PJSC Polyus

Management Report

30 June 2017

14 August 2017

Contents

Cautionary statement

14 August 2017 – PJSC Polyus (the “Company” or “Polyus”) issues this Interim Management Report (“IMR”) to summarise recent operational activities and to provide trading guidance in respect of the condensed consolidated interim financial statements for the three and six months ended 30 June 2017.

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

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

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

Responsibility statement

Directors of PJSC "Polyus" (the "Company") and its subsidiaries (the "Group") are responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of the Group as of 30 June 2017, and the results of its operations, cash flows and changes in equity for the three and six months then ended, in compliance with International Accounting Standard 34 ("IAS 34") *Interim Financial Information*.

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

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- compliance with the requirements of IAS 34 *Interim Financial Information* and providing additional disclosures when compliance with the specific requirements in International Financial Reporting Standards ("IFRS") are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Directors are also responsible for:

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

The condensed consolidated interim financial statements of the Group for the six month ended 30 June 2017 were approved by Directors on 14 August 2017.

By order of the Board of Directors,

Pavel Grachev

Chief Executive Officer and Director

Management Discussion and Analysis

Key highlights

$ mln (if not mentioned otherwise)	1H 2017	1H 2016	Y-o-Y	2Q 2017	2Q 2016	Y-o-Y	2016
Operating highlights							
Gold production (koz) [1]	938	839	12%	488	455	7%	1,968
Gold sold (koz)	983	837	17%	496	437	14%	1,915
Realised prices							
Average realised refined gold price (excluding effect of SPPP) ($/oz) [2]	1,239	1,223	1%	1,261	1,257	0%	1,250
Average realised refined gold price (including effect of SPPP) ($/oz)	1,263	1,277	(1%)	1,268	1,292	(2%)	1,287
Financial performance							
Total revenue	1,234	1,082	14%	625	571	9%	2,458
Operating profit	654	618	6%	324	320	1%	1,361
Operating profit margin	53%	57%	(4) ppts	52%	56%	(4) ppts	55%
Profit for the period	603	499	21%	104	205	(49%)	1,445
Earnings per share – basic (US Dollar)	4.85	3.22	51%	0.84	1.53	(45%)	10.09
Earnings per share – diluted (US Dollar)	4.84	3.22	50%	0.83	1.53	(46%)	10.09
Adjusted net profit [3]	475	405	17%	272	204	33%	952
Adjusted net profit margin	38%	37%	1 ppts	44%	36%	8 ppts	39%
Adjusted EBITDA [4]	762	691	10%	379	361	5%	1,536
Adjusted EBITDA margin	62%	64%	(2) ppts	61%	63%	(2) ppts	62%
Net cash inflow from operations	550	479	15%	268	188	43%	1,178
Capital expenditure [5]	322	186	73%	190	90	111%	468
Cash costs							
Total cash cost (TCC) per ounce sold ($/oz) [6]	379	377	1%	379	395	(4%)	389
All-in sustaining cash cost (AISC) per ounce sold ($/oz) [7]	610	555	10%	634	566	12%	572
Financial position [8]							
Cash and cash equivalents and bank deposits	1,477	1,382	7%	1,477	1,382	7%	1,740
Net debt [9]	3,084	3,469	(11%)	3,084	3,469	(11%)	3,241
Net debt/adjusted EBITDA (x) [10]	1.9	2.5	(24%)	1.9	2.5	(24%)	2.1

[1] - Gold production is comprised of 877 thousand ounces of refined gold and 61 thousand ounces of gold in flotation concentrate.

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

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

[4] - Adjusted EBITDA is defined by the Group as profit for the period adjusted for income tax expense, depreciation and amortisation, (gain)/loss on derivative financial instruments and investments, finance cost, net, equity-settled share-based payment plans (LTIP), foreign exchange gain, interest income, impairment/(reversal of impairment), charitable contributions and (gain)/loss on property, plant and equipment. The Group has made these adjustments in calculating Adjusted EBITDA to provide a clearer view of the performance of its underlying business operations and to generate a metric that it believes will give greater comparability over time with peers in its industry. The Group believes that Adjusted EBITDA is a meaningful indicator of its profitability and performance. This measure should not be considered as an alternative to profit for the period and operating cash flows based on IFRS, and should not necessarily be construed as a comprehensive indicator of the Group's measure of profitability or liquidity.

[5] - Capital expenditure figures are presented on an accrual basis (here presented net of the Sukhoi Log deposit license acquisition cost).

[6] - For calculation of TCC per ounce sold, see the section Total cash costs.

[7] - For calculation of AISC per ounce sold, see the section All-in-sustaining costs.

[8] - Balance sheet data presented as of 30 June 2017, 30 June 2016 & 31 December 2016, respectively.

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

[10]- For calculation of Net debt/adjusted EBITDA as of the end of the respective period,see the section Net debt.

Comments to highlights

1. In 1H 2017, the Company sold a total of 983 thousand ounces of gold, up 17% compared to the prior-year period on the back of higher gold production. Total gold sales include 71 thousand ounces of gold contained in the concentrate from Olimpiada.
2. Revenue totaled $1,234 million, compared to $1,082 million in 1H 2016, driven by an increase in sales volumes (including flotation concentrate).
3. The Group's TCC were almost flat at $379 per ounce, AISC increased to $610 per ounce, up 10% compared to the prior-year period, despite rouble strengthening by 17% during the same period, as it was largely offset by strong operational results and efficiency improvement initiatives.
4. Adjusted EBITDA amounted to $762 million, a 10% increase from the prior-year period, driven by higher gold sales volumes.
5. Adjusted EBITDA margin stood at 62%, compared to 64% in 1H 2016.
6. Profit for the period increased to $603 million partially reflecting the impact of one-off non-cash items, as well as a foreign exchange gain.
7. Adjusted net profit amounted to $475 million, a 17% increase from the prior-year period.
8. Net cash inflow from operations amounted to $550 million driven by strong EBITDA.
9. Capex was $322 million, a 73% increase from the prior-year period, primarily due to the further ramp-up of construction activity at Natalka. The Company anticipates commissioning of the Natalka operations by the end of 2017.
10. Cash and cash equivalents as of the end of 1H 2017 amounted to $1,477 million, compared to $1,740 million as of the end of 2016, following the placement of the $800 million Eurobond due 2023 and pre-payment of 50% of the $2.5 billion 2023 Sberbank credit facility.
11. Net debt declined to $3,084 million as of the end of 1H 2017 compared to $3,241 million as of the end of 2016. This primarily reflects the sale of the stake in the Nezhdaninskoye gold deposit, with $100 million paid upon the completion of the stake transfer, as well as free cash flow generation during the period.
12. Net debt/adjusted EBITDA ratio declined for the fourth consecutive quarter since the end of 1H 2016 and stood at 1.9x as of the end of 1H 2017.
13. On 30th June 2017, Polyus priced a Second Public Offering ("SPO") on the London Stock Exchange and the Moscow Exchange with the size of $858 million, which is equal to 9.7% of the share capital of the Company on a fully diluted basis, including the over-allotment option. The primary component amounted to $400 million.
14. In line with the existing dividend policy, Board of Directors recommended the Company's EGM to approve the dividend payment of RUB 104.3 per share for the six months ended 30 June 2017, which corresponds to 30% of EBITDA for the 1H 2017. The dividend is subject to approval by the Company's shareholders at the EGM that will be held on 15 September 2017. The dividend record date is 25 September 2017.

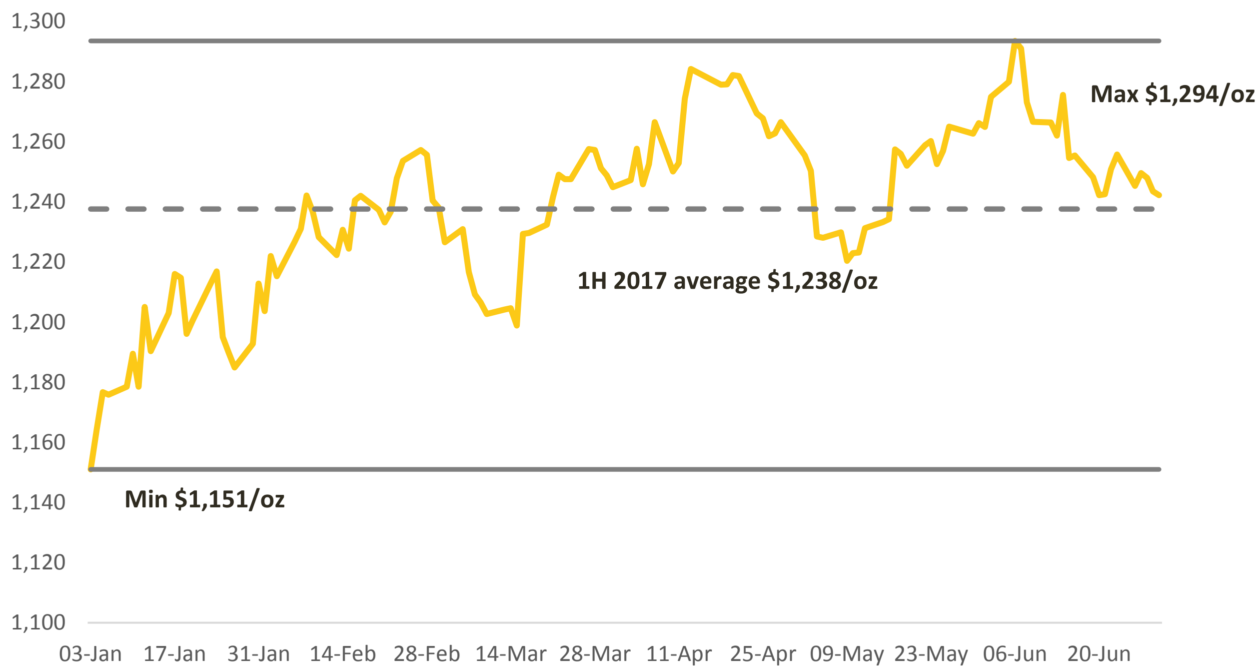
Review of external factors

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

Gold price dynamics

The market price of gold is a significant factor that influences the Group's profitability and operating cash flow generation. In 1H 2017, the average London Bullion Market Association (LBMA) gold price was $1,238 per ounce, 1% above the 1H 2016 average of $1,221 per ounce.

LBMA gold price dynamics in 1H 2017, $/oz

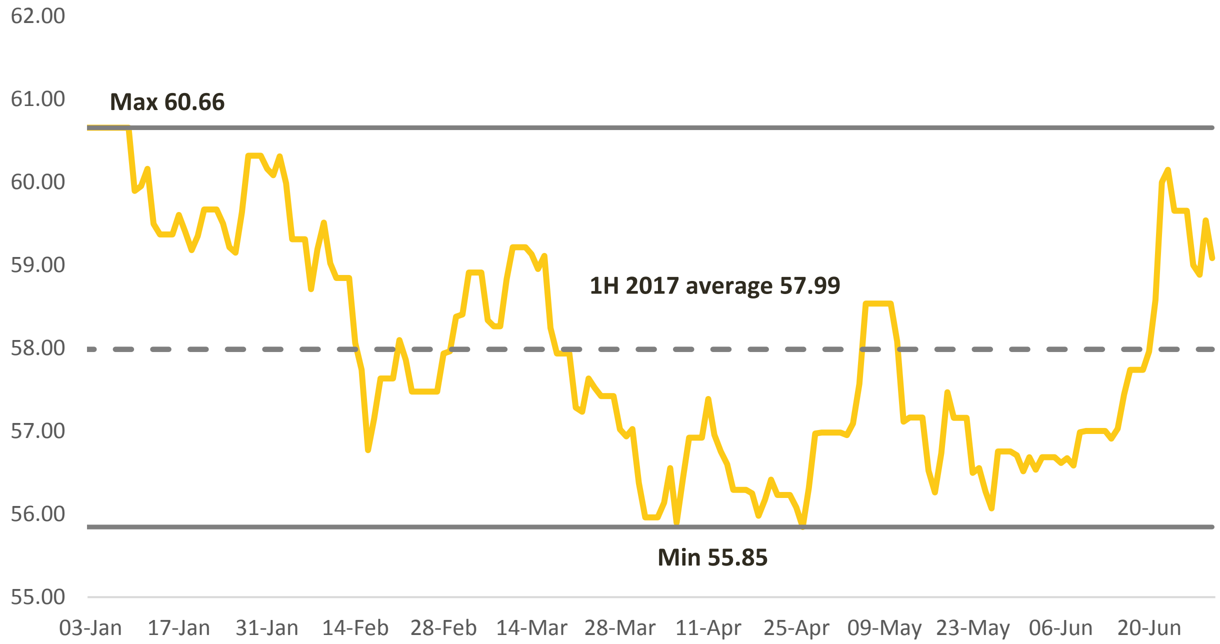


Source: London Bullion Market Association

Rouble exchange rate dynamics

The Group's revenue from gold sales is linked to the US dollar (USD), whereas most of the Group's operating expenses are denominated in Russian roubles (RUB). The strengthening of the RUB against the USD can negatively impact the Group's margins by increasing the USD value of its RUB-denominated costs, while a weaker RUB positively affects its margins as it reduces the USD value of the Group's RUB-denominated costs. In 1H 2017, the average USD/RUB exchange rate was 57.99, 17% appreciation from 70.26 in 1H 2016. As shown in the following section, the RUB appreciation negatively impacted the Group's operating margins in 1H 2017, due to the majority of its costs being RUB-denominated.

RUB/USD dynamics, 1H 2017



Source: The Central Bank of the Russian Federation

Inflationary trends

All of the Group's operations are located in Russia. The rouble-based annualized Russian Consumer Price Index (CPI), calculated by the Federal State Statistics Service, was at 4.4% in 1H 2017, compared to 7.5% in 1H 2016. Inflation increases production costs, thus negatively affecting the profitability of mining operations.

Financial review

Statement of profit or loss review

REVENUE ANALYSIS

	1H 2017	1H 2016	Y-o-Y	2Q 2017	2Q 2016	Y-o-Y
Gold sales (koz)	983	837	17%	496	437	14%
Average realised refined gold price (excluding effect of SPPP) ($/oz)	1,239	1,223	1%	1,261	1,257	0%
Average realised refined gold price (including effect of SPPP) ($/oz)	1,263	1,277	(1%)	1,268	1,292	(2%)
Average afternoon gold LBMA price fixing ($/oz)	1,238	1,221	1%	1,257	1,260	0%
Premium of average selling price (including effect of SPPP) over average LBMA price fixing ($/oz)	25	56	(55%)	11	32	(66%)
Gold sales ($ mln)	1,217	1,069	14%	617	564	9%
Other sales ($ mln)	17	13	31%	8	7	14%
Total revenue ($ mln)	**1,234**	**1,082**	**14%**	**625**	**571**	**9%**

In 1H 2017, the Group's revenue from gold sales amounted to $1,217 million, a 14% increase from the prior-year period, driven by higher gold sales volumes. The average realised refined gold price remained largely flat, at $1,263 per ounce, whilst gold sales totalled 983 thousand ounces, a 17% increase from the prior-year period. The average LBMA gold price remained largely flat during the period, at $1,238 per ounce. The Group's Strategic Price Protection Programme continued to support revenue generation, improving the 1H 2017 average selling price by $25 per ounce (compared to a premium of $56 per ounce in 1H 2016). The programme covered 430 thousand ounces of gold sold in 1H 2017 and generated $22 million.

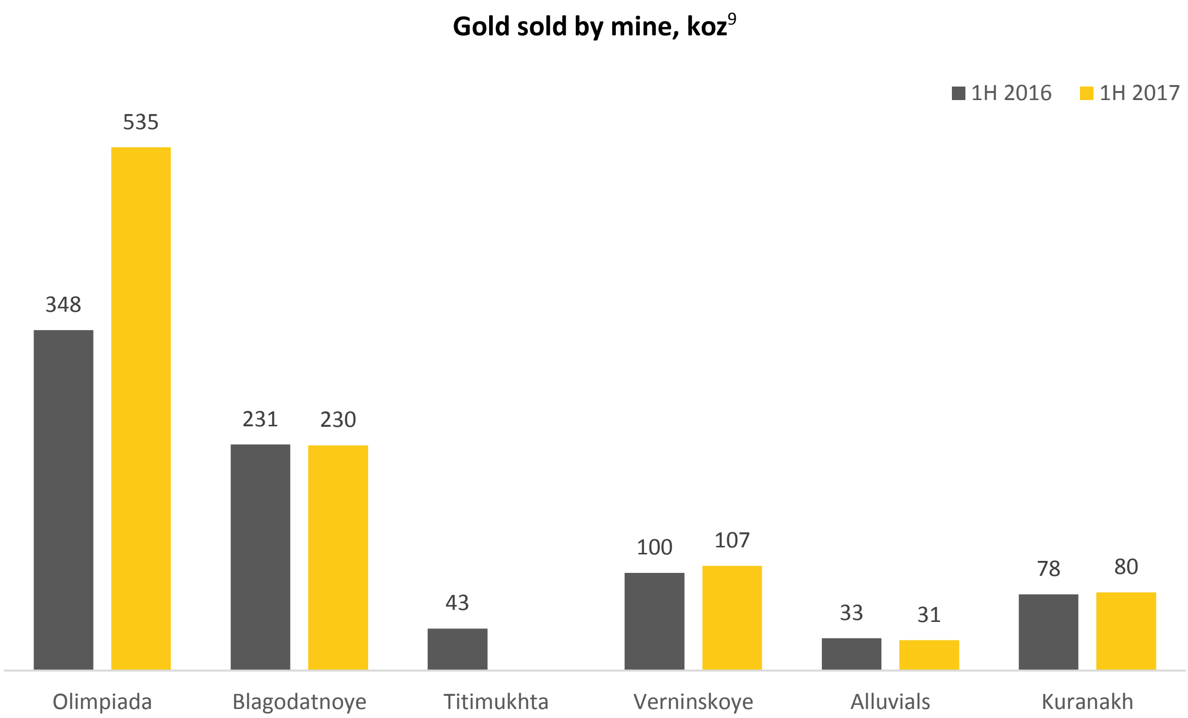
Following completion of the Mill-1 reconfiguration project in September 2016 to predominantly process sulphide ore from Olimpiada, mining activities have been downscaled at Titimukhta to the minimum level.

