)	**(3,237)**
Release of translation reserve due to disposal of subsidiary		–	–	–	–	(3)	3	**–**	–	**–**
Dividends declared to:										
shareholders of non-controlling interests		–	–	–	–	–	–	**–**	(7)	**(7)**
Balance at 30 June 2016		**2,089**	**1**	**1,493**	**31**	**(2,732)**	**193**	**(1,014)**	**1**	**(1,013)**

Polyus Gold International Limited

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)
(in millions of US Dollars)

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
Operating activities				
Profit before income tax		**673**	**659**	**1,313**
Adjustments for:				
Reversal of impairment	7	(1)	(4)	(22)
Finance costs	8	73	43	48
Interest income on bank deposits		(17)	(31)	(59)
Loss / (gain) on derivative financial instruments and investments	9	142	(145)	(12)
Amortisation and depreciation	10	66	62	128
Foreign exchange (gain) / loss, net		(257)	5	(149)
Other		7	(2)	5
		686	**587**	**1,252**
Movements in working capital				
Inventories		(40)	15	42
Deferred expenditures		(13)	(12)	(3)
Other receivables		(5)	(2)	(7)
Advances paid to suppliers and prepaid expenses		(2)	(2)	(11)
Taxes receivable		(6)	2	(11)
Trade and other payables and accrued expenses		(12)	8	27
Other non-current liabilities		-	–	5
Taxes payable		(4)	3	(1)
Cash flows from operations		**604**	**599**	**1,293**
Income tax paid		(127)	(84)	(217)
Net cash generated from operating activities		**477**	**515**	**1,076**
Investing activities				
Purchase of property, plant and equipment		(140)	(154)	(327)
Increase in bank deposits and loan issued		(19)	(71)	(74)
Proceeds from redemption of bank deposits and loan issued		19	291	340
Interest received		16	30	62
Payment for the currency collars	11	–	(217)	(494)
Proceeds from disposal of subsidiary, net of cash disposed of		10	–	–
Other		–	3	6
Net cash utilised in investing activities		**(114)**	**(118)**	**(487)**
Financing activities				
Interest paid		(110)	(62)	(122)
Proceeds from leaseback transactions		2	–	–
Repayments under lease		-	–	–
Net proceeds on exchange of interest payments under interest and cross currency rate swaps	11	16	24	52
Payment for buy-back of shares		(3,237)	–	–
Dividends paid to shareholders of the Company	15	–	(184)	(184)
Dividends paid to non-controlling interests		-	–	(9)
Proceeds from borrowings	16	2,591	–	621
Repayment of borrowings		(17)	(68)	(89)
Cash used to increase of ownership is subsidiaries		(3)	–	–
Net cash (utilised in) / generated from financing activities		**(758)**	**(290)**	**269**
Net (decrease) / increase in cash and cash equivalents		**(395)**	**107**	**858**
Cash and cash equivalents at beginning of the year	14	**2,039**	**1,217**	**1,217**
Effect of foreign exchange rate changes on cash and cash equivalents		32	4	(36)
Cash and cash equivalents at end of the period	14	**1,676**	**1,328**	**2,039**

1. GENERAL

Polyus Gold International Limited (the "Company") was incorporated on 26 September 2005 in Jersey and re-registered as a public limited company under the Companies (Jersey) Law 1991 on 18 November 2005. The Company's registered office is located at Queensway House, Hilgrove Street, St Helier, Jersey.

On 19 June 2012, the Company was admitted to the Official List of the UK Listing Authority and commenced trading on the London Stock Exchange's premium listed market. In December 2015, the Company completed its delisting from the London Stock Exchange's premium listed market.

The principal activity of the Company is to act as a holding company of PJSC Polyus ("Polyus"). The latter represents Group Polyus (the "Group") with the main activities being mining (including initial processing) and sale of gold in the Russian Federation.

The ultimate controlling party of the Company is Mr. Said Kerimov as of 30 June 2016 and 31 December 2015.

2. BASIS OF PREPARATION AND PRESENTATION

Going concern

In assessing its going concern status, 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, considerations of the gold price, currency exchange rates and other risks facing the Group. After making appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of signing these condensed consolidated interim financial statements and that it is appropriate to adopt the going concern basis in preparing these consolidated financial statements.

Compliance with International Financial Reporting Standards

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, as adopted by the European Union (EU). Accordingly, the condensed consolidated interim financial statements do not include all information and disclosures required for a complete set of financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2015.

Except for, as disclosed in sections *Significant accounting policies* and *Critical accounting judgement, estimates and assumption and key sources of estimation uncertainty* as presented below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated interim financial statements as were applied in the Group's audited consolidated financial statements for the year ended 31 December 2015.

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 International Financial Reporting Standards (IFRS) as adopted by the EU. Accordingly, such financial information has been adjusted to ensure that the condensed consolidated interim financial statements are presented in accordance with IFRS as adopted by the EU.

The condensed consolidated interim financial statements of the Group are prepared on the historical cost basis, except for *Financial instruments*, which are accounted for at amortised cost or at fair value.

(in millions of US Dollars)

IFRS standards update

The following is a list of standards (new or amended IFRS standards and interpretation that have been issued by the IASB) that have been applied in the preparation of these condensed consolidated interim financial statements for the six months ended 30 June 2016:

Title	Subject	Effective for annual periods beginning on or after	Effect on the condensed consolidated interim financial statements
IFRS 14	Regulatory deferral accounts	1 January 2016	No effect
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception	1 January 2016	No effect
Amendments to IAS 1	Disclosure initiative	1 January 2016	No effect
Annual Improvements to IFRSs 2012–2014 Cycle	Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	1 January 2016	No effect
Amendments to IAS 27	Equity method in separate financial statements	1 January 2016	No effect
Amendments to IAS 16 and IAS 41	Agriculture: bearer plants	1 January 2016	No effect
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation	1 January 2016	No effect
Amendments to IFRS 11	Accounting for acquisition of interests in joint operations	1 January 2016	No effect

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

Title	Subject	IASB effective for annual periods beginning on or after	Effect on the condensed consolidated interim financial statements
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	No effect
IFRS 9	Financial instruments	1 January 2018	No effect
IFRS 15	Revenue from contracts with customers	1 January 2018	To be determined
IFRS 16	Leases	1 January 2019	To be determined
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

Management is currently considering the potential impact of the adoption of these standards and amendments. However, it is not practicable to provide a reasonable estimate of their effect until a detailed review has been completed.

