2. *Geology and mineralization*

The Bamskoye deposit is located within the central part of Apsakan ore cluster in the north-west part of the late Archaean Ilikan block of the Dzugjur-Stanovoi system. The block consists of intrusive granites and amphibolite facies metamorphic rocks.

Gold mineralization occurs as disseminations, in breccias in altered host rock and associated with quartz-chlorite-carbonate stringers, which are typically thin, sinuous and oriented in various directions. The stringers commonly carry sulphide minerals (pyrite and lesser chalcopyrite).

3. *Reserves and resources*

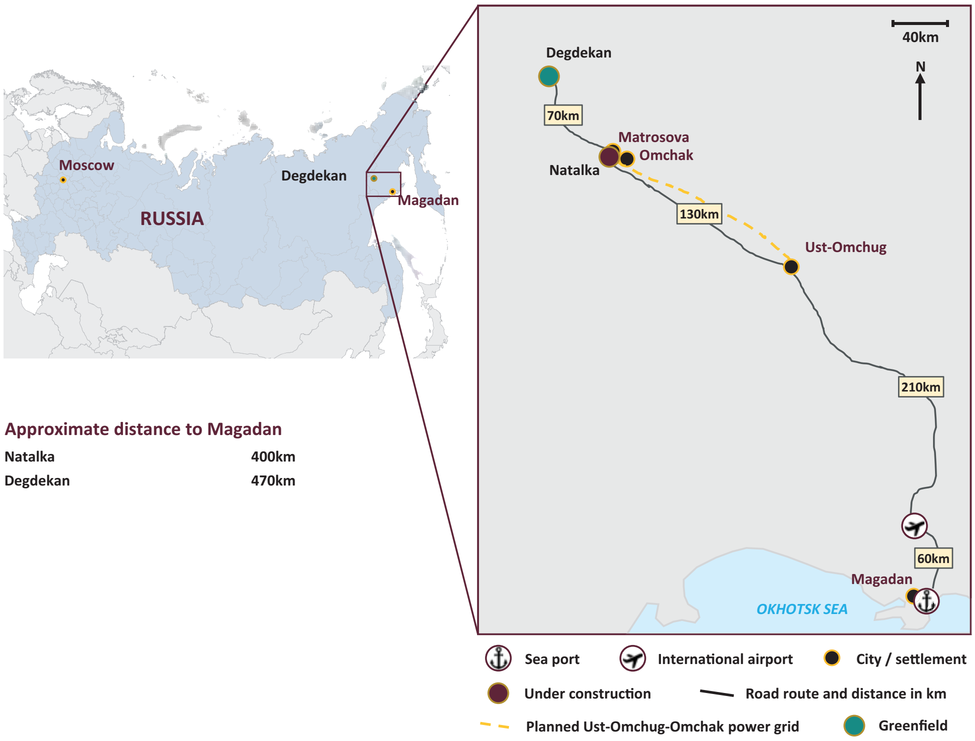
Total Measured and Indicated and Inferred Mineral Resources at Bamskoye as at 31 December 2016 were estimated at 20 mt of ore, grading 1.8 g/t gold for 1.1 moz of contained gold as classified and reported according to the JORC Code.

Degdekan

1. *Location and history*

The Degdekan gold deposit is located in the Tenkin district of the Magadan Region of northeast Russia, approximately 470 km northwest of the city of Magadan and 70 km northwest from the Natalka deposit. The Degdekan gold deposit is accessible by a 5 km all-weather gravel road connected to the Tenkinsky highway.

The map below shows the location of the Degdekan deposit.



The rivers in the Degdekan area were mined as alluvial deposits in the 1930s, with some prospecting to identify the primary source of the ore. In the 1980s and 1990s, more systematic exploration was conducted that included geophysical and litho-geochemistry, profile geophysics, trenching and some core drilling.

In 2005, the Group acquired the licenses for the Degdekan and Vostochnoye exploration areas.

More than 2.2 moz of gold has been produced from gold placers of Degdekan exploration areas. The Degdekan deposit is connected via grid line to the Kolyma hydro power plant with an installed electricity capacity of 900 MW, which is located 10 km away from the deposit. Potable water could be obtained from the Kulu river located 10 km away from the Degdekan deposit. Degdekan can be accessed from Magadan via a relatively well-maintained all-weather road.

2. *Geology and mineralization*

The Degdekan deposit comprises a thick sequence of highly carbonaceous clastic sediments at the core of the Tenkinskaya anticline that is composed of terrigenous and volcano-sedimentary rocks striking generally northwest. The mineralized area generally has an east to west orientation. Host rocks are an assemblage of argillites, siltstones and sandy siltstones intercalated with subordinate sandstone layers and lenses. There are multiple stages of small granite intrusions and dykes.