Revenue breakdown by mine, 1H 2017

Assets	1H 2017 ($ mln)			1H 2016 ($ mln)		
	Gold sales	Other sales	**Total sales**	Gold sales	Other sales	**Total sales**
Olimpiada	654	5	**659**	451	1	**452**
Blagodatnoye	292	-	**292**	299	-	**299**
Titimukhta	-	-	**-**	56	-	**56**
Verninskoye	133	1	**134**	121	1	**122**
Alluvials	39	2	**41**	42	2	**44**
Kuranakh	99	2	**101**	95	2	**97**
Other	-	7	**7**	5	7	**12**
Total	**1,217**	**17**	**1,234**	**1,069**	**13**	**1,082**

Revenue breakdown by mine, 2Q 2017

Assets	2Q 2017 ($ mln)			2Q 2016 ($ mln)		
	Gold sales	Other sales	**Total sales**	Gold sales	Other sales	**Total sales**
Olimpiada	327	2	**329**	237	-	**237**
Blagodatnoye	134	-	**134**	158	-	**158**
Titimukhta	-	-	**-**	16	-	**16**
Verninskoye	68	1	**69**	59	-	**59**
Alluvials	39	1	**40**	41	1	**42**
Kuranakh	49	1	**50**	50	1	**51**
Other	–	3	**3**	3	5	**8**
Total	**617**	**8**	**625**	**564**	**7**	**571**



CASH COSTS ANALYSIS

Cost of sales breakdown

$ mln	1H 2017	1H 2016	Y-o-Y	2Q 2017	2Q 2016	Y-o-Y
Cash operating costs	**368**	**332**	**11%**	**203**	**184**	**10%**
Depreciation and amortisation of operating assets	85	65	31%	45	36	25%
Total cost of production	**453**	**397**	**14%**	**248**	**220**	**13%**
Increase in gold-in-process and refined gold inventories	2	(18)	N.A.	(18)	(14)	29%
Cost of gold sales	**455**	**379**	**20%**	**230**	**206**	**12%**

[9] Sales volumes in 1H 2016 exclude 4.3 thousand ounces of refined gold produced at Poputninskoye deposit.

During 1H 2017, the Group's cash operating costs increased 11% compared to the prior-year period, to $368 million, primarily due to local currency appreciation by 17% during the same period. Importantly, in rouble terms, the Company achieved a reduction in operational expenses (excluding the local Mineral Extraction Tax ("MET")). This improvement was further supported by the ceasing of higher cost Veduga ore processing. The Company remains focused on operational optimization and improving efficiency.

Cash operating costs – breakdown by item

$ mln	1H 2017	1H 2016	Y-o-Y	2Q 2017	2Q 2016	Y-o-Y
Consumables and spares	102	112	(9%)	53	61	(13%)
Labour	125	96	30%	72	54	33%
Mineral Extraction Tax ('MET')	66	60	10%	37	34	9%
Fuel	32	32	-	16	18	(11%)
Power	17	12	42%	10	6	67%
Outsourced mining services	1	4	(75%)	1	2	(50%)
Other	25	16	56%	14	9	56%
Total	**368**	**332**	**11%**	**203**	**184**	**10%**

Consumables and spares expenses decreased 9% compared to the prior-year period, accounting for 28% of cash operating costs, despite increased production leading to higher consumption of cyanide, sulfuric acid and other chemical agents. This primarily reflects lower maintenance expenses as well as a decline in ore input costs at Olimpiada, where the Company has ceased higher cost Veduga ore processing (in 1H 2016 Polyus treated 242 kt of ore from Veduga).

Labour expenses increased 30% compared to the prior-year period and accounted for 34% of total cash operating costs. The growth is partially attributable to local currency appreciation as all of the Group's labour costs are rouble denominated. Annual salary indexation as well as expected increase in headcount as the Company accelerated hiring process for the Natalka operations weighed additional pressure.

MET expenses (18% of cash operating costs) increased 10% compared to the prior-year period primarily due to a 12% growth in production volumes during the same period, with the average realised gold price (excluding effect of the SPPP) remaining largely unchainged.

Fuel costs remained flat as the negative impact from rouble appreciation was fully offset by lower transportation costs at Olimpiada. The completion of the Vostochny pit Stage 3 cutback has shortened the transport route resulting in reduced diesel fuel consumption.

Due to a strengthening local currency and the annual tariff indexation, the Group's power costs increased 42% compared to the prior-year period.

Other costs increased 56% compared to the prior-year period largely due to higher transportation expenses.

Cash operating costs – breakdown by key business units[10], 1H 2017

$ mln	Krasnoyarsk		Verninskoye		Alluvials		Kuranakh	
	1H 2017	1H 2016	1H 2017	1H 2016	1H 2017	1H 2016	1H 2017	1H 2016
Consumables and spares	72	87	14	16	4	5	11	9
Labour	59	48	18	13	12	9	17	12
MET	57	42	-	6	3	3	6	6
Fuel	15	15	3	5	4	4	6	5
Power	11	9	2	1	2	1	5	3
Outsourced mining services	-	-	-	-	1	2	-	-
Other	45	35	6	2	3	2	4	1
Total	**259**	**236**	**43**	**43**	**29**	**26**	**49**	**36**

Cash operating costs – breakdown by key business units[13], 2Q 2017

$ mln	Krasnoyarsk		Verninskoye		Alluvials		Kuranakh	
	2Q 2017	2Q 2016	2Q 2017	2Q 2016	2Q 2017	2Q 2016	2Q 2017	2Q 2016
Consumables and spares	35	46	8	9	4	5	6	5
Labour	32	26	9	7	12	9	9	6
MET	31	22	-	3	3	3	3	3
Fuel	7	8	1	3	4	4	3	2
Power	5	5	1	-	2	1	2	2
Outsourced mining services	-	-	-	-	1	2	-	-
Other	22	17	4	-	3	2	2	1
Total	**132**	**124**	**23**	**22**	**29**	**26**	**25**	**19**

TOTAL CASH COSTS (TCC)

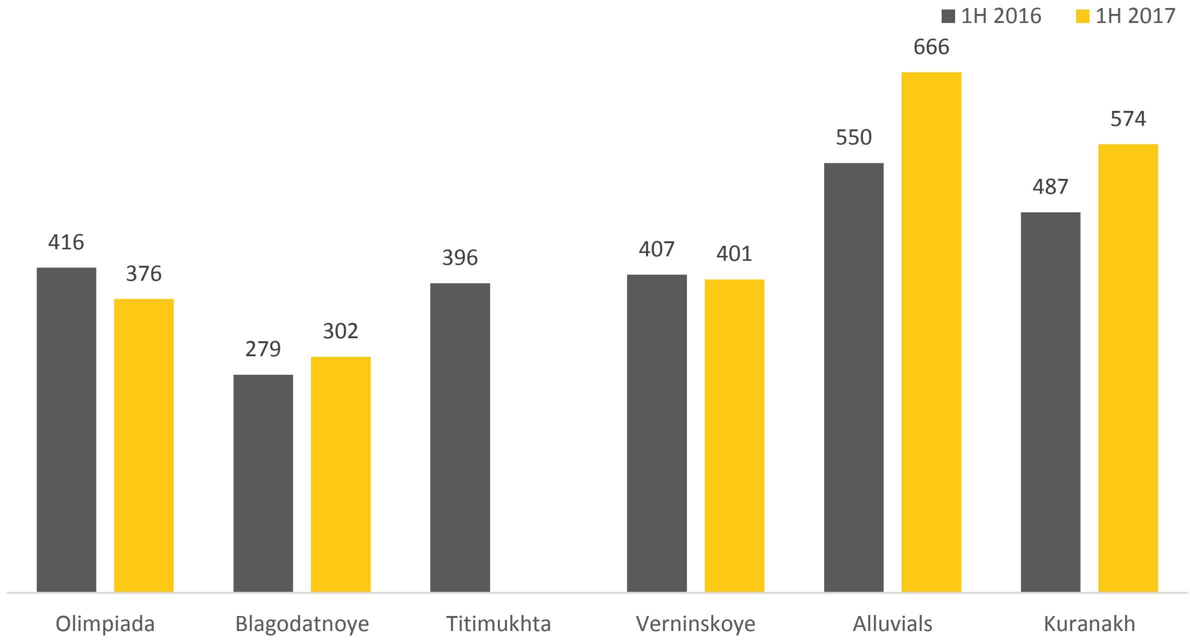
TCC calculation

$ mln	1H 2017	1H 2016	Y-o-Y	2Q 2017	2Q 2016	Y-o-Y
Cost of gold sales	**455**	**379**	**20%**	**230**	**206**	**12%**
– property, plant and equipment depreciation	(85)	(65)	31%	(45)	(36)	25%
– provision for annual vacation payment	(5)	-	N.A.	(2)	-	N.A.
– employee benefit obligations cost	1	(1)	N.A.	1	-	N.A.
– change in allowance for obsolescence of inventory	-	-	N.A.	(1)	-	N.A.
+ non-monetary changes in inventories	7	3	N.A.	5	3	N.A.
TCC	**373**	**316**	**18%**	**188**	**173**	**9%**
Gold sold (koz)	983	837	17%	496	437	14%
TCC per ounce sold ($/oz)	**379**	**377**	**1%**	**379**	**395**	**(4%)**

Group TCC remained largely flat, at $379 per ounce, despite local currency strengthening 17% compared to the same period last year. The latter was fully offset by strong operational results during the period, with a higher grade in ore processed at Olimpiada and increased hourly throughput at Blagodatnoye, Verninskoye and Kuranakh, as well as other initiatives to improve operational efficiency.

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

TCC performance by mine, $/oz



TCC at Olimpiada declined to $376 per ounce, a 10% decrease from the prior-year period, in spite of rouble appreciation. This reduction was mainly attributable to higher average grades in ore processed (3.65 grams per tonne in 1H 2017 compared to 2.96 grams per tonne in 1H 2016), the cessation of higher cost Veduga ore processing and improved performance of Mill-1 and Mill-3.

At Blagodatnoye, TCC amounted to $302 per ounce, up 8% compared to the prior-year period, due to local currency appreciation. This was partially offset by an increase in Mill throughput capacity, processing of lower cost stockpiled ore, and lower maintenance expenses.

TCC at Verninskoye remained largely flat at $401 per ounce. This was supported by operational improvements, including a gradual increase in hourly throughput and recoveries following improvements at the flotation, sorption and cyanidation circuits.

At Kuranakh, TCC increased 18% compared to the prior-year period, to $574 per ounce, as a result of rouble strengthening. The negative impact of the annual electricity tariff indexation, a decline in average grades in ore processed as well as higher fuel and reagent costs were fully mitigated by improved hourly throughput level owing to increased productivity of the grinding equipment and reduction of the feed ore cost per tonne.

TCC at Alluvials increased to $666 per ounce, compared to $550 per ounce in 1H 2016, due to a decline in alluvial gold grade (0.53 grams per tonne in 1H 2017 compared to 0.65 grams per tonne in 1H 2016) and increased labour costs due to salary indexation.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

The Group's selling, general, and administrative ("SG&A") expenses amounted to $92 million, a 46% increase from the prior-year period, mainly due to rouble appreciation, an increase in labour costs with the recognition of expenses under the long-term incentive program ("LTIP") and salary indexation, as well as growth in distribution expenses relating to flotation concentrate sales.

The BIO-4 project is expected to be launched at Olimpiada by the end of 2017.

SG&A breakdown by item

$ mln	1H 2017	1H 2016	Y-o-Y	2Q 2017	2Q 2016	Y-o-Y
Salaries	61	45	36%	34	19	79%
Distribution expenses related to gold-bearing products	6	-	N.A.	2	-	N.A.
Taxes other than mining and income taxes	6	5	20%	3	2	50%
Professional services	6	5	20%	4	3	33%
Amortisation and depreciation	3	2	50%	2	1	100%
Other	10	6	67%	5	4	25%
Total	**92**	**63**	**46%**	**50**	**29**	**72%**

ALL-IN SUSTAINING COSTS (AISC)

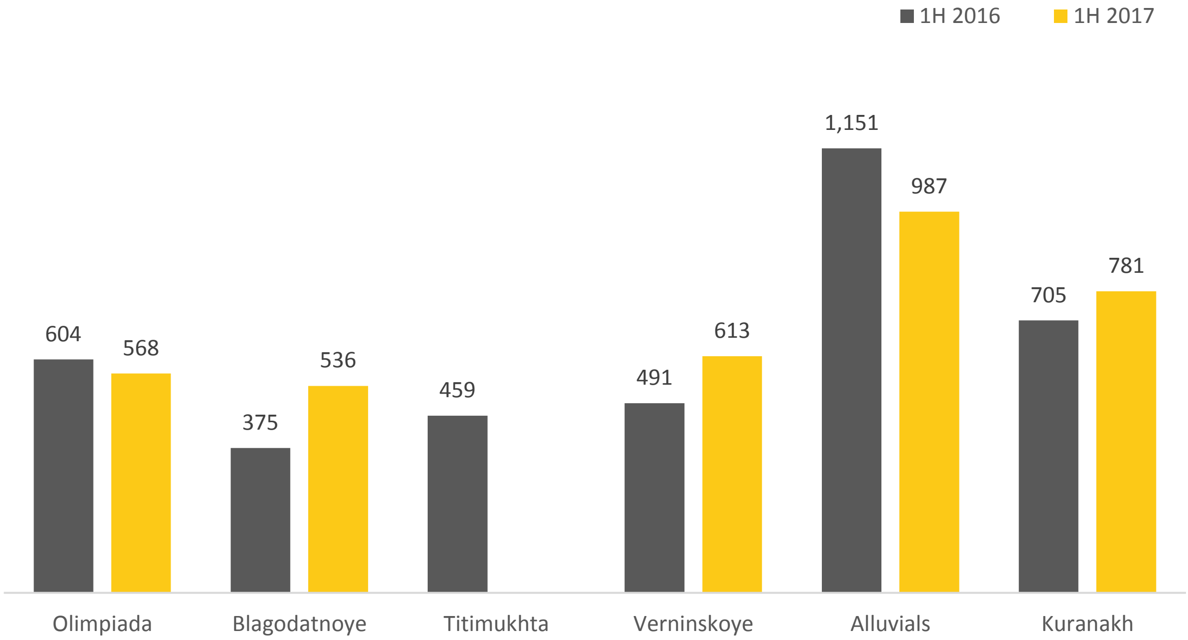
In 1H 2017, the Group's AISC per ounce increased to $610 per ounce, up 10% compared to the prior-year period. This growth was primarily driven by higher SG&A expenses and increased stripping expenses.

All-in sustaining costs calculation

$ mln	1H 2017	1H 2016	Y-o-Y	2Q 2017	2Q 2016	Y-o-Y
Total TCC	**373**	**316**	**18%**	**188**	**173**	**9%**
+ selling, general and administrative expenses	92	63	46%	50	29	72%
- amortisation and depreciation	(3)	(2)	50%	(2)	(1)	100%
+ stripping activity asset additions	73	30	143%	38	13	192%
+ sustaining capital expenditure	60	56	7%	38	34	12%
+ unwinding of discounts on decommissioning liabilities	2	1	100%	2	-	N.A.
adding back expenses excluded from cost of gold sales						
+ provision for annual vacation payment	5	-	N.A.	2	-	N.A.
+ employee benefit obligations cost	(1)	1	N.A.	(1)	-	N.A.
+ change in allowance for obsolescence of inventory	-	-	N.A.	1	-	N.A.
Total all-in sustaining costs	**601**	**465**	**29%**	**316**	**248**	**27%**
Gold sold (koz)	983	837	17%	496	437	14%
All-in-sustaining cost ($/oz)	**610**	**555**	**10%**	**634**	**566**	**12%**

At individual mines, AISC trended in line with TCC per ounce performance at Olimpiada declining to $568 per ounce in 1H 2017. At Blagodatnoye AISC increased to $536 per ounce as a result of a planned increase in stripping activity (rock moved volumes rose 54% during the same period). Verninskoye posted a 25% increase in AISC from the prior-year period attributable to higher SG&A expenses and sustaining capital expenditure. At Kuranakh, AISC increased to $781 per ounce driven by both higher TCC and SG&A.