Exchange rates

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

Russian Rouble/US Dollar	30 June 2016	30 June 2015	31 December 2015
Period end rate	64.26	55.52	72.88

Starting form 1 January 2016, all income or expenses and respective cash flows are translated at the monthly average exchange rates. At the same time comparative financial information for the six months ended 30 June 2015 and year ended 31 December 2015 are presented at the average quarterly exchange rates.

3. SIGNIFICANT ACCOUNTING POLICIES

The critical accounting judgements, estimates and assumptions made by management of the Group and applied in the accompanying condensed consolidated interim financial statements for the six months ended 30 June 2016 are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2015.

In the preparation of these condensed consolidated interim financial statements, the management of the Group has implemented a new accounting policy for *Sales and leaseback transactions*.

4. 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"), identified as the Management Board (previously, Executive Committee). The following is a description of operations of the Group's seven identified reportable segments and those that do not meet the quantitative reporting threshold for reporting:

- ***Krasnoyarsk business unit*** (Krasnoyarsk region of the Russian Federation) – mining (including initial processing) and sale of gold from the Olimpiada, Blagodatnoye and Titimukhta mines, as well as research, exploration and development work at the Olimpiada and Blagodatnoye deposits;
- ***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;
- ***Exploration business unit*** (Krasnoyarsk region, Irkutsk region, Amur region, and others) – Research and exploration works in several regions of the Russian Federation;
- ***Capital construction unit*** - Represented by LLC "Polyus Stroy", JSC "TaigaEnergoStroy" and JSC "VitimEnergoStroy" which perform construction works at Natalka, Verninskoye, Olimpiada and other deposits;
- ***Unallocated*** – the Group does not allocate segment results of companies that perform management, investing activities and certain other functions. Neither standalone results nor the aggregated results of these companies are required to be disclosed as operating segments because quantitative thresholds are not met.

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

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

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

The Group does not allocate the results of companies that perform management, investing activities and certain other administrative functions within its internal reporting.

	Gold sales	Ounces of gold sold in thousands [2]	Adjusted EBITDA[2]	Total cash cost per ounce of gold sold (USD per ounce) [2]	Capital expenditures
For the six months ended 30 June 2016					
Business units					
Krasnoyarsk	806	622	544	363	49
Irkutsk alluvial	42	33	13	550	11
Irkutsk ore	121	100	74	407	6
Yakutia Kuranakh	95	78	54	487	12
Exploration	5	4	1	1,010	3
Magadan	–	–	–	–	82
Capital construction	–	–	–	–	18
Unallocated	–	–	3	–	4
Total	**1,069**	**837**	**689**	**377**	**185**
For the six months ended 30 June 2015					
Business units					
Krasnoyarsk	792	621	492	413	15
Irkutsk alluvial	39	33	10	589	3
Irkutsk ore	96	79	58	462	8
Yakutia Kuranakh	78	66	33	640	2
Exploration	–	–	(1)	–	1
Magadan	–	–	–	–	38
Capital construction	–	–	1	–	28
Unallocated	–	–	(4)	–	1
Total	**1,005**	**799**	**589**	**436**	**96**
For the year ended 31 December 2015					
Business units					
Krasnoyarsk	1,611	1,293	1,007	399	58
Irkutsk alluvial	191	168	76	582	5
Irkutsk ore	189	161	115	417	21
Yakutia Kuranakh	165	144	70	598	10
Exploration	3	2	3	694	7
Magadan	–	–	–	–	111
Capital construction	–	–	1	–	53
Unallocated	–	–	(4)	–	3
Total	**2,159**	**1,768**	**1,268**	**424**	**268**

[2] unaudited and not reviewed

Gold sales reported above represent revenue generated from external customers (note 19). There were no inter-segment gold sales during the six months ended 30 June 2016 and 2015. Included within gold sales in the six months ended 30 June 2016 are realised gains on derivatives of USD 45 million (note 11) (the six months ended 30 June 2015: USD 44 million; the year ended 31 December 2015: USD 116 million).

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

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

	Six months ended 30 June		Year ended 31 December
	2016	**2015**	**2015**
Profit for the period	**494**	**583**	**1,119**
Income tax	179	76	194
Depreciation and amortisation (note 10)	66	62	128
Finance costs (note 8)	73	43	48
Delisting expenses	–	–	15
Long Term Incentive Plan (note 15)	6	1	7
Foreign exchange (gain) / loss, net	(257)	5	(149)
Interest income on bank deposits	(17)	(31)	(59)
Reversal of impairment (note 7)	(1)	(4)	(22)
Loss / (gain) on derivative financial instruments and investments (note 9)	142	(145)	(12)
Other	4	–	(1)
Adjusted EBITDA[3]	**689**	**589**	**1,268**

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

	Six months ended 30 June		Year ended 31 December
	2016	**2015**	**2015**
Cost of gold sales	**379**	**406**	**876**
Adjusted for:			
Depreciation and amortisation (note 10)	(62)	(64)	(126)
Other non-cash items in cost of gold sales	(1)	7	(1)
TCC	**316**	**349**	**749**
Ounces of gold sold, in thousands ounce	837	799	1,768
TCC per ounce of gold sold, USD per ounce[3]	**377**	**436**	**424**