The mineralization type is a quartz-sulphide vein and stringer stockwork system with an east to west strike, parallel to the Tenkinskaya anticline. Several of the mineralized zones are approximately 1.8 km long, 450 m extent down-dip, and 250 m to 300 m thick. The mineralization is characterized by arsenopyrite disseminations, intense pyritisation and minor galena. The sulphide grades are between 0.5 per cent and 5 per cent of the total, with strong oxidation at the surface.

3. *Reserves and resources*

According to the GKZ, the gold reserves were estimated to be 38.6 mt of ore, grading 2.24 g/t gold for 1.2 moz of contained gold.

Mineral Resources have not been classified or reported for Degdekan according to the JORC Code.

Burgakhchany

1. *Location and history*

The Burgakhchany porphyry copper deposit is located in the Bilibinsk region of Chukotka Autonomous Okrug. The Burgakhchany deposit is located 250 km away from Bilibino settlement.

The map below shows the location of the Burgakhchany porphyry copper deposit.

In 2010, the Group acquired three licenses for the Burgakhchany porphyry copper deposit area. In 2011, the Group started the prospecting and evaluation stage at the Burgakhchany deposit. In 2013, during the scoping studies, three out of five bore holes were associated with increased copper content.

The Group has located several prospective areas, include the Vernyi area, the Temnyi area, the Lux area and the South area. According to the Group's internal estimates, the Burgakhchany deposit has expected resources of 11 million ounces of gold equivalent.

At the end of 2016, the Group successfully actualized the license for Burgakhchany deposit with the GRZ and the Group has now proceeded to evaluate prospective exploration areas.

2. *Geology and mineralization*

The license areas of Burgakhchany are located along the extension of the Baimskaya geological structure, which hosts the large Peschanka copper-porphyry deposit.

The strata bound formations of the Burgakhchany area are represented by Devonian volcanic rocks and by Jurassic-Cretaceious terrigenous and volcanic sediments. All rocks are intruded by numerous intrusive and sub-volcanic bodies of the Late Paleozoic and Late Cretaceous ages (seven igneous complex). More than 60 mineralization occurrences of Au, Au-Ag, and Au-Cu are identified within Burgakhchany.

3. *Reserves and resources*

Mineral reserve estimates have not been classified or reported for Burgakhchany according to the GKZ.

Mineral Resources have not been classified or reported for Burgakhchany according to the JORC Code.

Strategic Asset Review

In 2014, the Group commenced a comprehensive review of its assets, with a view to monetizing its substantial resource base, identifying additional low-risk growth opportunities and optimizing its development pipeline. In March 2015, the Company developed the Strategic Asset Review Program to develop low-risk, low-cost brownfield projects. The review resulted in a number of medium-scale initiatives at its core assets at the Krasnoyarsk, Irkutsk and Yakutia business units, with the potential to deliver up to approximately 480 thousand ounces per annum (excluding the Natalka project and the gold equivalent impact from the additional BIO circuit (BIO-4)) of incremental gold production. The Group's gold production in 2016 totaled approximately 2.0 million ounces. The Group expects its production levels to further increase in 2017, allowing it to produce approximately 2.1 million ounces. In the mid-term, the Group's annual production target is at least 2.8 million ounces of gold to be produced by 2019. Achievement of these target projections depends on various factors, including market conditions, successful implementation of our development and expansion projects, and various operational and other risks described elsewhere in this Prospectus. Under the Strategic Asset Review Program, the brownfield projects include:

- the Krasnoyarsk business unit is to remain the principal growth platform of the Group, with four major projects identified:
    - reconfiguration of Mill No. 1 to process higher-grade ore from Olimpiada deposit;
    - an additional bio-oxidation circuit (BIO-4) at Olimpiada's Mills No. 1, 2 and 3 complex;
    - expansion of the Blagodatnoye Mill to 8.0 mtpa of throughput capacity; and
    - the introduction of heap leaching at Blagodatnoye;
- at Verninskoye, the Group is planning to increase the capacity of the mill to 3.0 mtpa; and
- at Kuranakh, the Group is considering commissioning a heap leach operation as well as increasing existing throughput capacity of the Kuranakh Mill to 5.0 mtpa.