All-in sustaining costs by mine, $/oz



ADJUSTED EBITDA

Increased production driven by higher ore processing volumes at all the Group's hard rock mining assets as well as higher average grades in ore processed at Olimpiada were the key contributing factors to the 10% rise in the Group's adjusted EBITDA from the prior-year period, as TCC remained largely flat in 1H 2017 compared to the prior-year period. This performance was further supported by the continued focus on improving operational efficiency and cost control.

Adjusted EBITDA growth was predominantly driven by Olimpiada, which achieved double digit growth in gold sales volumes (including sales of flotation concentrate). Olimpiada represents 54% of the Group's adjusted EBITDA for the reporting period.

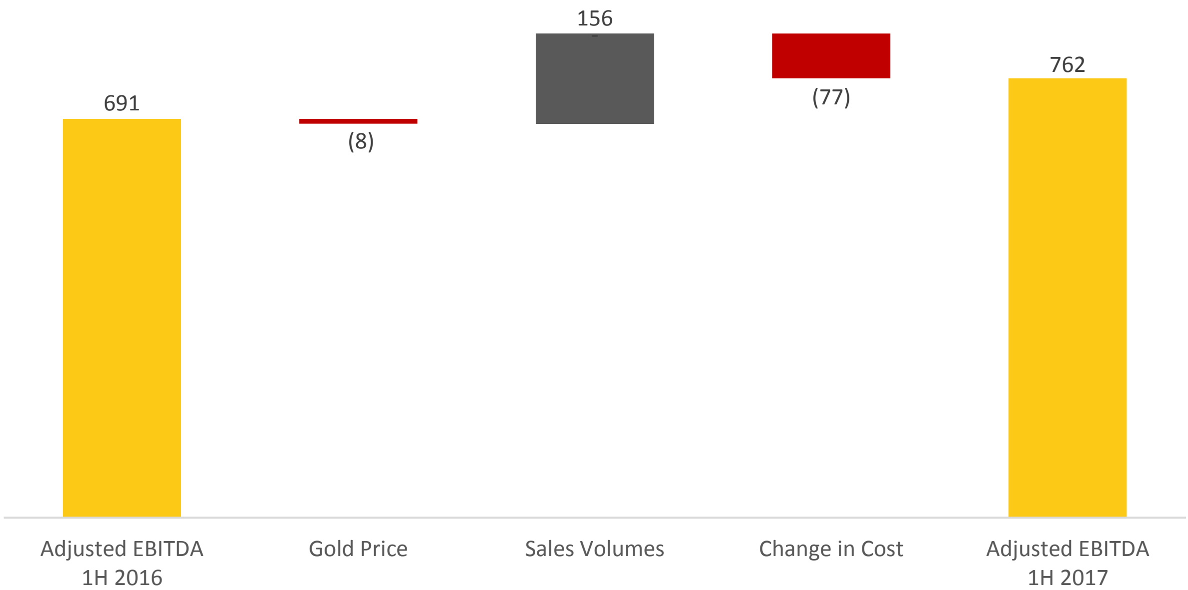
The adjusted EBITDA margin stood at 62%, remaining one of the highest among mining companies globally.

The Company's EBITDA is adjusted for significant charitable contributions, which reflect the Company's charitable activity as part of its social responsibility obligations. This includes $11 million donated to Sochi-based "Sirius" Educational Center for gifted children. The Center is focused on educational programs for children who have shown outstanding abilities in the field of arts, sports and natural science disciplines and was founded in 2015.

Adjusted EBITDA calculation

$ mln	1H 2017	1H 2016	Y-o-Y	2Q 2017	2Q 2016	Y-o-Y
Profit for the period	**603**	**499**	**21%**	**104**	**205**	**(49%)**
Income tax expense	97	179	(46%)	20	96	(79%)
Depreciation and amortisation	82	66	24%	43	36	19%
(Gain) / loss on derivative financial instruments and investments, net	(68)	142	N.A.	40	129	(69%)
Finance costs, net	108	73	48%	45	41	10%
Equity-settled share-based payment plans	7	6	17%	0	3	(100%)
Foreign exchange gain, net	(69)	(257)	(73%)	121	(141)	N.A.
Interest income	(17)	(18)	(6%)	(6)	(10)	(40%)
Impairment/(reversal of impairment)	6	(1)	N.A.	6	-	N.A.
Other	13	2	N.A.	6	2	N.A.
Adjusted EBITDA	**762**	**691**	**10%**	**379**	**361**	**5%**
Total revenue	1,234	1,082	14%	625	571	9%
Adjusted EBITDA margin (%)	**62%**	**64%**	**(2) ppts**	**61%**	**63%**	**(2) ppts**

Adjusted EBITDA bridge, $ mln



Adjusted EBITDA breakdown by mine, $ mln

$ mln	1H 2017	1H 2016	Y-o-Y	2Q 2017	2Q 2016	Y-o-Y
Olimpiada	410	286	43%	216	146	48%
Blagodatnoye	207	222	(7%)	87	119	(27%)
Titimukhta	-	36	(100%)	-	9	(100%)
Verninskoye	78	74	5%	40	35	14%
Alluvials	9	13	(31%)	9	17	(47%)
Kuranakh	49	54	(9%)	23	28	(18%)
Other	9	6	50%	4	7	(43%)
Total	**762**	**691**	**10%**	**379**	**361**	**5%**

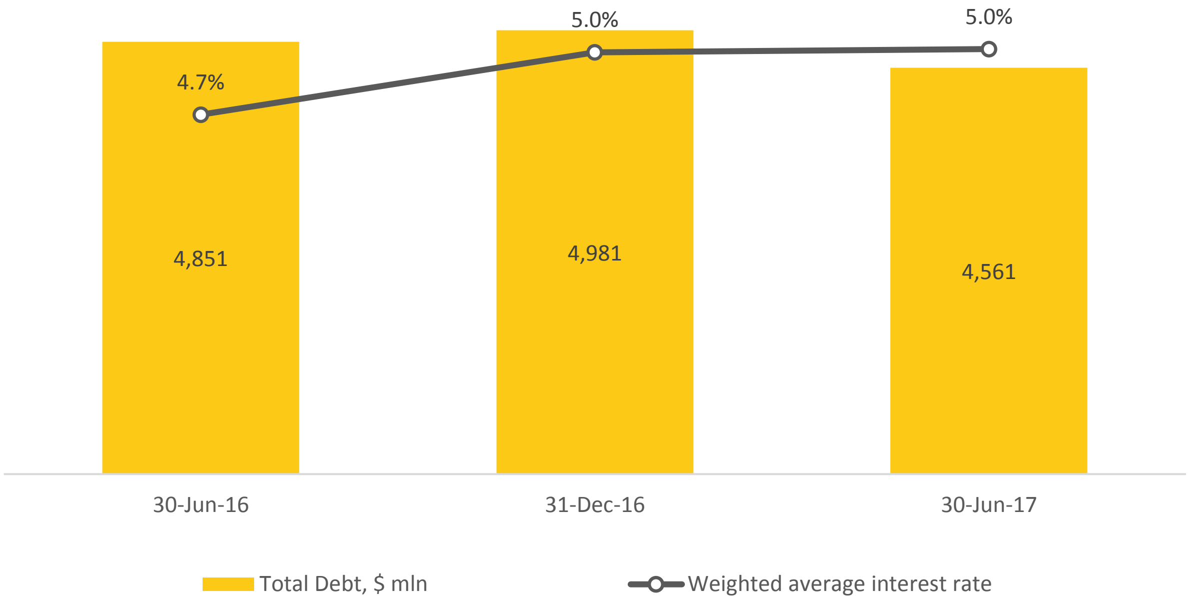
FINANCE COST ANALYSIS

$ mln	1H 2017	1H 2016	Y-o-Y	2Q 2017	2Q 2016	Y-o-Y
Interest on borrowings	165	116	42%	78	73	7%
Write-off of unamortised debt costs due to early extinguishment of debt	11	15	(27%)	-	-	N.A.
Unwinding of discounts	5	2	N.A.	3	1	N.A.
Gain on exchange of interest payments under cross currency swap	(17)	(16)	6%	(8)	(10)	(20%)
Sub-total finance cost	**164**	**117**	**40%**	**73**	**64**	**14%**
Interest included in the cost of qualifying assets	(56)	(44)	27%	(28)	(23)	22%
Total finance cost expensed	**108**	**73**	**48%**	**45**	**41**	**10%**

The Group's total finance costs in 1H 2017 amounted to $108 million, compared to $73 million in 1H 2016. Interest capitalisation relating to the Natalka development project, where construction works are ongoing, continued. Capitalised interest primarily relating to Natalka and Sukhoi Log amounted to $56 million, compared to $44 million in 1H 2016.

Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps), totalled $148 million in 1H 2017. As of 30 June 2017, the share of debt instruments with floating interest rate declined to 30% (compared to 52% as of 31 December 2016).

Weighted average interest rate dynamics[14]



Foreign exchange gain and derivatives

The Group's foreign exchange gain in 1H 2017 amounted to $69 million, as compared to $257 million gain in 1H 2016, which reflects the revaluation of USD-denominated bank deposits and USD-denominated liabilities as of the end of 30 June 2017 due to FX rate fluctuation.

Valuation and hedge accounting of derivative financial instruments as of 30 June 2017

$ mln	Asset	Liability	Fair value recorded in the statement of financial position	Profit & loss (expenses)/ income	Other compre-hensive loss
Revenue stabiliser	1	(57)	(56)	(37)	(15)
Cross-currency swaps	16	(415)	(399)	53	-
Interest rate swaps	6	-	6	(1)	-
Total	**23**	**(472)**	**(449)**	**15**	**(15)**

Revenue stabiliser[15]

During the six months ended 30 June 2017, there were no changes in the revenue stabiliser option agreements. Scheduled exercise of the options in 1H 2017 resulted in the $22 million realised gains on derivatives included within gold sales ($45 million realized gains for 1H 2016).

On 30 June 2017, following the release of all amounts previously recognised in the condensed consolidated interim statement of comprehensive income into the condensed consolidated interim statement of profit and loss within Gold sales line, the hedges for Tranches 1 and 2 were de-designated and hedge accounting in terms of IAS 39 no longer applies.

[14] Weighted average interest rate is calculated as of the end of the period.
[15] For additional information on revenue stabiliser, see Note 10 of the condensed consolidated interim financial statements.

Starting from 1 July 2017 remaining outstanding options of the Tranches 1 and 2 will be accounted at fair value through profit and loss.

Tranches 3 and 4 continue to be accounted at fair value through profit and loss.

Cross-currency and interest rate swaps[16]

In 1H 2017, the overall positive effect from cross-currency and interest rate swaps on finance cost amounted to $17 million. This was recorded within note 7 of the condensed consolidated interim financial statement as a realised gain on the exchange of interest payments under interest rate and cross currency swaps.

PROFIT BEFORE TAX & INCOME TAXES

In 1H 2017, profit before tax slightly increased to $700 million partially driven by a gain on derivative financial instruments and investments (including a gain on disposal of Nezhdaninskoye deposit) as opposed to a loss in 1H 2016. Meanwhile, income tax totalled $97 million, down 46% from the prior-year period, resulting in an effective income tax rate of 14%. The latter primarily reflects an adjustment related to revaluation of derivatives.

NET PROFIT

In 1H 2017, net profit totalled $603 million, compared to $499 million in 1H 2016. Except for higher operating profit, this partially reflects an impact of non-cash items on both profit before tax and income tax expenses as described above. Specifically, in 1H 2017 profit before tax was positively impacted by gain on derivative financial instruments and investments (as opposed to loss in 1H 2016), which are not subject to tax. Adjusting for these items (see the reconciliation below) and notwithstanding the higher interest expense, the Group's adjusted net profit for 1H 2017 amounted to $475 million, a 17% increase from the prior-year period.

Adjusted net profit calculation

$ mln	1H 2017	1H 2016	Y-o-Y	2Q 2017	2Q 2016	Y-o-Y
Net profit for the period	**603**	**499**	**21%**	**104**	**205**	**(49%)**
- impairment/(reversal of impairment)	6	(1)	N.A.	6	-	N.A.
+ (gain) / loss on derivative financial instruments and investments, net	(68)	142	N.A.	40	129	(69%)
- foreign exchange gain, net	(69)	(257)	(73%)	121	(141)	N.A.
+ deferred income tax related to derivatives	3	22	(86%)	1	11	(91%)
Adjusted net profit	**475**	**405**	**17%**	**272**	**204**	**33%**
Total revenue	1,234	1,082	14%	625	571	9%
Adjusted net profit margin	**38%**	**37%**	**1 ppts**	**44%**	**36%**	**8 ppts**

[16] For additional information on cross-currency and interest rate swaps, see Note 8 and 10 of the condensed consolidated interim financial statements.

Statement of financial position review

DEBT

As of 30 June 2017, the Group's gross debt amounted to $4,561 million, down 8% compared to $4,981 million at the end of 2016.

In 1H 2017, Polyus continued to pro-actively manage its debt portfolio and returned to the debt capital markets for a second time in the past nine months. On 7 February 2017, Polyus Gold International Limited issued $800 million notes due 7 February 2023 with a coupon of 5.250% per annum[17]. Polyus' strong liquidity position, combined with the proceeds from the Eurobond placement, enabled the Company to make an early repayment of 50% of the $2.5 billion loan from Sberbank due in 2023.

The above initiatives resulted in a sharp increase of public debt instruments, within the Company's debt portfolio, to 50% from 30% as of the end of FY 2016.

In addition, on 30 June 2017, the Company priced its Offering on the London Stock Exchange and the Moscow Exchange with the size of $858 million, which is equal to 9.7% of the share capital of the Company on a fully diluted basis, including the over-allotment option. The primary component of the Offering amounted to $400 million. The Company recognised the proceeds from the Offering as accounts receivable as of 30 June 2017.

Debt breakdown by type[18]

$ mln	1H 2017	2016	1H 2016
Eurobonds	2,029	1,237	750
RUB bonds	259	253	155
Deferred payments under letters of credit	10	19	29
Finance lease	15	6	5
Bank loans	2,248	3,466	3,912
Total	**4,561**	**4,981**	**4,851**

With regard to currency, the Group's debt portfolio remains weighted toward USD denominated instruments. This percentage decreased slightly to 80% as of 30 June 2017 (a 2 ppts decline compared to the structure as of 31 December 2016). The increase in the RUB denominated component was largely a result of the Company's decision to partially prepay a 7-year USD denominated credit facility with Sberbank.

Debt breakdown by currency[19]

	1H 2017		2016		1H 2016	
	$ mln	% of total	$ mln	% of total	$ mln	% of total
EUR	3	-	6	-	10	-
RUB	902	20%	876	18%	716	15%
USD	3,656	80%	4,099	82%	4,125	85%
Total	**4,561**		**4,981**		**4,851**	

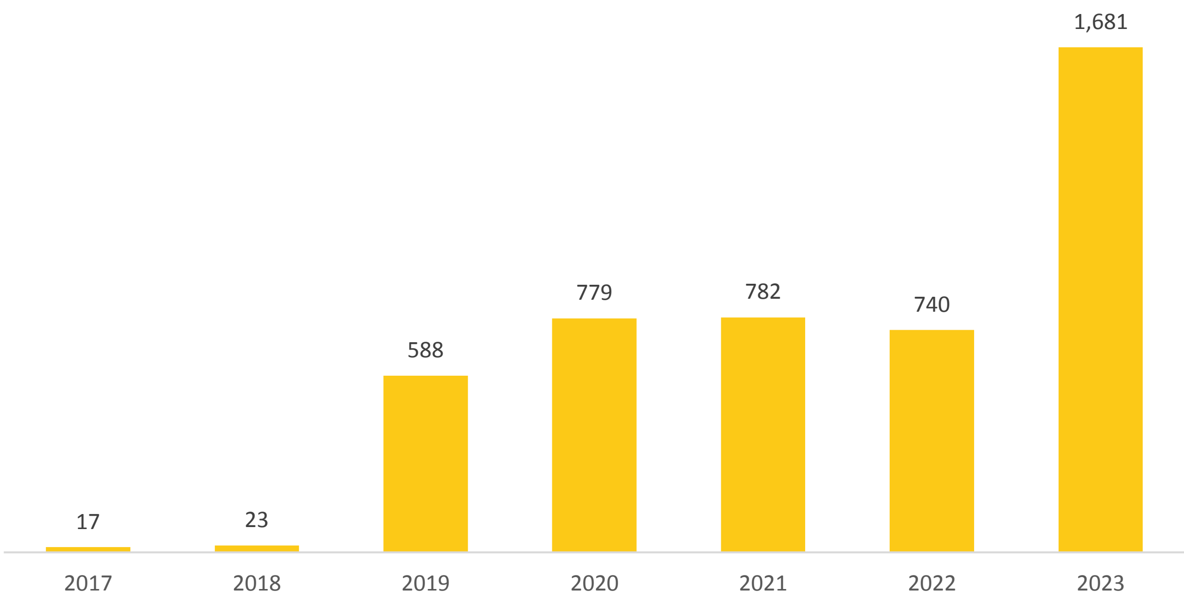
[17] By the end of 1H 2017, Notes due in 2020, 2022 and 2023 in the total amount of $2,050 million were transferred from PGIL to Polyus Finance Plc, a 100% subsidiary of JSC Polyus Krasnoyarsk. Accordingly, the liabilities for the same amounts under the loans from PGIL to JSC Polyus Krasnoyarsk were transferred from PGIL to Polyus Finance Plc. For additional information on Eurobonds transfer, see Note 15 of the condensed consolidated interim financial statements.