[3] unaudited and not reviewed

(in millions of US Dollars)

Capital expenditures primarily related to the following projects:

- at the Magadan business unit: ongoing construction in all major areas of the Natalka mill. The tendering process is finished and the external contractors have been selected for the main process equipment in the gravity separation area as well as for the infrastructure construction.
- at the Krasnoyarsk business unit: launching works to reconfigure the Titimukhta mill and preparations for connecting to the new Razdolinskaya-Taiga grid, upgrading and expanding the Blagodatnoye mill.
- at the Yakutia Kuranakh business unit: projects to increase equipment productivity and preparation works related to heap leach installation, including tender procedures for main production circuit equipment and contractor mobilization.
- at the Construction business unit: the construction of the Razdolinskaya-Taiga electricity grid.
- at the Verninskoe business unit: launching works for debottlenecking and increase of mill current capacity to 2.5 million tones ore per year, consulting company AMC contracted to perform strategic development plan for the Irkutsk hub.

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

5. COST OF GOLD SALES

	Six months ended 30 June		Year ended 31 December
	2016	2015	2015
Labour	96	110	239
Consumables and spares	112	94	205
Tax on mining	60	70	140
Fuel	32	32	74
Power	12	17	35
Outsourced mining services	4	3	12
Refining costs	-	2	3
Other	16	25	57
Total cash operating costs	**332**	**353**	**765**
Amortisation and depreciation of operating assets (note 10)	65	64	126
Total cost of production	**397**	**417**	**891**
Increase in stockpiles, gold-in-process and refined gold inventories	(18)	(11)	(15)
Total	**379**	**406**	**876**

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June		Year ended 31 December
	2016	2015	2015
Salaries	45	53	103
Professional services	7	6	31
Taxes other than mining and income taxes	6	6	12
Amortisation and depreciation (note 10)	2	2	3
Other	6	7	17
Total	**66**	**74**	**166**

(in millions of US Dollars)

7. REVERSAL OF IMPAIRMENT / (IMPAIRMENT LOSSES)

	Six months ended 30 June		Year ended 31 December
	2016	**2015**	**2015**
Mine under development (note 10)	1	4	19
Exploration and evaluation assets (note 10)	–	–	5
Long-term stockpiles	–	–	(2)
Total	**1**	**4**	**22**

8. FINANCE COSTS

	Six months ended 30 June		Year ended 31 December
	2016	**2015**	**2015**
Interest on borrowings	115	65	134
Bank one-off commissions	15	–	–
Unwinding of discounts on site restoration, decommissioning and environmental liabilities	1	2	4
Gain on exchange of interest payments under cross currency swap (note 11)	(11)	(18)	(39)
Gain on exchange of interest payments under interest rate swaps (note 11)	(5)	(6)	(13)
Other	1	–	2
Sub-total finance cost	**116**	**43**	**88**
Interest capitalised in the cost of Mine under development and Capital construction in progress	(43)	–	(40)
Total finance cost expensed	**73**	**43**	**48**

Following temporary cessation of the active construction at Natalka during the year ended 31 December 2014 borrowing costs capitalisation has been suspended until 30 June 2015.

Natalka mine construction has been restarted in the second half of the 2015 year, and, respectively, the Group commenced the capitalisation of the related borrowing costs starting from 1 July 2015.

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

	Six months ended 30 June		Year ended 31 December
	2016	**2015**	**2015**
Gain on currency collars (note 11)	–	116	53
Revaluation (loss) / gain on cross currency swaps (note 11)	121	21	(106)
Revaluation (loss) / gain on ineffective part of the revenue stabiliser under Tranches 1 and 2 (note 11)	(66)	7	19
Revaluation (loss) / gain on ineffective part of the revenue stabiliser under Tranches 3 and 4 (note 11)	(224)	–	45
Revaluation gain on interest rate swap (note 11)	12	2	2
Gain on disposal of subsidiary	16	–	–
Other	(1)	(1)	(1)
Total	**(142)**	**145**	**12**

(in millions of US Dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	Mineral rights	Fixed assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
Cost							
Balance at 31 December 2014 – as previously reported	**–**	**1,538**	**1,134**	**203**	**199**	**307**	**3,381**
Reclassifications of mineral rights	258	(114)	(37)	–	–	(107)	**–**
Balance at 1 January 2015 – after reclassifications	**258**	**1,424**	**1,097**	**203**	**199**	**200**	**3,381**
Additions	–	–	38	57	55	3	**153**
Transfers from capital construction-in-progress	–	43	–	–	(43)	–	**–**
Change in site restoration, decommissioning and environmental obligations	–	(5)	–	–	–	–	**(5)**
Disposals	–	(12)	(1)	–	–	–	**(13)**
Effect of translation to presentation currency	4	21	16	5	–	2	**48**
Balance at 30 June 2015	**262**	**1,471**	**1,150**	**265**	**211**	**205**	**3,564**
Additions	–	–	73	47	91	8	**219**
Transfers from capital construction-in-progress	–	91	–	–	(91)	–	**–**
Change in site restoration, decommissioning and environmental obligations	–	(1)	–	–	–	–	**(1)**
Disposals	–	(26)	(2)	–	(1)	–	**(29)**
Reclassifications	15	–	–	–	(3)	3	**15**
Effect of translation to presentation currency	(63)	(355)	(281)	(69)	(54)	(50)	**(872)**
Balance at 31 December 2015	**214**	**1,180**	**940**	**243**	**153**	**166**	**2,896**
Reclassification	–	12	(3)	–	(2)	–	**7**
Additions	–	–	81	30	94	6	**211**
Transfers from capital construction-in-progress	–	48	–	–	(48)	–	**–**
Change in site restoration, decommissioning and environmental obligations	–	3	–	–	–	–	**3**
Disposals	–	(4)	(5)	–	–	–	**(9)**
Disposed on disposal of subsidiary	(65)	–	–	–	–	(40)	**(105)**
Effect of translation to presentation currency	17	162	132	36	28	12	**387**
Balance at 30 June 2016	**166**	**1,401**	**1,145**	**309**	**225**	**144**	**3,390**

Polyus Gold International Limited

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FANANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

(in millions of US Dollars)

	Mineral rights	Fixed assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
Accumulated amortisation, depreciation and impairment							
Balance at 31 December 2014 – as previously reported	**–**	**(753)**	**(32)**	**(38)**	**(10)**	**(197)**	**(1,030)**
Reclassifications of mineral rights	(157)	69	–	–	–	88	**–**
Balance at 1 January 2015 – after reclassifications	**(157)**	**(684)**	**(32)**	**(38)**	**(10)**	**(109)**	**(1,030)**
Charge	(2)	(69)	–	(11)	–	–	**(82)**
Disposals	–	9	–	–	–	–	**9**
Reversal of impairment (note 7)	–	–	4	–	–	–	**4**
Effect of translation to presentation currency	(3)	(10)	(1)	–	(1)	(1)	**(16)**
Balance at 30 June 2015	**(162)**	**(754)**	**(29)**	**(49)**	**(11)**	**(110)**	**(1,115)**
Charge	(2)	(61)	–	(10)	–	–	**(73)**
Disposals	–	27	–	–	–	–	**27**
Reversal of impairment (note 7)	–	–	15	–	–	5	**20**
Effect of translation to presentation currency	39	182	5	14	4	24	**268**
Balance at 31 December 2015	**(125)**	**(606)**	**(9)**	**(45)**	**(7)**	**(81)**	**(873)**
Reclassification	–	(9)	–	–	–	–	**(9)**
Charge	(2)	(60)	–	(15)	–	–	**(77)**
Disposals	–	4	–	–	–	–	**4**
Disposed on disposal of subsidiary	65	–	–	–	–	40	**105**
Reversal of impairment (note 7)	–	–	1	–	–	–	**1**
Effect of translation to presentation currency	(5)	(86)	–	(8)	(2)	–	**(101)**
Balance at 30 June 2016	**(67)**	**(757)**	**(8)**	**(68)**	**(9)**	**(41)**	**(950)**
Net book value at							
Balance at 31 December 2014 – as previously reported	**–**	**785**	**1,102**	**165**	**189**	**110**	**2,351**
Balance at 1 January 2015 – after reclassifications	**101**	**740**	**1,065**	**165**	**189**	**91**	**2,351**
Balance at 30 June 2015	**100**	**717**	**1,121**	**216**	**200**	**95**	**2,449**
Balance at 31 December 2015	**89**	**574**	**931**	**198**	**146**	**85**	**2,023**
Balance at 30 June 2016	**99**	**644**	**1,137**	**241**	**216**	**103**	**2,440**

(in millions of US Dollars)

Mineral rights

The carrying values of mineral rights were allocated to the following business units:

	30 June 2016	30 June 2015	31 December 2015
Magadan	32	37	28
Exploration	17	20	15
Yakutia Kuranakh	30	18	27
Irkutsk ore	12	15	11
Krasnoyarsk	8	10	8
Total	**99**	**100**	**89**

Amortisation and depreciation charge

Amortisation and depreciation charge is allocated as follows:

	Six months ended 30 June		Year ended 31 December
	2016	2015	2015
Cost of gold sales	62	59	122
Depreciation in change in inventory	3	5	4
Sub-total: Cost of production (note 5)	**65**	**64**	**126**
Selling, general and administrative expenses (note 6)	2	2	3
Cost of other sales	2	1	3
Capitalised within capital construction-in-progress	8	15	23
Total	**77**	**82**	**155**

Mine under development and Capital construction in progress

Mine under development includes only the Natalka mine (Magadan business unit refer to note 8).

Included within *Mine under development* and *Capital construction in progress* are capitalised borrowing costs consisted of the following:

	Six months ended 30 June		Year ended 31 December
	2016	2015	2015
Interest expenses	43	–	40
Foreign exchange losses	1	–	1
Interest income on bank deposits	(5)	–	(5)
Total	**39**	**–**	**36**

(in millions of US Dollars)

Exploration and evaluation assets

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

	30 June 2016	30 June 2015	31 December 2015
Razdolinskoye	20	20	16
Olympiada	17	16	14
Panimba	15	16	13
Bamsky	14	13	11
Chertovo Koryto	9	10	8
Smezhny	8	9	7
Blagodatnoye	7	7	6
Burgakhchan area	6	–	5
Medvezhy Zapadny	2	3	2
Other	5	1	3
Total	**103**	**95**	**85**

11. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS

	30 June 2016	30 June 2015	31 December 2015
Non-current assets			
Revenue stabiliser	–	113	200
Interest rate swaps	28	11	11
Gold forward	–	22	–
Investment in joint venture	4	–	–
Loans receivable	–	2	1
Sub-total	**32**	**148**	**212**
Current assets			
Revenue stabiliser	11	–	–
Gold forward	–	–	20
Sub-total	**11**	**–**	**20**
Total assets	**43**	**148**	**232**
Non-current liabilities			
Cross currency swaps	450	382	509
Revenue stabiliser	196	–	–
Gold forward	–	–	–
Sub-total	**646**	**382**	**509**
Current liabilities			
Currency collars	–	214	–
Total liabilities	**646**	**596**	**509**

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.

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 revenue stabiliser options are exercised quarterly in equal amounts.

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 volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13.