[18] Debt breakdown by type presented as of 30 June 2017, 31 December 2016 & 30 June 2016, respectively.

[19] Debt breakdown by currency presented as of 30 June 2017, 31 December 2016 & 30 June 2016, respectively.

The RUB36 billion credit facility from Sberbank is due in 2019 and the $750 million Eurobond issue is due in 2020. The majority of the maturities due during or after 2021 comprise the $1.25 billion 2023 Sberbank loan along with two Eurobond issues ($500 million due in 2022 and $800 million due in 2023). Existing cash balances cover all principal debt repayments up to 2020. Debt maturities in 2017-2018 amount to $40 million.

Debt maturity schedule[20], $ mln



CASH AND CASH EQUIVALENTS AND BANK DEPOSITS

The Group's cash and cash equivalents and bank deposits totaled $1,477 million, down 15% from the end of 2016. The decrease in cash and cash equivalents was due to a 50% pre-payment of the $2.5 billion 2023 Sberbank loan using both cash on balance and proceeds from the $800 million Eurobond due 2023.

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

Cash, cash equivalents, and bank deposits breakdown by currency

$ mln	1H 2017	2016	1H 2016
RUB	151	238	92
USD	1,326	1,502	1,290
Total	**1,477**	**1,740**	**1,382**

NET DEBT

By the end of 1H 2017, the Group's net debt stood at $3,084 million, down 5% from $3,241 million as of 31 December 2016. This reflects the sale of the stake in the Nezhdaninskoye gold deposit, with $100 million paid upon the completion of the stake transfer.

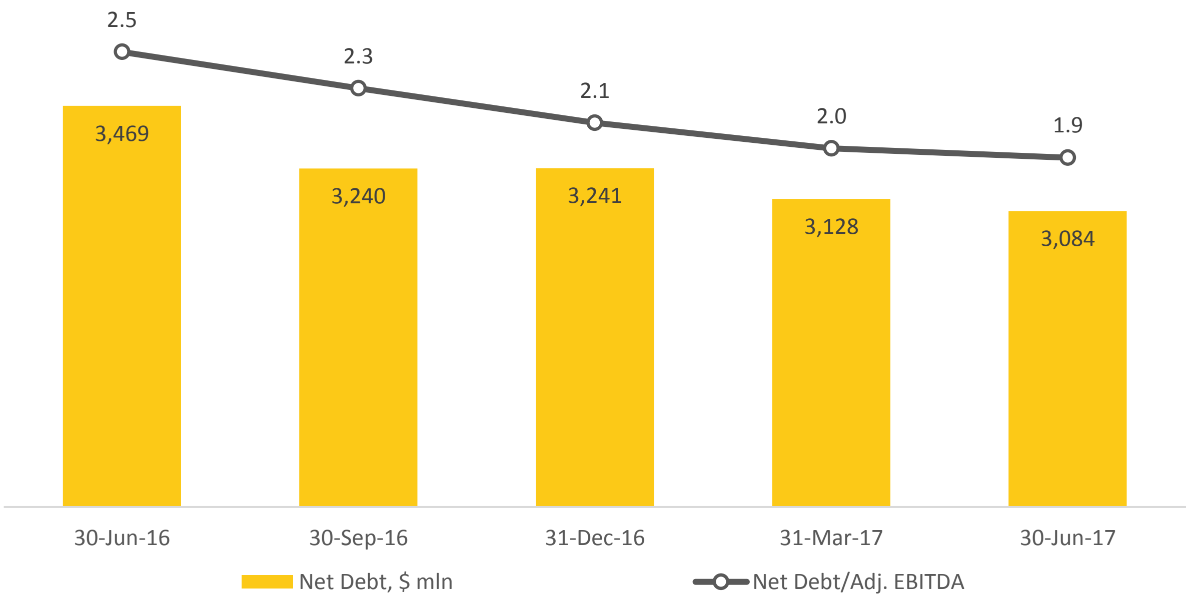
[20] The breakdown is based on actual maturities and excludes $49 million of non-cash IFRS adjustments.

Net debt calculation

$ mln	1H 2017	2016	1H 2016
Non-current borrowings	4,532	4,698	4,713
+ Current borrowings	29	283	138
– Cash and cash equivalents	(1,477)	(1,740)	(1,382)
Net debt	**3,084**	**3,241**	**3,469**

The net debt/adjusted EBITDA ratio as of 30 June 2017 decreased to 1.9x, compared to 2.1x as of the end of 2016, due to both the decrease in net debt and the adjusted EBITDA expansion for the last 12 months. This is the fourth consecutive quarter of the net debt/adjusted EBITDA ratio reduction.

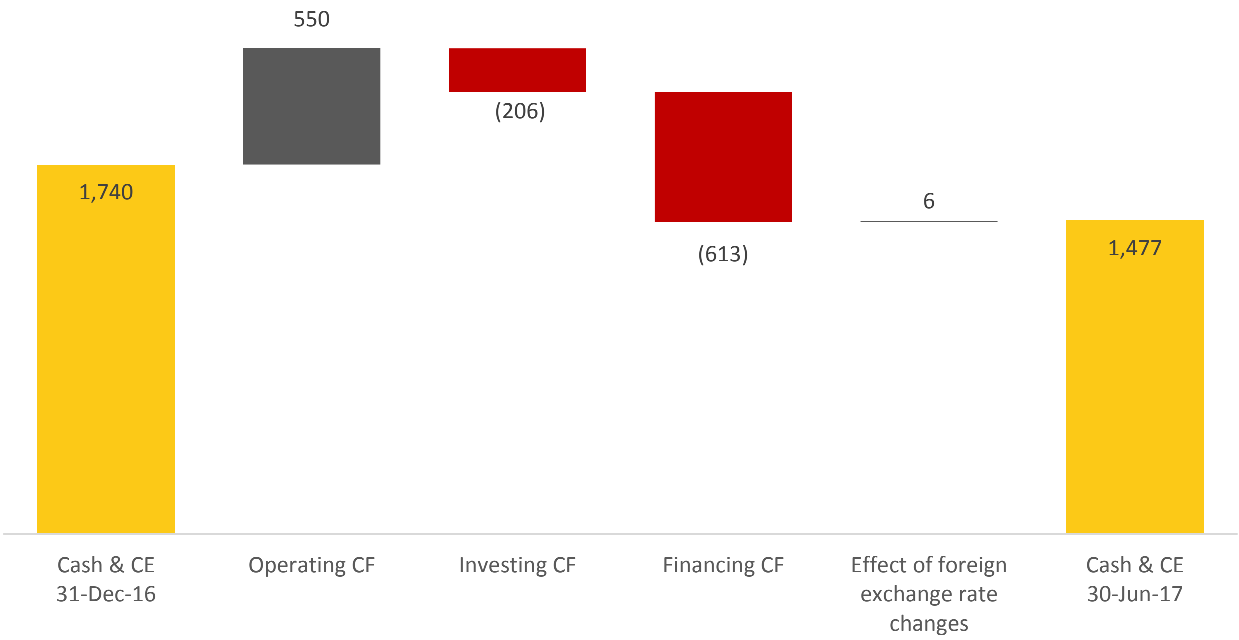
Net debt and net debt/adjusted EBITDA (last 12 months)[21] ratio



[21] Net debt to Adjusted EBITDA ratio is calculated as net debt as of the end of the relevant period divided by Adjusted EBITDA for the relevant period. For the purposes of the net debt to Adjusted EBITDA ratio as of 30 June 2017, Adjusted EBITDA is calculated as the trailing twelve months ended on 30 June 2017 (being Adjusted EBITDA for 2016 less Adjusted EBITDA for the six months ended 30 June 2016 plus Adjusted EBITDA for the six months ended 30 June 2017). For the purposes of the net debt to Adjusted EBITDA ratio as of 31 March 2017, Adjusted EBITDA is calculated as the trailing twelve months ended on 31 March 2017 (being Adjusted EBITDA for 2016 less Adjusted EBITDA for the three months ended 31 March 2016 plus Adjusted EBITDA for the three months ended 31 March 2017). For the purposes of the net debt to Adjusted EBITDA ratio as of 30 September 2016, Adjusted EBITDA is calculated as the trailing twelve months ended on 30 September 2016 (being Adjusted EBITDA for 2015 less Adjusted EBITDA for the nine months ended 30 September 2015 plus Adjusted EBITDA for the nine months ended 30 September 2016). For the purposes of the net debt to Adjusted EBITDA ratio as of 30 June 2016, Adjusted EBITDA is calculated as the trailing 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).

Statement of cash flows review

Cash flow bridge, $ mln



In 1H 2017, net operating cash flow increased to $550 million, compared to $479 million in 1H2016. Due to higher capex spending in 1H 2017, the Company posted cash outflow on investing activities at $206 million (positively impacted with proceeds from the Nezhdaninskoye deposit divestment) as opposed to $13 million of cash inflow in 1H 2016. Net financing cash outflow totaled $613 million, reflecting the 50% pre-payment of the $2.5 billion Sberbank credit facility partially financed via the $800 million Eurobond due 2023 issued in February 2017 and interest paid in amount of $163 million. All of the above drove the decline in cash and cash equivalents to $1,477 million as of 30 June 2017.

OPERATING CASH FLOW

In 1H 2017, the Group generated operational cash flow of $550 million driven by strong EBITDA. In the meantime, operating cash flow was negatively impacted by a working capital outflow totaling $42 million. This reflects the capitalization of seasonal expenses at Alluvials in 1H 2017, the accumulation of ore stockpiles at Natalka and Kuranakh, the advanced purchase of diesel fuel and spare parts at Kuranakh and Alluvials, as well as the net effect from VAT related items (including settlement of VAT payable), which were partially offset by the settlement of accounts receivable related to supply of flotation concentrate to the third parties.

INVESTING CASH FLOW

In 1H 2017, capital expenditures rose to $322 million, from $186 million in 1H 2016. The increase reflects higher maintenance capital expenditures as well as the ongoing construction works at Natalka and brownfield development projects.

Natalka, the Group's main development project, saw a 118% growth in capital expenditures in 1H 2017, to $179 million. Construction works at Natalka are progressing well with early pre-commissioning already well advanced. In June 2017, the total construction personnel headcount was approximately 840, including contractors and the Group's employees. The primary crusher, the main SAG mill, and the main ball mill have completed a successful trial run. Polyus has finalised delivery of all processing equipment.

The installation of all gravity concentrators and electrowinning cells has been completed. The installation of thickeners is currently under way. The construction of power facilities and auxiliary infrastructure is ongoing. Major equipment vendors are on site to assist with the commissioning.

The Company anticipates the commissioning of the Natalka project to take place by the end of 2017, followed by a ramp-up period to achieve the project's design parameters. Mining activity at Natalka was relaunched in January 2017 (the deposit was previously mined from 2013 through 2014).

Capital expenditures at Olimpiada increased to $52 million due to preparations to connect the mine to the new Razdolinskaya-Taiga grid, procurement of a mining fleet and the construction of Bio Oxidation circuit ("BIO-4") at the Mills-1, 2, 3 complex. The BIO-4 project is expected to be launched by the end of 2017.

At Blagodatnoye, capital expenditures increased to $13 million, primarily due to optimisation works at the Blagodatnoye Mill following the completion of the processing capacity expansion project. In 2017, the Company will oversee technical works designed to ensure the Mill's stable operation at the achieved throughput capacity level and to support an increase in recovery rates.

At Verninskoye, capital expenditures doubled to $12 million in 1H 2017. The increase refers to the expansion of the Verninskoye Mill.

Polyus is proceeding with the second stage of the Mill's capacity expansion project. Site preparation is ongoing, procurement of the core process equipment has been contracted, construction of foundations for Carbon-in-Leach ("CIL") reactor tanks have been completed, the tanks have been delivered in full scope and installation is ongoing. The target designed throughput capacity of 3.0 mtpa is expected to be achieved over three stages during 2017-2018.

Capital expenditures at Kuranakh increased to $22 million in 1H 2017 due to further progress with the heap leach project and the launch of the second stage of the Kuranakh Mill processing capacity expansion to 5.0 mtpa. The delivery and installation of the core heap leach equipment is ongoing, earthworks on the leaching pad are in progress.

At Alluvials, capital expenditures remained flat at $12 million compared to the prior-year period and predominantly consisted of exploration activity as well as the ongoing replacement of worn-out equipment.

Capex breakdown[22]

$ mln	1H 2017	1H 2016	Y-o-Y	2Q 2017	2Q 2016	Y-o-Y
Natalka	179	82	118%	103	45	129%
Olimpiada	52	33	58%	38	23	65%
Blagodatnoye	13	9	44%	10	2	N.A.
Verninskoye	12	6	100%	7	4	75%
Alluvials	12	11	9%	5	8	(38%)
Kuranakh	22	12	83%	14	3	N.A.
Exploration	2	3	(33%)	1	2	(50%)
Sukhoi Log[23]	5	-	N.A.	1	-	N.A.
Other (including power projects)	25	30	(17%)	11	3	N.A.
Total	**322**	**186**	**73%**	**190**	**90**	**111%**

In January 2017 SL Gold, a company established by JSC Polyus and LLC "RT Business Development" ("RT"), submitted the highest bid during the Sukhoi Log auction totaling RUB 9.4 billion ($153 million), of which

[22] The capex above presents the capital construction-in-progress unit as allocated to other business units, whilst in the condensed consolidated interim financial statements capital construction-in-progress is presented as a separate business unit.
[23] Presented net of the Sukhoi Log deposit license acquisition cost

RUB 8.6 billion ($138 million) had been prepaid by SL Gold on 21 December 2016. Hence, an additional payment for the Sukhoi Log license amounted to $15 million.

On a separate note, as highlighted in December 2016 Polyus entered into a number of cash option agreements with RT to acquire a 23.9% stake in SL Gold during 2017-2022. In May 2017, the Company exercised the first option agreement in a total amount of $21 million and increased its stake in SL Gold by 3.6% to 54.6%. Proceeds of $100 million were received from the sale of Polyus' 82.34% stake in a joint venture entity with Polymetal, which holds 100% of JSC South-Verkhoyansk Mining Company ("SVMC"). SVMC holds the mining and exploration license for the Nezhdaninskoye gold deposit in Russia's Yakutia region.

Other areas of investing activities in 1H 2017 comprised the receipt of $20 million of interest.

FINANCING CASH FLOW

In 1H 2017, net financing cash outflow totalled $613 million compared to $967 million of cash used in 1H 2016 financing activities. In 1H 2017, Polyus completed a 50% pre-payment of a $2.5 billion 7-year credit facility with PJSC Sberbank, using both cash on balance and proceeds from the $800 million Eurobond due 2023.

Outlook

Based on strong performance in 1H 2017, the Group reiterates its production guidance for 2017 to be in the range of 2.075–2.125 million ounces.

With the majority of brownfield development projects expected to be completed in 2017 and production at Natalka expected to be commissioned by the end of 2017, the Group expects total gold output to increase further to 2.35–2.40 million ounces in 2018 and 2.8 million ounces in 2019.

Recent corporate developments

PGIL TRANSACTION WITH FOSUN

On 31 May 2017, Polyus Gold International Limited ("PGIL") entered into an agreement to sell 12,561,868 of the ordinary shares in the Company, representing 10 per cent of the Company's share capital excluding treasury shares (the "Initial Stake") at $70.6025 per share (the "Initial Stake Price") to a consortium (the "Consortium") led by Fosun International Limited (HKSE:00656) ("Fosun"). In addition to Fosun, the Consortium includes Hainan Mining Co., Ltd ("Hainan Mining") and Zhaojin Mining Industry Company Limited ("Zhaojin Mining"), both partially owned by Fosun.