During the year ended 31 December 2015, the Group successfully completed the restructuring of Tranches 1 and 2 of the revenue stabiliser programme and started to sign agreements under Tranche 3 and 4. Restructuring of Tranches 1 and 2 resulted in the close out of a part of the fourth year options and lowering barriers on the remaining options for the first three years.

Tranche 1 and 2 of the revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the *Cash flow hedge revaluation reserve* within the condensed consolidated interim statement of changes in equity, whilst the remaining change in the fair value of USD 66 million loss is reflected in the condensed consolidated interim statement of profit or loss (note 9) (the six months ended 30 June 2015: gain of USD 7 million; the year ended 31 December 2015: gain of USD 19 million).

During the six months ended 30 June 2016, under Tranches 1 and 2, USD 51 million of decrease was recognised in the *Cash flow hedge revaluation reserve* within the condensed consolidated interim statement of changes in equity (the six months ended 30 June 2015: increase of USD 30 million; the year ended 31 December 2015: increase of USD 115 million) and following the sale of the hedged volume of gold and the exercise of certain options USD 33 million was subsequently reclassified to *Gold sales* within the condensed consolidated interim statement of profit or loss (the six months ended 30 June 2015: USD 35 million; the year ended 31 December 2015: USD 91 million).

Tranche 3 and 4 are accounted at fair value through profit or loss. During the six months ended 30 June 2016, loss resulted from the change in its fair value totalled USD 224 million and is presented within the note 9 of the condensed consolidated interim statement of profit or loss (the year ended 31 December 2015: USD 45 million).

During the six months ended 30 June 2016, realised gain on expiration of the Tranche 3 and 4 collars in amount of USD 4 million (the six months ended 30 June 2015: nil; the year ended 31 December 2015: nil) is recognised within Gold sales line of the condensed consolidated interim statement of profit or loss.

Gold forward

During the year ended 31 December 2014, the Group has entered into financing contracts to sell a total of 310 thousand ounces of gold monthly in equal quantities over a period of two years starting from 1 July 2014 and ending on 30 June 2016 at a fixed price of USD 1,321 per ounce.

There are no outstanding balances in regard of gold forward as of 30 June 2016.

The gold forward contract is designated as a cash flow hedge. Any change in the forward fair value is recognised in *Cash flow hedge revaluation reserve* within the condensed consolidated interim statement of changes in equity. During the six months ended 30 June 2016, USD 9 million of loss was recognised in the *Cash flow hedge revaluation reserve* within the condensed consolidated interim statement of changes in equity (the six months ended 30 June 2015: USD 1 million of gain; the year ended 31 December 2015: USD 15 million of gain) and following the sale of the hedged amount of gold USD 8 million was reclassified from the *Cash flow hedge revaluation reserve* within condensed consolidated interim statement of changes in equity into *Gold sales* within the condensed consolidated interim statement of profit or loss (the six months ended 30 June 2015: USD 9 million; the year ended 31 December 2015: USD 25 million).

The fair value is determined using the Black-Scholes valuation technique. Input data used in the valuation model (forward gold prices and volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13. The Group performs prospective and retrospective effectiveness testing for the instruments designated as a cash flow hedge at least at each reporting date.

Currency collars

During the year ended 31 December 2014, in order to economically hedge its Russian rouble denominated expenses, the Group simultaneously purchased put options and sold call options for the total amount of USD 1,900 million. During the year ended 31 December 2015, all remaining options matured and resulted in a gain of USD 53 million (the six months ended 30 June 2015: realised loss of USD 217 million).

The Group classified these contracts as financial instruments at FVTPL. The fair value was determined using the Black-Scholes valuation technique using the inputs (forward currency exchange rates and volatility) which were observable in the market and correspondently classified as Level 2 in accordance with the hierarchy of fair value.

Cross currency swaps

RUB denominated credit facilities with fixed interest rate

The revenue of the Group is linked to US dollars, because the gold price is denominated in US dollars. The Group entered into cross currency swaps with leading Russian banks to economically hedge interest payments and principal amounts exchange nominated in RUB.

According to the cross currency swap agreements the Group quarterly pays to the banks LIBOR + Margin 2.47% in USD and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group exchanges principal amounts paying USD 1,023 million and receiving RUB 35,999 million.

Rusbonds

The Group entered into cross currency swaps with leading Russian banks for a total amount of RUB 10 billion to economically hedge interest and principal payments. According to the cross currency swap agreements the Group will semi-annually pay to the banks 6MLIBOR + Margin 4.45% in USD and receive from the banks 12.1% in RUB; and at maturity (16 July 2021) the Group will exchange principal amounts paying USD 173 million and receiving RUB 10 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 which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps for the six months ended 30 June 2016 resulted in a revaluation gain of USD 121 million (the six months ended 30 June 2015: gain USD 21 million; the year ended 31 December 2015: loss USD 106 million) which was recognised in the condensed consolidated interim statement of profit or loss (note 9). During the six months ended 30 June 2016, gain on the exchange of interest payments in amount of USD 11 million (the six months ended 30 June 2015: gain USD 18 million; the year ended 31 December 2015: gain USD 39 million) is recognised within the *Finance cost* (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

During the year ended 31 December 2014, the Group entered into an 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 is to decrease the effective interest rate for the USD 750 million Eurobonds (note 16). 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 which was determined using a discounted cash flow valuation technique.

(in millions of US Dollars)

During the six months ended 30 June 2016, the gain on changes in the fair value of the interest rate swaps in the amount of USD 12 million is recognised in the condensed consolidated interim statement of profit or loss (note 9) (the six months ended 30 June 2015: gain USD 2 million; the year ended 31 December 2015: gain USD 2 million). The gain on the exchange of interest payments in amount of USD 5 million is recognised within the *Finance cost* (note 8) (the six months ended 30 June 2015: gain USD 6 million; the year ended 31 December 2015: gain USD 13 million).

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.

12. INVENTORIES

	30 June 2016	30 June 2015	31 December 2015
Inventories expected to be recovered after 12 months			
Stockpiles	206	229	174
Gold-in-process	10	7	10
Sub-total	**216**	**236**	**184**
Inventories expected to be recovered in the next 12 months			
Stockpiles	63	76	44
Gold-in-process	84	79	59
Refined gold	7	9	13
Stores and materials	228	273	188
Less: provision for obsolete and slow-moving stores and materials	(8)	(9)	(8)
Sub-total	**374**	**428**	**296**
Total	**590**	**664**	**480**

13. BANK DEPOSITS

During the year ended 31 December 2015, the Group modified certain bank deposit agreements, so that as of 30 June 2016 and 31 December 2015 all of the deposits were available on demand and respectively were presented under the cash and cash equivalents caption (note 14).

As of 30 June 2015, all Group's deposit was denominated in USD and had an interest rate of 4.3% per annum.

14. CASH AND CASH EQUIVALENTS

	30 June 2016	30 June 2015	31 December 2015
Bank deposits			
- USD	1,192	1,074	1,630
- RUB	52	128	71
Current bank accounts			
- USD	230	68	273
- RUB	40	36	33
Other cash and cash equivalents	162	22	32
Total	**1,676**	**1,328**	**2,039**

(in millions of US Dollars)

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 denominated in RUB and USD and accrue interest at the following rates:

- USD	0.2 – 6.0%	1.3 – 6.0%	1.0 − 6.0%
- RUB	8.0 – 11.0%	8.6 – 12.6%	8.0 − 11.1%

15. SHARE CAPITAL

The authorised share capital of the Company comprises 3,600 million ordinary shares with a par value of GBP 0.0001 per share.

The issued and fully paid up share capital of the Company as of 30 June 2016 (after the buy-back as described below) comprises 2,089,106,033 ordinary shares issued at a premium, resulting in share capital of USD 332 thousand.

Movement of number of issued and fully paid up ordinary shares, share capital of the Company at par value and additional paid in capital during the six months ended 30 June 2016 and 2015 and the year ended 31 December 2015 was as follows:

	Number of outstanding shares	Share capital	Additional paid-in capital
Balance as of 31 December 2014	**3,032**	**1**	**2,152**
Equity-settled share-based payment plans (LTIP)	−	−	1
Balance as of 30 June 2015	**3,032**	**1**	**2,153**
Equity-settled share-based payment plans (LTIP)	−	−	6
Balance as of 31 December 2015	**3,032**	**1**	**2,159**
Equity-settled share-based payment plans (LTIP)	−	−	6
Buy-back and cancelation of treasury stock	(943)	−	(672)
Balance as of 30 June 2016	**2,089**	**1**	**1,493**

Dividends in the total amount of USD 184 million (US 6.08 cents per share) were approved by the Annual General Meeting of shareholders on 15 May 2015 and paid during the six months ended 30 June 2015. There were no dividends declared and paid for the six months ended 30 June 2016 and second half of the year ended 31 December 2015.

Share buy-back

On 10 March 2016, the Board of Directors of the Company, approved the purchase of its own ordinary shares in the amount of 909,873,900 (or 30.04% of the share capital) from the shareholders. The purchase price per 1 (one) ordinary share was USD 3.41.

On 24 June 2016 the Board of Directors of the Company approved the purchase of its own ordinary shares in the amount of 33,170,029 (or 1.56% of the share capital) from the shareholder. The purchase price per 1 (one) ordinary share was USD 3.47.

On 11 March 2016 and on 27 June 2016, the Company executed the following transactions with its current shareholders:

Name of shareholders	Number of shares, million	Ownership*, %	Price per 1 share, USD	Consideration paid of, USD million
Sacturino Ltd.	757	25.00%	3.41	2,582
Wandle Holdings Ltd.	186	6.11%	3.41-3.47	636
Total	**943**	**31.11%**		**3,218**

* as of the buy-back date

Immediately after that all shares were cancelled.

(in millions of US Dollars)

Equity-settled share-based payment plans (Long Term Incentive Plan)

During the six months ended 30 June 2015, the Company 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 the Company's ordinary shares linked to the achievement of a combination of financial and non-financial performance conditions.

The LTIP stipulates three 3-year rolling performance periods, starting from 2015, 2016 and 2017. The total number of shares that may be distributed under the LTIP is up to 1% of the total share capital of the Company which can be granted from newly issued ordinary shares or from treasury shares, if any.

Fair value of a share was identified at the grant date of 19 May 2015 as the closing price per London Stock Exchange. Total expense for the reporting period arising from LTIP was immediately recognised in the condensed consolidated interim statement of profit or loss within the line *Salaries* included within *Selling, general and administrative expenses* in the amount of USD 6 million (the six months ended 30 June 2015: USD 1 million; the year ended 31 December 2015: 7 million).