As part of the agreement, PGIL also granted the Consortium an option to acquire, subject to completion of the acquisition of the Initial Stake, up to an additional 5 per cent of the Company's share capital at $77.6628 per share ("the Option Exercise Price), exercisable not later than May 31, 2018.

The completion of the Initial Stake transaction is expected to occur before the end of 2017 and remains subject to certain conditions, including receipt of governmental approvals. The Consortium has already obtained preliminary approvals from certain governmental authorities.

The Initial Stake Price is subject to a completion adjustment for dividends paid per share during the period between transaction signing and completion. The Option Exercise Price is not subject to any adjustment for dividends.

The agreement also provides for minimum annual dividend payments by the Company to all shareholders for the years 2017-2021 (the "Mandatory Dividends") at the greater of (i) 30% of the full-year EBITDA calculated based on IFRS accounts and (ii) $550 million for each of 2017, 2018 and 2019 and $650 million for each of 2020 and 2021.

Dividends will be paid semi-annually. Should the amount of dividends actually paid by the Company for any relevant year be less than the Mandatory Dividend for such year, any dividend shortfall (net of the amount of dividends paid in excess of the Mandatory Dividend in respect of prior years) will accumulate and will be payable together with the Mandatory Dividend or regular dividend for the following calendar year(s). After 2021, dividends will be paid in line with the Company's existing dividend policy, which provides for payment of dividends in the amount equal to 30% of adjusted EBITDA, subject to the Company's net debt/adjusted EBITDA ratio being lower than 2.5x.

ORE RESERVES AND MINERAL RESOURCES UPDATE

On 5 June 2017, Polyus announced the results of the review of the Company's Ore Reserves and Mineral Resources as of 31 December 2016 in accordance with the JORC Code 2012.

Polyus' Proved and Probable (P&P) Ore Reserves equate to 71 moz of gold and its Measured, Indicated and Inferred (MI&I) Mineral Resources stand at 193 million ounces[24].

Correspondingly, Polyus ranks second by attributable gold reserves (after Barrick Gold) and third by attributable gold resources (after AngloGold and Barrick Gold) among the world's largest gold mining companies.

A maiden estimate of the JORC Mineral Resources for Sukhoi Log has been made at 58 moz and included in the Group figures. The ore reserves at the asset have not yet been estimated.

[24] - The reported estimates of Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to estimate Ore Reserves

The following data has been drawn from the June 2017 Competent Person's Report (CPR), on the Mineral Assets of Polyus, as prepared by AMC Consultants Pty Ltd (AMC).

Ore Reserves Highlights

- Polyus' Ore Reserves amounted to 71 million ounces of gold.
- Over 70% of the Company's Ore Reserves are located at the operating assets. With the inclusion of Natalka, where production will be commissioned by the end of 2017, this share increases to 95%:
  - The Krasnoyarsk Business Unit has the largest share of the Company's reserves, with 30 million ounces of Ore Reserves reported at Olimpiada and 10 moz at Blagodatnoye.
  - Ore Reserves at Verninskoye and Kuranakh were recorded at 5.3 million ounces and 4.5 million ounces, respectively.
- Natalka, Polyus' main greenfield project, has estimated Ore Reserves of 16 moz.
- Sukhoi Log's Ore Reserves have not yet been estimated and the Company expects these to be included in its reserve statement before the end of 2019. The asset was acquired in February 2017 and additional exploration work has started.
- Whilst the average Ore Reserve grade is estimated at 1.8 grams per tonne, it stands at 2.0 grams per tonne when excluding estimates for Alluvial operations and lower grade ore for heap leaching operations at Kuranakh and Blagodatnoye.

Mineral Resources Highlights

- The Company's Mineral Resources stand at 193 million ounces largely reflecting the inclusion of 58 million ounces of Inferred Mineral Resources for Sukhoi Log[25].
- Almost 50% of the Company's Mineral Resources are attributable to operational mines:
  - Olimpiada's Mineral Resources are estimated at 46 million ounces.
  - Blagodatnoye's Mineral Resources stand at 19 million ounces.
  - Verninskoe and Kuranakh's Mineral Resources include estimates of 12 million ounces and 9.2 million ounces, respectively.
- Natalka Mineral Resources amount to 34 million ounces.
- First mineral resources estimates for Sukhoi Log indicate the deposit contains 58 million ounces of gold grading 2.0 grams per tonne. This corresponds to the latest available Russian standards GKZ (C1+C2) estimate of 62.8 million ounces grading 2.1 grams per tonne.

POLYUS ENTERED INTO OPTION AGREEMENTS TO CONSOLIDATE 100% PARTICIPATION INTEREST IN SL GOLD, THE SUKHOI LOG DEPOSIT JV

On 11 July 2017, Polyus announces that a 100% subsidiary of the Company, JSC Polyus Krasnoyarsk, has entered into a number of option agreements («Additional Options») with LLC «RT Business Development» («RT»), a wholly owned subsidiary of Russian State Corporation Rostec, to acquire an additional 25.1% participation interest in SL Gold Limited Liability Company («SL Gold»), a holder of the Sukhoi Log deposit license.

Total consideration for the additional 25.1% participation interest is fixed at $145.9 million and will be payable in Polyus' shares within the next five years in five tranches, with Polyus having the right to accelerate. The number of Polyus' shares subject to transfer to RT in exchange for its 25.1% participation interest in SL Gold will be determined by dividing the USD amount of the consideration

[25] - Sukhoi Log Mineral Resource estimate is as of 21 February 2017

for each tranche by the average of daily weighted average price of Polyus' ordinary shares on the Moscow Exchange (converted in USD at the official exchange rate set by the Central Bank of Russia for each trading day) for a period of 90 days preceding the date of the respective option exercise notice.

The first tranche (a 3.8% stake in SL Gold for approx. $21.9 million) was paid using the Company's existing treasury shares. Using the 90-day average price this corresponded to 290,049 shares of the Company (i.e., approximately a 0.22% stake in the Company post the offering of its shares and global depositary shares on the London Stock Exchange and the Moscow Exchange priced June 30, 2017 («Offering»)). The relevant portion of Polyus' shares used as consideration is a subject to a lock up until January 1, 2018 (inclusive), which corresponds to the remainder of the 180-days lock-up period agreed to by the Company in connection with the Offering.

The remaining four tranches are excercisable in 2019—2022.

As previously announced, on December 16, 2016, JSC Polyus Krasnoyarsk, which held 51% in SL Gold, entered into cash option agreements with RT to acquire a 23.9% stake in SL Gold («Initial Options») for the total consideration of approximately $139 million to be exercised during 2017—2022.

Taken together, entry into and the subsequent exercise of the Initial Options entered into in December 2016 and the Additional Options entered into in July 2017 will enable Polyus to consolidate 100% participation interest in SL Gold, the holder of the Sukhoi Log deposit license. Polyus intends to exercise these options.

RESULTS OF THE OFFERING FOLLOWING STABILISATION PERIOD

On 2 August 2017, Polyus announced the final results of the offering of shares and global depositary shares ("GDSs") both in Russia through the facilities of the Moscow Stock Exchange and outside Russia on the London Stock Exchange plc. ("Offering") following the completion of the stabilisation undertaken by the Stabilisation Manager.

In the course of the Offering, PGIL sold 6,005,404 shares (in the form of shares and GDSs, with two GDSs representing interest in one share) and the Company issued 6,015,690 new shares.

In connection with the Offering, PGIL granted to Goldman Sachs International Limited ("GS") an over-allotment option for the purposes of stabilisation that lasted from 30 June 2017 to 28 July 2017 to purchase up to 1,202,044 additional shares (in the form of shares or GDSs). GS has given notice to exercise the over-allotment option granted by PGIL in respect of 1,030,815 GDSs and 373,579 shares (the "Over-allotment Shares"). The Over-allotment Shares were sold at the Offer Price.

The total size of the Offering amounted to $799 million, excluding the over-allotment option, and to $858 million, which is equal to 9.7% of the share capital of the Company on a fully diluted basis, including the over-allotment option. The primary component of the Offering amounted to $400 million.

Going concern

The financial position of the Group, its cash flows, liquidity position, and borrowing facilities are set out in this MD&A on pages 19 to 21. As of 30 June 2017 the Group held $1,477 million in cash and cash equivalents and bank deposits and had a net debt of $3,084 million, with $677 million of undrawn but committed credit facilities, subject to covenant compliance. Details on borrowings and credit facilities are disclosed in note 15 to the condensed consolidated interim financial statements. In assessing its going-concern status, the directors have considered the uncertainties affecting future cash flows and have taken into account its financial position, anticipated future trading performance, borrowings, and other available credit facilities, as well as its forecast compliance with the covenants on those borrowings and its capital expenditure commitments and plans. In the event of certain reasonably possible adverse pricing and forex scenarios and the risks and uncertainties below, management has within its control the option of deferring uncommitted capital expenditure, or managing the dividend payment profile to maintain the Group's funding position.

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

Risks and uncertainties

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

The Group's financials depend largely on gold prices. The gold market follows cyclical patterns and is sensitive to general macroeconomic trends. Gold price risks are linked to macroeconomic indicators affecting the overall Group's performance. The Group constantly monitors gold markets, implements cost optimisation measures, reviews its investments programmes, and concludes deals with derivatives.

Starting from March 2014, a number of sanction packages have been imposed by the United States ("US") and the European Union ("EU") on certain Russian officials, businessmen and companies. Over the 2015 the EU and the US announced the extension of sanctions by one year and six months correspondingly. In March 2016 the US decided not to lift sanctions and extended them by one year. In early July 2016 the EU announced the extension of sanctions by six months. On 19 December 2016, the EU extended the application of economic sanctions until 31 July 2017. On 28 June 2017, the EU prolonged economic sanctions targeting specific sectors of the Russian economy for a further six months, until 31 January 2018.

The Directors do not believe that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 December 2015, other than the aforementioned sanctions against Russia. Additional information on sanctions, surfaced during the 2016, does not constitute an additional risk for the Group. Detailed explanation of the risks summarized below, together with the Group's risk mitigation plans, can be found on pages 40 to 51 of the 2015 Annual Report which is available at http://polyus.com/upload/iblock/311/polyus-gold-annual-report-_15.pdf

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

Commodity price risk

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

Foreign exchange risk

As stated on page 7, the Group's revenue is linked to the USD, as the gold price is quoted in this currency. Thus the Group's strategy is to have mostly USD-denominated debt and to keep its cash and deposits in USD. As of 30 June 2017, 90% of the cash and cash equivalents and bank deposits of the Group were in USD – see page 20 of this MD&A for a detailed description. As part of this strategy, the Group entered into a number of cross-currency swaps with leading Russian banks economically to hedge interest payments and the exchange of the principal amounts – see page 17.

Interest rate risk

The Group is exposed to interest rate risk, as 28% of the Group's debt portfolio is made up of USD floating rate borrowings. Fluctuations in interest rates may affect the Group's financial results. The Group continues to shift from floating to fixed interest rate on the back of higher finance cost expectations.

Inflation risk

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

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of PJSC "Polyus" and its subsidiaries (collectively - the "Group") as at 30 June 2017 and the related condensed consolidated interim statements of profit or loss, comprehensive income, changes in equity and cash flows for the three and six months then ended, and selected explanatory notes. Directors are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

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

Olga Tabakova,
Engagement partner

Deloitte & Touche

14 August 2017

The Entity: Public Joint Stock Company Polyus

Primary State Registration Number: 1068400002990

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

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

Audit Firm: ZAO “Deloitte & Touche CIS”

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

Primary State Registration Number: 1027700425444

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

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

PJSC “Polyus”

Condensed consolidated interim financial statements

for the three and six months ended 30 June 2017 (unaudited)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED)

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

	Notes	Three months ended 30 June 2017	Three months ended 30 June 2016	Six months ended 30 June 2017	Six months ended 30 June 2016
Gold sales	4	617	564	1,217	1,069
Other sales		8	7	17	13
Total revenue		**625**	**571**	**1,234**	**1,082**
Cost of gold sales	5	(230)	(206)	(455)	(379)
Cost of other sales		(5)	(6)	(14)	(12)
Gross profit		**390**	**359**	**765**	**691**
Selling, general and administrative expenses	6	(50)	(29)	(92)	(63)
Other expenses, net		(16)	(10)	(19)	(10)
Operating profit		**324**	**320**	**654**	**618**
Finance costs, net	7	(45)	(41)	(108)	(73)
Interest income		6	10	17	18
(Loss) / gain on investments and revaluation of derivative financial instruments, net	8	(40)	(129)	68	(142)
Foreign exchange (loss) / gain, net		(121)	141	69	257
Profit before income tax		**124**	**301**	**700**	**678**
Current income tax expense		(5)	(76)	(96)	(151)
Deferred income tax expense		(15)	(20)	(1)	(28)
Profit for the period		**104**	**205**	**603**	**499**
Attributable to:					
Shareholders of the Company		105	199	609	496
Non-controlling interests		(1)	6	(6)	3
		104	**205**	**603**	**499**
Weighted average number of ordinary shares'000	14				
- for basic earnings per share		125,618	130,206	125,623	153,800
- for dilutive earnings per share		125,787	130,206	125,739	153,800
Earnings per share (US Dollar)					
- basic		0.84	1.53	4.85	3.22
- dilutive		0.83	1.53	4.84	3.22

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED)

(in millions of US Dollars)

	Notes	Three months ended 30 June 2017	Three months ended 30 June 2016	Six months ended 30 June 2017	Six months ended 30 June 2016
Profit for the period		**104**	**205**	**603**	**499**
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	10	(1)	(43)	4	(62)
Decrease in revaluation of cash flow hedge reserve on gold forward		–	(1)	–	(12)
Deferred tax relating to decrease / (increase) in revaluation of cash flow hedge reserve		–	9	(1)	15
		(1)	**(35)**	**3**	**(59)**
Items that will not be reclassified through profit or loss:					
Effect of translation to presentation currency		(5)	(54)	(20)	(51)
Items that have been reclassified through profit or loss:					
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser	10	(3)	(13)	(19)	(33)
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward		–	(2)	–	(8)
Deferred tax relating to cash flow hedge reserve reclassified to consolidated statement of profit or loss		1	3	4	8
		(2)	**(12)**	**(15)**	**(33)**
Other comprehensive loss		**(8)**	**(101)**	**(32)**	**(143)**
Total comprehensive income		**96**	**104**	**571**	**356**
Attributable to:					
Shareholders of the Company		100	94	573	344
Non-controlling interests		(4)	10	(2)	12
		96	**104**	**571**	**356**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2017 (UNAUDITED)

(in millions of US Dollars)

	Notes	30 Jun. 2017	31 Dec. 2016
Assets			
Non-current assets			
Property, plant and equipment	9	3,294	2,938
Derivative financial instruments and investments	10	23	57
Inventories	11	282	264
Deferred tax assets		77	75
Assets classified as held for sale	13	97	–
Other non-current assets		41	37
		3,814	**3,371**
Current assets			
Derivative financial instruments and investments	10	1	10
Inventories	11	384	369
Deferred expenditures		34	10
Trade and other receivables		49	58
Receivables from share offering	14	400	-
Advances paid to suppliers and prepaid expenses		20	19
Taxes receivable		102	89
Assets classified as held for sale	13	46	–
Cash and cash equivalents	12	1,477	1,740
		2,513	**2,295**
Total assets		**6,327**	**5,666**
Equity and liabilities			
Capital and reserves			
Share capital	14	5	7
Additional paid-in capital	14	1,933	2,288
Treasury shares	14	(109)	(3,712)
Cash flow hedge revaluation reserve	10	–	12
Translation reserve		(2,744)	(2,720)
Retained earnings		1,033	3,617
Equity attributable to shareholders of the Company		**118**	**(508)**
Non-controlling interests		89	94
		207	**(414)**
Non-current liabilities			
Site restoration, decommissioning and environmental obligations		45	38
Borrowings	15	4,532	4,698
Derivative financial instruments	10	472	456
Deferred revenue		78	76
Deferred consideration	16	102	–
Deferred tax liabilities		181	182
Other non-current liabilities		36	32
		5,446	**5,482**
Current liabilities			
Borrowings	15	29	283
Trade and other payables		609	222
Taxes payable		36	93
		674	**598**
Total liabilities		**6,120**	**6,080**
Total equity and liabilities		**6,327**	**5,666**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED)

(in millions of US Dollars)