Weighted average number of ordinary shares for the six months ended 30 June 2016 and 2015 and the year ended 31 December 2015 including dilutive effect of potentially issuable shares is presented below:

	30 June 2016	30 June 2015	31 December 2015
Ordinary shares in issue at the beginning of the reporting period	**3,032**	**3,032**	**3,032**
Dilutive effect of LTIP (3 million shares starting from 19 May 2015)	5	2	5
Cancelation of shares (943 million shares starting from 11 March 2016)	(556)	–	–
Weighted average number of ordinary shares	**2,481**	**3,034**	**3,037**

16. BORROWINGS

	Nominal rate %	30 June 2016	30 June 2015	31 December 2015
Credit facilities with financial institutions nominated in USD with variable interest rates	USD LIBOR + margins ranging from 0.55% to 4.95%	3,350	355	785
Notes due in 2020 (Eurobonds)	5.625%	747	746	746
Credit facilities with financial institutions nominated in RUR with fixed interest rates	10.35%	523	604	461
Notes due in 2025 (Rusbonds) with noteholders' early repayment option in 2021	12.1%	155	–	137
Letters of credit with deferred payments terms with variable rates	Cost of fund (COF) + 2.7%, Euribor +1.8%, USD LIBOR + 2.35%	29	47	38
Credit facilities with financial institutions nominated in RUR with variable interest rates	Central bank rate + 2.3%	38	–	18
Lease liabilities nominated in USD with fixed interest rate	5%	5	–	–
Sub-total		**4,847**	**1,752**	**2,185**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(138)	(38)	(38)
Long-term borrowings		**4,709**	**1,714**	**2,147**

The Company and subsidiaries of the Group from time to time obtain credit facilities from different financial institutions, raise financing from the noteholders to fund its general corporate purposes and to finance its capital investment projects and shares buy-back.

Unused credit facilities

In 2014, one of the Group's subsidiary entered into a five year RUB 40,000 million credit line with a bank to fund its general corporate purposes. As of 30 June 2016, the amount of unused credit facilities was RUB 40,000 million equivalent to USD 622 million.

In 2015, one of the Group's subsidiaries entered into an eleven year RUB 6,054 million credit line with a bank to fund Razdolinskaya-Taiga power grid construction. As of 30 June 2016, the credit facilities in the amount of USD 56 million (RUB 3,612 million) were unused.

Other matters

JSC "Gold Mining Company Polyus" guaranteed liabilities of all the companies in the Group for all borrowings.

There were a number of financial covenants under several loan agreements in effect as of 30 June 2016 according to which the respective subsidiaries of the Company and the Company itself are limited, namely:

- in the distribution of their assets. The Group is not allowed to divest more than 10% of its assets in any form of transaction without prior consent of the banks. This limitation is applicable to the most significant subsidiaries of the Group;
- in its right to dispose of the controlling share in certain significant subsidiaries of the Group; and
- in the transfer of non-core assets between certain subsidiaries of the Group.

The Group was in compliance with all of the financial covenants as of and for the six months ended 30 June 2016.

The fair value of the Notes due in 2020 and 2021 are within Level 1 of the fair value hierarchy. Whilst measured at amortised cost, the fair value of all of the borrowings, except for the Notes, are within Level 2 of the fair value hierarchy in accordance with IFRS 13. The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB interest 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 the borrowings as of 30 June 2016 was equal to USD 4,431 million (30 June 2015: USD 1,616 million; 31 December 2015: USD 2,013 million).

17. RELATED PARTIES

Related parties include substantial shareholders, entities under common ownership and control within the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of business, enter into purchase and service transactions with related parties.

As of and for the six months ended 30 June 2016 and 2015, the Group had neither outstanding balances nor transactions with its related parties other than remuneration of key management personnel described below and share buy-back transactions with the Company's shareholders as disclosed in note 15.

(in millions of US Dollars)

Key management personnel

	Six months ended 30 June		Year ended 31 December
	2016	2015	2015
Short-term compensation (including LTIP) of key management personnel	15	8	16
Long-term compensation of key management personnel (LTIP)	6	1	7

18. COMMITMENTS AND CONTINGENCIES

Capital commitments

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

	30 June 2016	30 June 2015	31 December 2015
Contracted capital expenditure commitments,	40	52	30
including contracted capital expenditure commitments related to the Natalka project	12	9	9

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 2062.

Future minimum lease payments due under non-cancellable operating lease agreements at the end of the year were as follows:

	30 June 2016	30 June 2015	31 December 2015
Due within one year	3	3	4
From one to five years	9	9	18
Thereafter	19	21	17
Total	**31**	**33**	**39**

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

Insurance

The insurance industry is not yet well developed in the Russian Federation and many forms of insurance protection common in more economically developed countries are not yet available on comparable terms. The Group does not have full insurance coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group’s property or relating to the Group’s operations, other than limited coverage required by law.

The Group, as a participant in exploration and mining activities, may become subject to liability for risks that cannot be insured against, or against which it may elect not to be insured because of high premium costs. Losses from uninsured risks may cause the Group to incur costs that could have a material adverse effect on the Group's business and financial condition.

Taxation contingencies in the Russian Federation

Laws and regulations 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 estimate that there were no tax exposures as of 30 June 2016.

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 modernises 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. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. In the first quarter of 2015 international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

During 2015 and first half of 2016, the economic situation has become more stable, although the above mentioned events have led to reduced access of Russian businesses to international capital markets, increased inflation, reduced economic growth and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

(in millions of US Dollars)

19. 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 16) less banks deposits (note 13) and cash and cash equivalents (note 14), and equity of the Group.

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, derivative financial instruments and investments and trade and other 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, bank deposits, trade and other receivables, derivative financial instruments and investments.

	30 June 2016	30 June 2015	31 December 2015
Financial assets			
Cash and cash equivalents	1,676	1,328	2,039
Derivative financial instruments	39	146	231
Investments in joint ventures	4	–	–
Other receivables	21	15	14
Loans receivable	–	2	1
Bank deposits	–	49	–
Total financial assets	**1,740**	**1,540**	**2,285**
Financial liabilities			
Borrowings	4,847	1,752	2,185
Derivative financial instruments	646	596	509
Trade and other payables	175	130	134
Total financial liabilities	**5,668**	**2,478**	**2,828**

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.

Gold price risk

The Group is exposed to changes in the gold price due to its significant volatility. During 2014, 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 previously in note 11). 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 six months ended 30 June 2016 gold sales for the year would have increased / decreased by USD 46 million / USD 39 million, respectively (the six months ended 30 June 2015: USD 62 million / USD 61 million; the year ended 31 December 2015: USD 134 million / USD 138 million).

(in millions of US Dollars)

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. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's current policy considering the relatively low LIBOR rates is to borrow funds in USD with floating interest rates. During 2014, the Group, in order to align its borrowings with the policy, entered into a number of derivative transactions (refer to note 11):

- to swap cash flows under a 36 billion Rouble denominated credit facility from Sberbank with a fixed interest rate of 10.35% into USD dollar denominated cash flows with a floating interest rate of LIBOR+2.47%. The credit facility was initially arranged in RUB with the view to swapping it into a USD denominated cash flow, because this was more cost effective than obtaining funding directly in USD (note 16); and
- to swap interest payments under the 750 million Eurobond from a fixed rate of 5.625% into a floating rate of LIBOR+3.55% (note 16).

If the interest rate was 0.5% higher / lower during the six months ended 30 June 2016 interest expense (as well as equity and retained earnings) excluding effect of change in fair value of interest rate and cross currency swaps for the six months ended 30 June 2016 would have increased / decreased by USD 8 million (the six months ended 30 June 2015: USD 4 million; the year ended 31 December 2015: USD 8 million).

If interest rates used in calculations of fair values of interest rate and cross currency swaps as of 30 June 2016 would be 0.5% higher / lower, the gain on revaluation would be USD 35 million lower / higher respectively (the six months ended 30 June 2015: USD 39 million; the year ended 31 December 2015: USD 39 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 expenditures 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.

During 2014, the Group entered into a number of derivative agreements, in the form of currency collars (refer to note 11) in order to economically hedge its Russian rouble denominated expenses. 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:

	30 June 2016	30 June 2015	31 December 2015
Assets			
USD	1,588	1,340	2,135
EURO (presented in USD at closing exchange rate)	2	1	1
Total	**1,590**	**1,341**	**2,136**
Liabilities			
USD	4,846	1,748	2,084
EURO (presented in USD at closing exchange rate)	12	9	14
Total	**4,858**	**1,757**	**2,098**

(in millions of US Dollars)

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 six months ended 30 June 2016 and 2015; and the year ended 31 December 2015 compared to RUB as of the end of respective reporting periods, the Group would have incurred the following profits or losses:

	Six months ended 30 June		Year ended 31 December
	2016	**2015**	**2015**
Loss / (profit) (USD exchange rate increased compared to RUB)	814	102	(13)
Loss (EURO exchange rate increased compared to RUB)	2	2	3

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 granted, advances paid, trade 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 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 4 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. There were no outstanding receivables for gold sales as of 30 June 2016, 2015 and 31 December 2015.

(in millions of US Dollars)

Gold sales to the Group's major customers are presented as follows:

	Six months ended 30 June		Year ended 31 December
	2016	**2015**	**2015**
VTB Bank	416	198	493
Sberbank	329	250	651
Otkritie Bank	160	338	668
MDM Bank	72	141	166
Other banks	92	78	181
Total gold sales	**1,069**	**1,005**	**2,159**

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. Historically, the Group has not relied extensively on external financing. Following the development of new capital projects during 2013, the Group issued notes in 2013 and arranged certain external finance facilities with banks during year ended 31 December 2015 and six months ended 30 June 2016 (note 16).

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 (except for derivative financial instruments) as at 30 June 2016 based on undiscounted contractual payments, including interest payments:

	Borrowings		Trade and other	
	Principal	**Interest**	**payables**	**Total**
Due in the first year	138	273	175	586
Due in the second year	302	276	–	578
Due in the third year	957	253	–	1,210
Due in the fourth year	810	191	–	1,001
Due in the fifth year	134	143	–	277
Thereafter	2,550	111	–	2,661
Total	**4,891**	**1,247**	**175**	**6,313**

(in millions of US Dollars)

20. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

		Effective % held[4] at		
Subsidiaries[5]	**Nature of business**	**30 June 2016[6]**	**30 June 2015**	**31 December 2015**
Incorporated in Russian Federation				
PJSC "Polyus"	Management company	93	95	95
JSC "Gold Mining Company Polyus"	Mining (open pit)	93	95	95
JSC "Aldanzoloto GRK"	Mining (open pit)	93	95	95
JSC "Pervenets"	Mining (open pit)	93	95	95
PJSC "Lenzoloto"	Market agent	60	61	61
JSC "ZDK Lenzoloto"	Mining (alluvial)	62	63	63
JSC "Svetliy"	Mining (alluvial)	52	53	53
JSC "Matrosova Mine"	Mining (development stage)	93	95	95
LLC "Polyus Stroy"	Construction	93	95	95
JSC "TaigaEnergoStroy"	Construction	93	95	95
Incorporated in British Virgin Islands				
Polyus Exploration Limited	Geological research	93	98	95

21. EVENTS AFTER THE REPORTING DATE

There were no events subsequent to the reporting date that should be disclosed in these condensed consolidated interim financial statements.

[4] Effective % held by the Company, including holdings by other subsidiaries of the Group.
[5] Following change in legislation, Group entities registered in Russia, which had a legal form of a limited liability company (LLC) or a closed joint stock company (CJSC) have changed or would have to change its legal from to a joint stock company (JSC); open joint stock companies (OJSC) have been renamed public joint stock companies (PJSC).
[6] In March 2016, LLC "Polyus-Invest" a 100% subsidiary of PJSC "Polyus", acquired 61 million of PJSC "Polyus" ordinary shares, of which 60 million was acquired from PGIL and remaining part from the market. The total consideration paid by LLC "Polyus-Invest" was USD 3,442 million, of which 3,423 million was received by PGIL. These transactions lead to change in effective ownership in all of the Group's subsidiaries.

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