		Equity attributable to shareholders of the Company									
	Notes	**Number of outstanding shares'000**	**Share capital**	**Additional paid-in capital**	**Treasury shares**	**Cash flow hedge revaluation reserve**	**Translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 31 December 2015		**190,628**	**7**	**2,273**	**–**	**123**	**(2,623)**	**2,196**	**1,976**	**71**	**2,047**
Profit for the period		–	–	–	–	–	–	496	**496**	3	**499**
Increase in cash flow hedge revaluation reserve	10	–	–	–	–	(92)	–	–	**(92)**	–	**(92)**
Effect of translation to presentation currency		–	–	–	–	–	(60)	–	**(60)**	9	**(51)**
Total comprehensive (loss) / income		**–**	**–**	**–**	**–**	**(92)**	**(60)**	**496**	**344**	**12**	**356**
Equity-settled share-based payment plans (LTIP)		–	–	6	–	–	–	–	**6**	–	**6**
Increase of ownership in subsidiaries		–	–	–	–	–	–	(2)	**(2)**	(1)	**(3)**
Buy-back of treasury shares	14	(60,519)	–	–	(3,442)	–	–	–	**(3,442)**	–	**(3,442)**
Release of translation reserve due to disposal of subsidiary		–	–	–	–	–	(3)	3	**–**	–	**–**
Declared dividends		–	–	–	–	–	–	–	**–**	(7)	**(7)**
Balance at 30 June 2016		**130,109**	**7**	**2,279**	**(3,442)**	**31**	**(2,686)**	**2,693**	**(1,118)**	**75**	**(1,043)**
Balance at 31 December 2016		**125,632**	**7**	**2,288**	**(3,712)**	**12**	**(2,720)**	**3,617**	**(508)**	**94**	**(414)**
Profit / (loss) for the period		–	–	–	–	–	–	609	**609**	(6)	**603**
Decrease in cash flow hedge revaluation reserve	10	–	–	–	–	(12)	–	–	**(12)**	–	**(12)**
Effect of translation to presentation currency		–	–	–	–	–	(24)	–	**(24)**	4	**(20)**
Total comprehensive (loss) / income		**–**	**–**	**–**	**–**	**(12)**	**(24)**	**609**	**573**	**(2)**	**571**
Equity-settled share-based payment plans (LTIP)		–	–	8	–	–	–	–	**8**	–	**8**
Buy-back of treasury shares	14	(14)	–	–	(1)	–	–	–	**(1)**	–	**(1)**
Cancelation of treasury shares	14	–	(2)	(749)	3,604	–	–	(2,853)	**–**	–	**–**
Issuance of shares	14	99	–	386	–	–	–	–	**386**	–	**386**
Declared dividends	14	–	–	–	–	–	–	(340)	**(340)**	–	**(340)**
Dividends declared to shareholders of non-controlling interests		–	–	–	–	–	–	–	**–**	(3)	**(3)**
Balance at 30 June 2017		**125,717**	**5**	**1,933**	**(109)**	**-**	**(2,744)**	**1,033**	**118**	**89**	**207**

POLYUS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED)

(in millions of US Dollars)

		Three months ended 30 June		Six months ended 30 June	
	Notes	**2017**	**2016**	**2017**	**2016**
Operating activities					
Profit before income tax		**124**	**301**	**700**	**678**
Adjustments for:					
Finance costs, net	7	45	41	108	73
Interest income		(6)	(10)	(17)	(18)
Unrealised loss / (gain) on investments and revaluation of derivative financial instruments, net	8	40	129	(68)	142
Depreciation and amortisation	9	43	36	82	66
Foreign exchange loss / (gain), net		121	(141)	(69)	(257)
Other		8	3	13	7
		375	**359**	**749**	**691**
Movements in working capital					
Inventories		(20)	(17)	(15)	(40)
Deferred expenditures		(5)	(4)	(23)	(13)
Trade and other receivables		4	(7)	14	(5)
Advances paid to suppliers and prepaid expenses		(7)	(4)	(4)	(3)
Taxes receivable		(10)	(5)	10	(8)
Trade and other payables and accrued expenses		(6)	(42)	(3)	(12)
Other non-current liabilities		(1)	–	(2)	–
Taxes payable		(5)	1	(19)	(4)
Cash flows from operations		**325**	**281**	**707**	**606**
Income tax paid		(57)	(93)	(157)	(127)
Net cash generated from operating activities		**268**	**188**	**550**	**479**
Investing activities					
Purchase of property, plant and equipment (excluding payment for the Sukhoi Log deposit)		(174)	(67)	(287)	(140)
Payments for the Sukhoi Log deposit	16	(21)	–	(36)	–
Interest received		8	9	20	20
Proceeds from repayment of loans issued		–	–	–	123
Proceeds from disposal of joint venture	8	–	–	100	–
Proceeds from disposal of subsidiary, net of cash disposed		–	–	–	10
Other		(4)	(1)	(3)	–
Net cash (utilised in) / generated from investing activities		**(191)**	**(59)**	**(206)**	**13**
Financing activities					
Interest paid		(68)	(71)	(163)	(114)
Commissions on borrowings		(10)	(11)	(10)	(41)
Proceeds from leaseback transactions		1	–	11	2
Repayments under lease		(1)	–	(3)	–
Net proceeds on exchange of interest payments under interest and cross currency rate swaps	10	8	10	17	16
Payment for buy-back of shares	14	–	(18)	(1)	(3,442)
Proceeds from borrowings	15	–	13	800	2,632
Repayment of borrowings	15	(5)	(7)	(1,264)	(17)
Cash used to increase ownership in subsidiaries		–	(3)	–	(3)
Net cash utilised in financing activities		**(75)**	**(87)**	**(613)**	**(967)**
Net increase / (decrease) in cash and cash equivalents		**2**	**42**	**(269)**	**(475)**
Cash and cash equivalents at the beginning of the period		**1,487**	**1,326**	**1,740**	**1,825**
Effect of foreign exchange rate changes on cash and cash equivalents		(12)	14	6	32
Cash and cash equivalents at the end of the period		**1,477**	**1,382**	**1,477**	**1,382**

1. GENERAL

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

The principal activities of the Company and its controlled entities (the "Group") are the extraction, refining and sale of gold. The mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and the Sakha Republic of the Russian Federation. The Group also performs research, exploration and development works; the development works being primarily at the Natalka licence area located in the Magadan region of the Russian Federation. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 19.

The shares of the Company are "level one" listed at Moscow Exchange. On 3 July 2017, global depositary shares representing PJSC Polyus' shares (with two global depositary shares representing interest in one PJSC Polyus share) were admitted to the official list maintained by the United Kingdom Financial Conduct Authority and to trading on the main market for listed securities of the London Stock Exchange plc ("LSE"). The controlling shareholder of the Company is Polyus Gold International Limited ("PGIL"), a public limited company registered in Jersey. As at 30 June 2017 and 31 December 2016, the ultimate controlling party of the Company was Mr. Said Kerimov.

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 condensed consolidated interim financial statements.

Compliance with International Financial Reporting Standards

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* ("IAS 34"). Accordingly, the condensed consolidated interim financial statements do not include all information and disclosures required for a complete set of financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2016.

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 2016, except for the enhanced disclosure of the segments' performance by presenting two mines within Krasnoyarsk business unit as separate segments, to reflect business segments being analysed by the chief operating decision maker.

Basis of presentation

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the Russian Federation where they are incorporated and registered. The accounting principles and financial reporting procedures in the Russian Federation may differ substantially from those generally accepted under International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board. Accordingly, such financial information has been adjusted to ensure that the condensed consolidated interim financial statements are presented in accordance with IFRS.

(in millions of US Dollars)

The condensed consolidated interim financial statements of the Group are prepared on the historical cost basis, except for *Derivative financial instruments*, which are accounted for at fair value.

IFRS standards update

The following is a list of 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 three and six months ended 30 June 2017:

Title	Subject
Amendments to IAS 7	Statement of cash flows
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to IFRS 12	Disclosure of interests in other entities

Adoption of the new and revised standards and interpretations as mentioned above had no effect on the amounts presented in the condensed consolidated interim financial statements for the three and six months ended 30 June 2017 or overall presentation and disclosures.

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	Effective for annual periods beginning on or after	Expected effect on the condensed consolidated interim financial statements
Amendments to IAS 40	Investment property	1 January 2018	No effect
Amendments to IFRS 1	First-time adoption of international financial reporting standards	1 January 2018	No effect
Amendments to IFRS 2	Share-based payment	1 January 2018	No effect
IFRS 9	Financial instruments	1 January 2018	Under review
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	Effective date deferred indefinitely	No effect
IFRS 15	Revenue from contracts with customers	1 January 2018	Under review
IFRS 16	Leases	1 January 2019	Under review
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018	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 follow:

Russian Rouble/US Dollar	30 Jun. 2017	31 Dec. 2016
Period end rate	59.09	60.66

All income or expenses and respective cash flows are translated at the monthly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as noted below, the critical accounting judgements, estimates and assumptions made by management of the Group and applied in the accompanying condensed consolidated interim financial statements for the three and six months ended 30 June 2017 are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2016.

In the preparation of these condensed consolidated interim financial statements, the management of the Group has made a significant judgment in respect of *Initial recognition of share options agreements,* as presented below.

Initial recognition of share options

On 16 December 2016, JSC Polyus Krasnoyarsk, a 100% subsidiary of the Group, entered into a number of put and call option agreements with LLC RT Business Development (“RT”), a wholly owned subsidiary of Russian state-owned Rostec Corporation (“Rostec”). Under these option agreements the Group expected to increase its ownership interest in LLC SL Gold (“SL Gold”), a 51% subsidiary of the Group[1] with the remaining 49% interest hold by RT, by 23.9% within the following five years (with the right to accelerate) for an undiscounted consideration of USD 139 million (note 16).

Based on standalone contractual rights and obligations of the option agreements they would be recognised as financial liabilities with a corresponding decrease in equity.

However management believes that, in substance, the option agreements for 23.9% stake in SL Gold are linked to the acquisition of the licence or mineral rights representing a single transaction designed to achieve an overall commercial effect due to the following reasons:

- both transactions were entered into at the same time;
- the options are exercisable only if the license is received;
- the option agreements considered on their own are not economically justified.

Thus upon becoming committed to the put options the Group assessed their fair value at USD 121 million for 23.9%, and recognised them as a *Deferred consideration* (note 16) with corresponding increase in *Exploration and evaluation assets* within *Mineral rights* group.

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 separate financial information available and reported regularly to the chief operating decision maker (“CODM”). During the three months ended 30 June 2017 the Group enhanced the disclosure of the segmental performance by presenting two mines within Krasnoyarsk business unit as separate segments reflecting the way segments are now analysed by the chief operating decision maker. The following is a description of operations of the Group’s nine identified reportable segments and those that do not meet the quantitative reporting threshold:

- ***Krasnoyarsk business unit Olimpiada mine*** (Krasnoyarsk region of the Russian Federation) – mining (including initial processing) and sale of gold from the Olimpiada mine, as well as research, exploration and development work at the Olimpiada deposit. Results of Titimukhta mine

[1] On 31 May 2017, the Group increased effective ownership in SL Gold (note 16) from 51% to 54.6% for a cash consideration of USD 21 million.

are included within this segment because extraction from the Titimukhta deposit is insignificant and Titimukhta processing facilities are now being used to process Olimpiada ore;

- ***Krasnoyarsk business unit Blagodatnoye mine*** (Krasnoyarsk region of the Russian Federation) – mining (including initial processing) and sale of gold from the Blagodatnoye mine, as well as research, exploration and development work at the Blagodatnoye deposit;
- ***Irkutsk alluvial business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from several alluvial deposits;
- ***Irkutsk ore business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from the Verninskoye mine, research, exploration and development works at the Smezhny and Medvezhy Zapadny deposits;
- ***Yakutia Kuranakh business unit*** (Sakha Republic of the Russian Federation) – mining (including initial processing) and sale of gold from the Kuranakh mines;
- ***Magadan business unit*** (Magadan region of the Russian Federation) – represented by JSC Matrosova Mine which performs development works at the Natalka deposit;
- ***Sukhoi Log business unit*** (Irkutsk region of the Russian Federation) – represented by LLC SL Gold which performs exploration and evaluation works at the Sukhoi Log deposit;
- ***Exploration business unit*** (Krasnoyarsk region, Irkutsk region, Amur region, and others) – research and exploration works in several regions of the Russian Federation;
- ***Capital construction unit*** − represented by LLC Polyus Stroy, JSC TaigaEnergoStroy and JSC VitimEnergoStroy which perform construction works at 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 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 condensed consolidated interim 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.

(in millions of US Dollars)

	Gold sales	Ounces of gold sold in thousand[2]	Adjusted EBITDA[2]	Total cash cost per ounce of gold sold (USD per ounce)[2]	Capital expenditures
Three months ended 30 June 2017					
Business units					
Krasnoyarsk - Olimpiada mine	327	267	216	358	38
Krasnoyarsk - Blagodatnoye mine	134	106	87	297	10
Irkutsk alluvial	39	31	9	666	5
Irkutsk ore	68	53	40	414	7
Yakutia Kuranakh	49	39	23	563	14
Exploration	–	–	–	–	1
Magadan	–	–	2	–	103
Sukhoi Log	–	–	–	–	1
Capital construction	–	–	1	–	7
Unallocated	–	–	1	–	4
Total	**617**	**496**	**379**	**379**	**190**
Three months ended 30 June 2016					
Business units					
Krasnoyarsk - Olimpiada mine	253	193	155	432	23
Krasnoyarsk - Blagodatnoye mine	158	121	119	289	2
Irkutsk alluvial	41	33	17	550	8
Irkutsk ore	59	47	35	416	4
Yakutia Kuranakh	50	40	28	496	3
Exploration	3	3	–	968	2
Magadan	–	–	–	–	45
Capital construction	–	–	–	–	3
Unallocated	–	–	7	–	–
Total	**564**	**437**	**361**	**395**	**90**
Six months ended 30 June 2017					
Business units					
Krasnoyarsk - Olimpiada mine	654	535	410	376	52
Krasnoyarsk - Blagodatnoye mine	292	230	207	302	13
Irkutsk alluvial	39	31	9	666	12
Irkutsk ore	133	107	78	401	12
Yakutia Kuranakh	99	80	49	574	22
Exploration			–	–	2
Magadan	–	–	3	–	179
Sukhoi Log	–	–	–	–	141
Capital construction	–	–	1	–	13
Unallocated	–	–	5	–	12
Total	**1,217**	**983**	**762**	**379**	**458**
Six months ended 30 June 2016					
Business units					
Krasnoyarsk - Olimpiada mine	507	391	322	414	33
Krasnoyarsk - Blagodatnoye mine	299	231	222	279	9
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	–	–	–	–	29
Unallocated	–	–	5	–	1
Total	**1,069**	**837**	**691**	**377**	**186**

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales during the three and six months ended 30 June 2017 and 2016.

[2] unaudited and not reviewed

(in millions of US Dollars)

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
Refined gold	577	564	1,153	1,069
Other gold-bearing products	40	–	64	–
Total gold sales	**617**	**564**	**1,217**	**1,069**

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

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

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
Profit for the period	**104**	**205**	**603**	**499**
Income tax	20	96	97	179
Depreciation and amortisation (note 9)	43	36	82	66
Finance costs (note 7)	45	41	108	73
Equity-settled share-based payment plans	–	3	7	6
Foreign exchange loss / (gain), net	121	(141)	(69)	(257)
Loss / (gain) on investments and revaluation of derivative financial instruments (note 8)	40	129	(68)	142
Interest income	(6)	(10)	(17)	(18)
Special charitable contributions	11	–	18	–
Impairment / (reversal of impairment)	6	–	6	(1)
Effect on property, plant and equipment disposal	(5)	2	(5)	2
Adjusted EBITDA[3]	**379**	**361**	**762**	**691**

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

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
Cost of gold sales	**230**	**206**	**455**	**379**
Adjusted for:				
Depreciation and amortisation (note 9)	(45)	(33)	(85)	(62)
Depreciation, amortisation and accrual provisions in inventory change	3	–	3	(1)
TCC[3]	**188**	**173**	**373**	**316**
Ounces of gold sold, in thousand[2]	496	437	983	837
TCC per ounce of gold sold, USD per ounce[3]	**379**	**395**	**379**	**377**

Capital expenditures are primarily related to the following projects:

- ***Magadan business unit:*** The entire scope of the Mill's core process equipment was delivered and installed. The equipment piping is on its way at gravitation, desorption, cyanidation and finished products circuits. With participation of the chief engineers of core equipment manufacturers the required startup activities are executed to provide for sequential "cold" and "hot" commissioning scheduled for 3rd quarter 2017.
- ***Krasnoyarsk business unit Olimpiada mine:*** preparation for connection to Razdolinskaya – Taiga power line, construction of new BIO capacities, procurement of mining fleet and mining operations within the 4th stage of the Vostochny pit.

[3] unaudited and not reviewed

(in millions of US Dollars)

- ***Krasnoyarsk business unit Blagodatnoye mine:*** in-progress optimization and upgrade of the Blagodatnoye Mill
- ***Yakutia Kuranakh business unit:*** delivery and installation of the core process equipment within the heap leaching project were ongoing, earthworks on the leaching pad under construction were in progress. Technical reequipment of existing capacities within the project of the Mill's upgrade is continuing.
- ***Irkutsk ore business unit:*** the site preparation is ongoing, procurement of the entire scope of core process equipment was contracted; construction and installation of the adsorption tanks was completed within the project of the Verninskoye Mill's capacities upgrade. Research activities are progressing within the Irkutsk hub development project.

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

5. COST OF GOLD SALES

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
Labour	72	54	125	96
Consumables and spares	53	61	102	112
Depreciation and amortisation of operating assets (note 9)	45	36	85	65
Tax on mining	37	34	66	60
Fuel	16	18	32	32
Power	10	6	17	12
Outsourced mining services	1	2	1	4
Other	14	9	25	16
Total cost of production	**248**	**220**	**453**	**397**
(Increase) / decrease in stockpiles, gold-in-process and refined gold inventories	(18)	(14)	2	(18)
Total	**230**	**206**	**455**	**379**

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
Salaries	34	19	61	45
Distribution expenses related to gold-bearing products	2	–	6	–
Taxes other than mining and income taxes	3	2	6	5
Professional services	4	3	6	5
Depreciation and amortisation (note 9)	2	1	3	2
Other	5	4	10	6
Total	**50**	**29**	**92**	**63**

(in millions of US Dollars)

7. FINANCE COSTS, NET

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
Interest on borrowings	78	73	165	116
Write-off of unamortised debt cost due to early extinguishment of the debt	–	–	11	15
Unwinding of discounts	3	1	5	2
Gain on exchange of interest payments under cross currency swaps	(7)	(5)	(16)	(11)
Gain on exchange of interest payments under interest rate swaps	(1)	(5)	(1)	(5)
Sub-total finance cost, net	**73**	**64**	**164**	**117**
Interest included in the cost of qualifying assets	(28)	(23)	(56)	(44)
Total	**45**	**41**	**108**	**73**

8. (LOSS) / GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS, NET

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
Revaluation (loss) / gain on cross currency swaps	(59)	31	37	121
Revaluation gain / (loss) on ineffective part of the revenue stabiliser under Tranches 1 and 2 (note 13)	3	(2)	(27)	(66)
Revaluation gain / (loss) on ineffective part of the revenue stabiliser under Tranches 3 and 4 (note 13)	17	(155)	(32)	(224)
Revaluation (loss) / gain on interest rate swaps	(1)	(2)	(2)	12
Gain on disposal of joint venture (see below)	–	–	92	–
Gain on disposal of subsidiary	–	–	–	16
Other	–	(1)	–	(1)
Total	**(40)**	**(129)**	**68**	**(142)**

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

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

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

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

(in millions of US Dollars)

9. PROPERTY, PLANT AND EQUIPMENT

	Fixed assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
Cost						
Balance at 31 December 2015	**1,283**	**968**	**243**	**153**	**249**	**2,896**
Additions	–	82	30	94	6	**212**
Transfers	60	(3)	–	(50)	–	**7**
Change in site restoration, decommissioning and environmental obligations	3	–	–	–	–	**3**
Disposals	(4)	(5)	–	–	–	**(9)**
Disposed on disposal of subsidiary	–	–	–	–	(105)	**(105)**
Effect of translation to presentation currency	176	137	36	28	11	**388**
Balance at 30 June 2016	**1,518**	**1,179**	**309**	**225**	**161**	**3,392**
Balance at 31 December 2016	**1,703**	**1,370**	**353**	**301**	**306**	**4,033**
Additions	–	179	73	127	147	**526**
Transfers	90	(3)	–	(84)	(1)	**2**
Change in site restoration, decommissioning and environmental obligations	10	–	–	–	–	**10**
Disposals	(11)	–	–	–	(2)	**(13)**
Reclassified as held for sale (note 13)	(55)	–	–	(97)	–	**(152)**
Effect of translation to presentation currency	42	33	8	8	6	**97**
Balance at 30 June 2017	**1,779**	**1,579**	**434**	**255**	**456**	**4,503**

(in millions of US Dollars)

	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 2015	**(663)**	**(9)**	**(45)**	**(7)**	**(149)**	**(873)**
Charge	(62)	–	(15)	–	–	**(77)**
Disposals	4	–	–	–	–	**4**
Disposed on disposal of subsidiary	–	–	–	–	105	**105**
Reversal of impairment	–	1	–	–	–	**1**
Transfers	(9)	–	–	–	–	**(9)**
Effect of translation to presentation currency	(94)	–	(8)	(2)	3	**(101)**
Balance at 30 June 2016	**(824)**	**(8)**	**(68)**	**(9)**	**(41)**	**(950)**
Balance at 31 December 2016	**(938)**	**(7)**	**(99)**	**(8)**	**(43)**	**(1,095)**
Charge	(78)	–	(27)	–	–	**(105)**
Disposals	10	–	–	–	2	**12**
Reclassified as held for sale (note 13)	5	–	–	–	–	**5**
Impairment	–	–	–	–	(2)	**(2)**
Transfers	–	–	–	3	–	**3**
Effect of translation to presentation currency	(23)	–	(2)	(1)	(1)	**(27)**
Balance at 30 June 2017	**(1,024)**	**(7)**	**(128)**	**(6)**	**(44)**	**(1,209)**
Net book value at						
Balance at 31 December 2015	**620**	**959**	**198**	**146**	**100**	**2,023**
Balance at 30 June 2016	**694**	**1,171**	**241**	**216**	**120**	**2,442**
Balance at 31 December 2016	**765**	**1,363**	**254**	**293**	**263**	**2,938**
Balance at 30 June 2017	**755**	**1,572**	**306**	**249**	**412**	**3,294**

(in millions of US Dollars)

Mineral rights

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

	30 Jun. 2017	31 Dec. 2016
Mineral rights presented within mining assets	49	49
Mineral rights presented within mine under development	35	34
Mineral rights presented within exploration and evaluation assets	301	159
Total	**385**	**242**

Exploration and evaluation assets

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

	30 Jun. 2017	31 Dec. 2016
Sukhoi Log	285	141
Chertovo Koryto	29	28
Razdolinskoye	26	24
Bamsky	17	18
Panimba	16	16
Smezhny	9	9
Blagodatnoye	8	7
Burgakhchan area	7	7
Olimpiada	6	5
Medvezhy Zapadny	2	2
Other	7	6
Total	**412**	**263**

Amounts related to Sukhoi Log license were capitalised as follows:

Balance at 31 December 2016	**141**
Fair value on initial recognition presented as increase in exploration and evaluation assets for 23.9% (note 16)	121
Additional payment in auction for the license	15
Interest capitalised	5
Effect of translation to presentation currency	3
Balance at 30 June 2017	**285**

Depreciation and amortisation charge is allocated as follows:

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Cost of gold sales	40	33	78	62
Depreciation in change in inventory	5	3	7	3
Total depreciation and amortisation within cost of production (note 5)	**45**	**36**	**85**	**65**
Capitalised within property, plant and equipment	6	3	16	10
Selling, general and administrative expenses (note 6)	2	1	3	2
Cost of other sales	1	2	1	2
Total depreciation and amortisation	**54**	**42**	**105**	**79**
Less: amortisation of other non-current assets	–	(1)	–	(2)
Total depreciation of property, plant and equipment	**54**	**41**	**105**	**77**

(in millions of US Dollars)

Capitalised borrowing costs

Included in the cost of *qualifying assets* are capitalised borrowing costs consisted of the following:

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
Interest expenses (Note 7)	28	23	56	44
Foreign exchange loss	1	1	1	1
Interest income on bank deposits	–	(3)	(2)	(5)
Total	**29**	**21**	**55**	**40**

10. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS

	30 Jun. 2017	**31 Dec. 2016**
Non-current derivative assets and investments		
Revenue stabiliser	–	32
Cross currency swaps	16	10
Interest rate swaps	6	7
Investment in joint venture	–	7
Loans issued	1	1
Sub-total	**23**	**57**
Current derivative assets and investments		
Revenue stabiliser	1	10
Total derivative assets and investments	**24**	**67**
Non-current derivative liabilities		
Cross currency swaps	415	434
Revenue stabiliser	57	22
Total non-current derivative liabilities	**472**	**456**

Strategic Price Protection Programme

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

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

- zero cost Asian gold collars ("revenue stabiliser"); and
- gold forward contracts.

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 six months ended 30 June 2017, there were no changes in the revenue stabiliser option agreements. Scheduled quarterly exercise of the options resulted in the following realised gains on derivatives included within gold sales for the respective reporting periods:

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
Realised gains on derivatives	3	15	22	45

(in millions of US Dollars)

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

		Year ended 31 December									
	Total	**2014**	**2015**	**2016**	**2017**		**2018**		**2019**		**2020**
		1-3 years	1-3 years	1-3 years	1-3 years	4th year	1-3 years	4th year	1-3 years	4th year	4th year
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)											
Total as per options agreements	**1,320**	225	300	300	75	315	–	105	–	–	–
Exercised	**(1,005)**	(225)	(300)	(300)	(75)	(105)	–	–	–	–	–
Outstanding as of 30 June 2017	**315**	**–**	**–**	**–**	**–**	**210**	**–**	**105**	**–**	**–**	**–**
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)											
Total as per options agreements	**720**	60	120	120	60	180	–	180	–	–	–
Exercised	**(360)**	(60)	(120)	(120)	(60)	–	–	–	–	–	–
Outstanding as of 30 June 2017	**360**	**–**	**–**	**–**	**–**	**180**	**–**	**180**	**–**	**–**	**–**
Tranche 3 (covering the period 1 January 2016 – 31 December 2019)											
Total as per options agreements	**1,680**	–	–	280	280	–	280	–	–	840	–
Exercised	**(420)**	–	–	(280)	(140)	–	–	–	–	–	–
Outstanding as of 30 June 2017	**1,260**	**–**	**–**	**–**	**140**	**–**	**280**	**–**	**–**	**840**	**–**
Tranche 4 (covering the period 1 April 2016 – 31 December 2020)											
Total as per options agreements	**570**	–	–	75	70	–	100	–	25	225	75
Exercised	**(95)**	–	–	(75)	(20)	–	–	–	–	–	–
Outstanding as of 30 June 2017	**475**	**–**	**–**	**–**	**50**	**–**	**100**	**–**	**25**	**225**	**75**
Total outstanding as of 30 June 2017	**2,410**	**–**	**–**	**–**	**190**	**390**	**380**	**285**	**25**	**1,065**	**75**

The allocation of weighted average strikes and barriers prices (USD per ounce) between years under the revenue stabiliser agreements (Tranches 1, 2, 3 and 4) after restructuring is presented below:

	Year ended 31 December									
	2014	**2015**	**2016**	**2017**		**2018**		**2019**		**2020**
	1-3 years	1-3 years	1-3 years	1-3 years	4th year	1-3 years	4th year	1-3 years	4th year	4th year
Put										
Strike	1,378	1,377	1,314	1,242	1,104	1,242	1,103	1,271	977	1,000
Knock-out barrier	950	950	916	900	900	900	900	900	927	950
Call										
Strike	1,498	1,491	1,422	1,350	1,528	1,350	1,519	1,350	1,192	1,420
Knock-in barrier	1,633	1,618	1,531	1,450	1,704	1,450	1,687	1,450	1,357	1,620

(in millions of US Dollars)

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

	Year ended 31 December									
	2014	**2015**	**2016**	**2017**		**2018**		**2019**		**2020**
	1-3 years	1-3 years	1-3 years	1-3 years	4th year	1-3 years	4th year	1-3 years	4th year	4th year
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)										
Put										
Strike	1,383	1,383	1,383	1,383	1,107	–	1,107	–	–	–
Knock-out barrier	950	950	921	911	900	–	900	–	–	–
Call										
Strike	1,518	1,518	1,518	1,518	1,551	–	1,551	–	–	–
Knock-in barrier	1,662	1,655	1,634	1,634	1,750	–	1,750	–	–	–
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)										
Put										
Strike	1,359	1,359	1,359	1,359	1,100	–	1,100	–	–	–
Knock-out barrier	950	950	950	950	900	–	900	–	–	–
Call										
Strike	1,425	1,425	1,425	1,425	1,500	–	1,500	–	–	–
Knock-in barrier	1,525	1,525	1,525	1,525	1,650	–	1,650	–	–	–
Tranche 3 (covering the period 1 January 2016 – 31 December 2019)										
Put										
Strike	–	–	1,232	1,232	–	1,232	–	–	971	–
Knock-out barrier	–	–	900	900	–	900	–	–	921	–
Call										
Strike	–	–	1,350	1,350	–	1,350	–	–	1,391	–
Knock-in barrier	–	–	1,450	1,450	–	1,450	–	–	1,591	–
Tranche 4 (covering the period 1 April 2016 – 31 December 2020)										
Put										
Strike	–	–	1,271	1,271	–	1,271	–	1,271	1,000	1,000
Knock-out barrier	–	–	900	900	–	900	–	900	950	950
Call										
Strike	–	–	1,300	1,300	–	1,350	–	1,350	1,350	1,420
Knock-in barrier	–	–	1,433	1,450	–	1,450	–	1,450	1,450	1,620

As a result of Tranche 1 of the revenue stabiliser, the Group 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 911 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.

As a result of Tranche 3 of the revenue stabiliser, 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.

During the year ended 31 December 2016, the Group entered into several new agreements under the Tranche 4 of the revenue stabiliser programme. As per the agreements, the Group ensures a minimum weighted average price of USD 1,271 per ounce for 270 thousand ounces of gold output during the first three years of the Programme, provided the gold price does not fall below USD 900 per ounce. During the first three years the Group benefits from price increases until the weighted average gold price reaches USD 1,450 per ounce for 175 thousand ounces, in which case the weighted average price is capped at USD 1,350 per ounce. Thereafter (period from 1 April 2019 to 31 December 2020 of the Programme), the Group ensures a minimum weighted average price of USD 1,000 per ounce for the price-protection amount of 300 thousand ounces, provided the gold price does not fall below USD 950 per ounce. Additionally, the Group will have an obligation to sell 375 thousand ounces of gold at the weighted average gold price USD 1,406 per ounce should the weighted average gold price exceed USD 1,586 per ounce.

The revenue stabiliser options are exercised quarterly.

On 30 June 2017, following the scheduled release of all amounts previously recognised in the condensed consolidated interim statement of comprehensive income into the condensed consolidated interim statement of profit and loss within Gold sales line, the hedges for Tranches 1 and 2 were de-designated and hedge accounting in terms of IAS 39 no longer applies, because strikes on remaining options are out of the forecasted gold price.

Starting from 1 July 2017 remaining outstanding options of the Tranches 1 and 2 will be accounted at fair value through profit and loss. Tranches 1 and 2 of the revenue stabiliser arrangements were designated as a cash flow hedge until 30 June 2017. Any change in the intrinsic value of the collars was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity, whilst the remaining change in the fair value of USD 27 million loss was reflected in the consolidated statement of profit or loss (note 8) (the six months ended 30 June 2016: loss of

USD 66 million). During the six months ended 30 June 2017, under Tranches 1 and 2, a gain of USD 4 million was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity (the six months ended 30 June 2016: a loss of USD 62 million) and following the sale of the hedged volume of gold and the exercise of certain options USD 19 million was subsequently reclassified to Gold sales within the consolidated statement of profit or loss (the six months ended 30 June 2016: USD 33 million).

Tranches 3 and 4 continue to be accounted at fair value through profit and loss. The loss resulted from the change in their fair value totalled USD 32 million and is presented within the note 8 of the consolidated statement of profit or loss (the six months ended 30 June 2016: loss of USD 224 million) and following the sale of the hedged volume of gold and the exercise of certain options USD 3 million was subsequently reclassified to *Gold sales* within the consolidated statement of profit or loss (the six months ended 30 June 2016: USD 4 million).

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

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.

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

Following certain amendments to the previous cross currency contracts and new fixed rate swap, offsetting the floating swap, that took place in 2016, the following terms were in place as of 30 June 2017:

- the Group quarterly pays to the banks 3.94% in USD and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group exchanges principal amounts paying USD 808 million and receiving RUB 28,443 million (amended terms of cross currency swap agreements with the same banks dated to 2014);
- the Group quarterly pays to the banks 3.98% in USD and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group exchanges principal amounts paying USD 215 million and receiving RUB 7,557 million. These terms were achieved by keeping unchanged previous cross currency contracts and entering into new fixed rate swaps.

No premium was paid or received on modification of original swaps and entering into the new interest rate swap.

Rusbonds

In 2015, the Group entered into cross currency swaps with leading Russian banks for a total amount of RUB 15 billion to economically hedge interest payments and principal amounts for Rusbonds. According to the cross currency swap agreements the Group will semi-annually pay to the banks (6MLIBOR + Margin 4.45% for RUB 10 billion and + 5.9% for RUB 5 billion) in USD and receive from the banks 12.1% in RUB; and at maturity (July 2021) the Group will exchange principal amounts paying USD 255 million and receiving RUB 15 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 six months ended 30 June 2017 resulted in a revaluation gain of USD 37 million recognised in the consolidated statement of profit or loss (note 8) (six months ended 30 June 2016: a gain of USD 121 million). The gain on the exchange of interest payments in amount of USD 16 million is recognised within the *Finance cost* (note 7) (six months ended 30 June 2016: USD 11 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.

(in millions of US Dollars)

Interest rate swaps

In 2014, the Group entered into interest rate swap agreements with leading Russian banks, according to which the Group pays semi-annually and until 29 April 2020 LIBOR + 3.55% in USD and receives 5.625% in USD in respect of a USD 750 million nominal amount. The purpose of this swap was to decrease the effective interest rate for the USD 750 million Eurobonds.

In 2016, the Group signed new offsetting interest rate swap agreements, according to which the Group pays semi-annually and until 29 April 2020 5.342% in USD and receives LIBOR + 3.55% in USD in respect of a USD 750 million nominal amount, to effectively swap variable interest rate payments under 2014 interest rate swaps into fixed ones.

In 2016, certain of the new interest rate swap agreements were concluded with the same counterparties and will settle on a net basis. Those swaps are presented on a net basis. No premium was paid or received on entering into the offsetting swap agreements.

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.

For the six months ended 30 June 2017, the loss 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 8) (six months ended 30 June 2016: gain USD 12 million). The gain on the exchange of interest payments in the amount of USD 1 million is recognised within the *Finance cost* (note 7) (six months ended 30 June 2016: USD 5 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.

11. INVENTORIES

	30 Jun. 2017	31 Dec. 2016
Inventories expected to be recovered after 12 months		
Stockpiles	270	253
Gold-in-process	12	11
Sub-total	**282**	**264**
Inventories expected to be recovered in the next 12 months		
Stores and materials	268	253
Gold-in-process	68	54
Stockpiles	54	51
Refined gold	6	23
Less: provision for obsolete and slow-moving stores and materials	(12)	(12)
Sub-total	**384**	**369**
Total	**666**	**633**

(in millions of US Dollars)

12. CASH AND CASH EQUIVALENTS

	30 Jun. 2017	31 Dec. 2016
Bank deposits		
- USD	957	1,443
- RUB	52	82
Current bank accounts		
- USD	365	41
- RUB	23	82
Cash in the Federal Treasury	76	74
Other cash and cash equivalents	4	18
Total	**1,477**	**1,740**

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

- USD	1.3%-3.2%	1.1%-4.4%
- RUB	7.0%-8.9%	8.4%-10.2%

13. ASSETS CLASSIFIED AS HELD FOR SALE

As of 30 June 2017, the Group reached preliminary agreements and expects within one year time to dispose of a part of the 110 kW Peleduy-Polyus grid from the Peleduy sub-station to pylon No.809, 220 kW Razdolinskaya Taiga grid and 220 kW sub-station Taiga from the Capital construction business segment. Accordingly, the total amount of USD 147 million was reclassified from property, plant and equipment to assets held for sale, USD 97 million are expected to be repaid to the Group within a period of more than one year after the sale.

Impairment loss of USD 4 million was recognised as the management of the Group have indicators that the fair value of these assets is lower than their carrying amount.

14. SHARE CAPITAL

Purchase of the Company's shares

On 22 December 2016, the majority of the Company's shareholders approved the merger of LLC Polyus-Invest, a 100% subsidiary into the Company. At the same time certain shareholders who did not participate in the shareholders meeting or voted against the reorganisation demanded the Company to purchase their shares. On 3 March 2017, as a result of the completion of the above mentioned transactions, the Company purchased the following number of its ordinary shares:

Name of shareholders submitted its ordinary shares for repurchase	Number of shares	Ownership, as %	Price per 1 share, RUB	Consideration, USD million
Non-controlling interest	13,556	0.01%	4,497	1

Cancellation of treasury shares

On 7 April 2017, the PJSC Polyus merged with LLC Polyus-Invest, a then subsidiary of the Company, as a result of which 63,082,318 of the PJSC Polyus treasury shares were cancelled on 10 April 2017, and 1,926,756 remained as treasury shares.

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

The Offering comprised an offering by the Company of newly issued shares of the Company ("New Shares") in the Russian Federation (the "Russian Placement") and offering of existing shares ("Shares") and global depositary shares ("GDSs") of the Company by PGIL and Polyus Gold plc both in the Russian Federation and outside of the Russian Federation as well as through the facilities of the London Stock Exchange plc. The total size of the Offering amounted to $858 million, including

(in millions of US Dollars)

New Shares issued by the Company for a total amount of $400 million, and Shares and GDSs sold by PGIL, including over-allotment Shares and GDSs, constituting $458 million.

On 30 June 2017, the Company announced price of the Offering, which was USD 66.50 per share and USD 33.25 per GDS (1 share = 2 GDS). In the course of the Russian Placement, by 30 June 2017 the Company received irrevocable offers from various persons to subscribe for the aggregate of 6,015,690 New Shares (of which 98,809 New Shares were already issued on 30 June 2017, while remaining were issued in July 2017). The above offers were accepted by the Company on 30 June 2017 and, therefore, on that date the Company became eligible to receive the cash proceeds from the Russian Placement by the relevant due dates. Cash to be received on completion of Offering was presented as Receivables from the Offering and as an increase in the Additional paid-in capital in the amount of USD 383 million, net of directly attributable accrued expenses of USD 17 million, before income tax effect of USD 3 million. The cash from the Russian Placement was received in July 2017.

Weighted average number of ordinary shares

Authorised, issued and fully paid share capital of the Company as of 30 June 2017 comprised 127,644,238 ordinary shares at par value of RUR 1.

The weighted average number of ordinary shares for the three and six months ended 30 June 2017 and 2016 used in the calculation of basic and diluted earnings per share (“EPS”) is presented below (thousands of shares):

	Three months ended 30 June		**Six months ended 30 June**	
	2017	**2016**	**2017**	**2016**
Ordinary shares’000 in issue at the beginning of the reporting period	**125,618**	**130,391**	**125,632**	**190,628**
Treasury shares issued during the period	–	(282)	(14)	(60,519)
New Shares issued during the Offering as of 30 June 2017	99	–	99	–
Weighted average number of ordinary shares’000 – basic EPS	**125,618**	**130,206**	**125,623**	**153,800**
LTIP	169	–	116	–
Weighted average number of ordinary shares’000 – basic EPS	**125,787**	**130,206**	**125,739**	**153,800**

Dividends

USD 340 million (RUR 20,063 million) in total or USD 2.53 per share of dividends for 2016, including USD 100 million of special dividends were declared on 30 June 2017 (included within Trade and other payables) of which USD 16 million related to New Shares. Dividends were not allocated on treasury shares.

(in millions of US Dollars)

15. BORROWINGS

	Nominal rate %	30 Jun. 2017	31 Dec. 2016
Credit facilities with financial institutions nominated in USD with variable interest rates	USD LIBOR + margins ranging from 1.35% to 4.50%	1,274	2,513
USD 750 million Eurobonds with fixed interest rate due in 2020	5.625%	743	–
USD 500 million Eurobonds with fixed interest rate due in 2022	4.699%	494	–
USD 800 million Eurobonds with fixed interest rate due in 2023	5.250%	792	–
PGIL USD-credit facilities with fixed interest rate (note 17)	4.799% − 5.725%	–	1,237
Credit facilities with financial institutions nominated in RUR with fixed interest rates	10.35%	559	541
Credit facilities with financial institutions nominated in USD with fixed interest rates	3.75% − 4.10%	331	331
Notes due in 2025 (Rusbonds) with noteholders' early repayment option in 2021	12.1%	259	253
Credit facilities with financial institutions nominated in RUR with variable interest rates	Central bank rate + 2.3%	84	81
Letters of credit with deferred payments terms with variable rates	Euribor +1.8%, USD LIBOR + 1.15%	10	19
Lease liabilities nominated with fixed interest rates in USD	5.1% − 8.5%	15	6
Sub-total		**4,561**	**4,981**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(29)	(283)
Long-term borrowings		**4,532**	**4,698**

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

PGIL completed USD 800 million Notes issuance

On 7 February 2017, PGIL issued USD 800 million Notes due in 2023 with a coupon of 5.25% per annum (the "Notes"). The Company guarantees the Notes. On 14 February 2017, the Company borrowed USD 800 million from PGIL, which were used for debt refinancing.

Repayment of debt

On 31 March 2017 USD 1,250 million of credit facilities with financial institutions nominated in USD with variable interest rates were repaid in advance of the payment schedule.

Transfer of PGIL Notes (Eurobonds) to a Group's subsidiary

On 28 April 2017 liabilities under the USD 800 million Notes 2023 were transferred from PGIL to Polyus Finance Plc, a 100% subsidiary of JSC Polyus Krasnoyarsk. Accordingly, the liability for the same amount under the loan from PGIL to JSC Polyus Krasnoyarsk was transferred from PGIL to Polyus Finance Plc.

On 12 May 2017 liabilities under the USD 750 million Notes 2020 were transferred from PGIL to Polyus Finance Plc, a 100% subsidiary of JSC Polyus Krasnoyarsk. Accordingly, the liability for the same amount under the loan from PGIL to JSC Polyus Krasnoyarsk was transferred from PGIL to Polyus Finance Plc.

On 30 May 2017 liabilities under the USD 500 million Notes 2022 were transferred from PGIL to Polyus Finance Plc, a 100% subsidiary of JSC Polyus Krasnoyarsk. Accordingly, the liability for the same amount under the loan from PGIL to JSC Polyus Krasnoyarsk was transferred from PGIL to Polyus Finance Plc.

(in millions of US Dollars)

Unused credit facilities

In 2014, one of the Group's subsidiaries entered into a five year RUB 40,000 million credit line with a bank to fund its general corporate purposes. As of 30 June 2017, the amount of unused credit facilities was RUB 40,000 million, which is equivalent to USD 677 million at 30 June 2017 exchange rate.

Pledge

As of 30 June 2017 and 31 December 2016, all shares of JSC TaigaEnergoStroy, a 100% subsidiary of the Group, were pledged to a secure credit line.

Other matters

JSC Polyus Krasnoyarsk guaranteed liabilities of all the companies in the Group for all borrowings, except for Rusbonds.

There were a number of financial covenants under several loan agreements in effect as of 30 June 2017 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; and
- in its level of leverage and other financial and non-financial parameters.

The Group was in compliance with all these covenants as of 30 June 2017.

Rusbonds and its reclassifications

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

The bondholders had to notify the issuer by 24 March 2017 to exercise their right, but such notifications from bondholders were not received and accordingly, the full outstanding amount of Rusbonds was reclassified to long-term as of 30 June 2017.

Fair value measurements

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

	30 June 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Borrowings (Level 2)	2,273	2,172	4,728	4,248
Eurobonds (Level 1)	2,029	2,126	–	–
Rusbonds (Level 1)	259	288	253	272
Total	**4,561**	**4,586**	**4,981**	**4,520**

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

(in millions of US Dollars)

The fair value measurement of the borrowings 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.

16. DEFERRED CONSIDERATION

On 16 December 2016, JSC Polyus, a 100% subsidiary of the Group, entered into a number of option agreements with LLC RT Business Development ("RT"), a wholly owned subsidiary of Russian state-owned Rostec Corporation ("Rostec"). Under these option agreements the Group expected to increase its ownership interest in LLC SL Gold ("SL Gold"), a 51% subsidiary of the Group[4], by 23.9% within following five years (with the right to accelerate) for an undiscounted consideration of USD 139 million (Note 3).

On 26 January 2017, the date when the Group became committed to the option agreements, the Group assessed their fair value. Fair value of the options for 23.9% stake was (i) USD 139 million at the initial recognition in the undiscounted consideration and (ii) USD 121 million, being discounted cash flows measured based on discount factors which are observable in the market on that date and varying from 3.0% to 4.9% p.a. that was accounted for as *Deferred consideration* with a corresponding increase in *Exploration and evaluation assets* within *Mineral rights* group.

Thereafter *Deferred consideration* is presented in the condensed consolidated interim statement of financial position at amortised cost with *Unwinding of interest on deferred consideration* recognised in the condensed consolidated interim statement of profit or loss within finance costs (note 7).
In May 2017, the Group exercised certain options paying USD 21 million in cash and increased its ownership in the share capital of SL Gold by 3.6% to 54.6%.

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

Balance at 31 December 2016	**–**
Fair value on initial recognition presented as increase in exploration and evaluation assets for 23.9% (note 9)	121
Unwinding of interest on deferred consideration	2
Settled in cash	(21)
Foreign exchange gain, net	(1)
Effect of translation to presentation currency	1
Balance at 30 June 2017	**102**

The fair value measurement on the date of initial recognition is based on inputs (spot currency exchange rates and forward USD interest rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value. As of 30 June 2017, the fair value of the *Deferred consideration* approximately equals the carrying value due to short period between the reporting date and date of initial recognition.

17. RELATED PARTIES

Related parties include substantial shareholders, entities under common ownership and control within the Group and members of key management. The Company and its subsidiaries, in the ordinary course of business, generally obtain and issue loans from / (to) related parties and make appropriate accruals and cash receipts of interest income and expense.

[4] On 31 May 2017, the Group increased effective ownership in SL Gold (note 16) from 51% to 54.6% for a cash consideration of USD 21 million.

(in millions of US Dollars)

Immediate shareholder

The Group had the following outstanding balances and investments with parent entity:

	30 Jun. 2017	31 Dec. 2016
Trade and other receivables	15	–
Borrowings (note 15)	–	1,237
Trade and other payables	–	12

The Group recognised the following amounts in respect of transactions with its parent entity:

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Interest income	–	1	–	4
Interest received	–	–	–	6
Interest expense	6	–	19	1
Interest capitalised	6	11	16	22
Transfer of PGIL Notes (note 15)	2,050	–	2,050	–
Proceeds from borrowings	–	–	800	–
Repayment of borrowing and interest accrued	37	23	46	23
Proceeds from loans given	–	–	–	123
Buy-back of treasury shares	–	–	–	3,423

Key management personnel

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Short-term compensation paid to key management personnel accrued	6	5	9	10
Equity-settled share-based payments plans (LTIP)	1	3	8	6
Total	**7**	**8**	**17**	**16**

18. COMMITMENTS AND CONTINGENCIES

Capital commitments

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

	30 Jun. 2017	31 Dec. 2016
Project Natalka	188	190
Other capital commitments	88	67
Total	**276**	**257**

Contingencies

Litigation

In the ordinary course of business, the Group is subject to litigation, 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 or litigation applicable to the Group.

Taxation contingencies in the Russian Federation

Laws and regulation affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant. With regards to matters where practice concerning payment of taxes is unclear, management estimates that there were no tax exposures as of 30 June 2017.

In August 2016 JSC Pervenets, a wholly owned subsidiary of the Group, commenced applying Regional Investment Program preferential tax regime to Irkutsk Ore business unit. In June 2017, the tax authorities completed a tax audit and challenged certain aspects of the application of reduced income tax rates (regional part) from the standard 17% to 0% from 1 January 2017 onwards. Management believes that the assumptions made regarding the Group's compliance with the Regional Investment Program requirements as of 31 December 2016 and 30 June 2017 are appropriate and intends to defend its position with the tax authorities. Had the Group applied the standard regional tax rate, income tax expense for the six months ended 30 June 2017 would be higher by USD 10 million (three months ended 30 June 2017: USD 6 million).

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. 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. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

Subsidiaries	Nature of business	Effective % held[5] at 30 Jun. 2017	31 Dec. 2016
Incorporated in Russian Federation			
JSC Polyus Krasnoyarsk (renamed, previously JSC "Gold Mining Company Polyus")	Mining (open pit)	100	100
JSC Aldanzoloto GRK	Mining (open pit)	100	100
JSC Pervenets	Mining (open pit)	100	100
PJSC Lenzoloto	Holding company	64	64
JSC ZDK Lenzoloto	Mining (alluvial)	66	66
JSC Svetliy	Mining (alluvial)	56	56
JSC Matrosova Mine	Mining (development stage)	100	100
LLC Polyus Stroy	Construction	100	100
JSC TaigaEnergoStroy	Construction	100	100
LLC SL Gold[6]	Exploration and evaluation of Sukhoi Log deposit	55	51

20. EVENTS AFTER THE REPORTING DATE

Except for stated below, there were no events subsequent to the reporting date that should be disclosed in these condensed consolidated interim financial statements.

Option agreements to consolidate 100% in LLC SL Gold

On 11 July 2017, JSC Polyus Krasnoyarsk, a 100% subsidiary of the Group, entered into a number of additional put and call option agreements with RT, a wholly owned subsidiary of Rostec, to acquire an additional 25.1% participation interest in SL Gold, a 54.6% subsidiary of the Group.

Total consideration for the additional 25.1% participation interest is fixed at USD 145.9 million and, if the options are exercised, will be payable in PJSC Polyus' shares within the next five years in five tranches, with the Group having the right to accelerate.

The first tranche (a 3.8% stake in SL Gold for approx. USD 21.9 million) was paid using 290,049 PJSC Polyus' existing treasury shares on 20 July 2017.

[5] Effective % held by the Company, including holdings by other subsidiaries of the Group.
[6] On 31 May 2017, the Group increased effective ownership in SL Gold (note 16) from 51% to 54.6% for a cash consideration of USD 21 million.