In 2016, one of these projects, the reconfiguration of Mill No. 1, was completed in September, and the first stage of expansion was completed for three other projects as follows:

1. the throughput capacity at the Blagodatnoye Mill reached its target of 8.0 mtpa and the Group is now implementing initiatives to stabilize this run rate;
2. the throughput capacity at the Verninskoye Mill achieved 2.5 mtpa annualized run rate and the Group is now implementing initiatives to proceed with further capacity expansion; and

3. the throughput capacity at the Kuranakh Mill achieved 4.5 mtpa annualized run rate and the Group is now implementing initiatives to proceed with further capacity expansion.

Following the completion of the first stages, throughput capacity expansion projects are expected to be finalized in 2017-2018.

Disposal of Nezhdaninskoye

On 20 March 2017, JSC Polyus signed an agreement for the sale of its 82.34 per cent interest in UVGK Holdings Limited, a joint venture entity of the Group with Polymetal, which holds 100 per cent of the share capital of JSC South-Verkhoyansk Mining Company, the holder of the license for the Nezhdaninskoye deposit, to a company beneficially controlled by Mr. Ivan Kulakov, a former managing director of Highland Gold Mining. The purchase price for the interest is US$158 million, payable to the Group in two instalments: cash consideration of US$100 million, payable upon the completion of the transaction, which was received by the Group in March 2017; and contingent cash consideration of US$58 million, which could be adjusted upon the achievement by the Nezhdaninskoye project of certain operational and financial criteria, payable upon the commissioning of the Nezhdaninskoye deposit and construction of the processing plant.

In December 2015, the Group entered into the joint venture with Polymetal, pursuant to which Polymetal was responsible for the development, engineering and construction management of the Nezhdaninskoye deposit.

The Group expects to pay its shareholders a special dividend of US$100 million from the proceeds of the sale of the Group's interest in Nezhdaninskoye.

Supplies

The principal operating supplies purchased by the Group in its operations are electricity, transportation services and consumables, such as explosives, cyanide, grinding balls, fuel and lubricants.

Electricity

Power is one of the Group's largest operating expenses. Some of the Group's mines currently purchase power from state-controlled regional energy agencies, which charge consumers a rate based on tariffs that are updated from time to time. All of the Group's existing operations have access to power grids that provide a cheaper and more reliable energy supply than captive generators.

There is a lack of power grid facilities in the Krasnoyarsk region (Olimpiada, Titimukhta and Blagodatnoye deposits). As a result, the Group is required to use more expensive captive generators, reducing the security of the energy supply for existing operations. In 2016, the Group completed the construction of a 228 kilometers grid (the Razdolinskaya-Tayga grid) as part of its broader strategy towards the development of the Krasnoyarsk business unit. Having installed 801 pylons for the grid, the Group is currently finalizing the pre-commissioning of the grid. The Group plans to connect the Krasnoyarsk business unit with Boguchanskaya HPP, providing the Krasnoyarsk business unit with power at attractive rates and improving the reliability of the power supply. Upon commissioning, the Razdolinskaya-Taiga grid line is expected to be bought out by the Federal Grid Company for the capital cost of the project plus interest accrued or approximately RUB 6.7 billion (approximately US$103 million). Payments will be made in tranches over a 10-year period.

In 2016, the Group also completed the construction of the 280 kilometer-long 110 kV Peleduy–Chertovo Koryto–Sukhoy Log power grid with a capacity of 51 MW, the first phase of the Peleduy–Mamakan 220 kV grid, as part of its broader strategy towards the development of Irkutsk business unit. The grid, consisting of the installation of 881 pylons, connects Viluyskie HPP with the Verninskoye and Chertovo Koryto deposits, providing the Irkutsk business unit with power at attractive rates and improving the capacity and reliability of the power supply. The Group plans to increase the voltage of the Peleduy–Chertovo Koryto–Sukhoy Log power grid to 220 kV, construct the second 220 kV chain of the Peleduy–Chertovo Koryto–Sukhoy Log power grid and 220 kV substation at the Sukhoi Log deposit and upgrade the Mamakan substation. Total capital expenditure for the first phase of the project – the power substation (named Polyus) and the Peleduy–Chertovo Koryto–Sukhoi Log-Polyus grid – amounted to US$90 million. The Group has signed a letter of intent with the FGC to buy out the Peleduy–Sukhoi Log section of the grid for RUB 2.7 billion (approximately US$42 million) under the FGC's investment program for 2017.

In late 2016, a RUB 9.9 billion (approximately US$152 million at the US$/RUB exchange rate of 65 roubles per US$1.00) subsidy for the construction of the new high-voltage power line Ust–Omchug–Omchak in the Magadan region was approved for the Group by the state authorities, of which RUB 4.6 billion (US$76 million) has already been received. The 120 kilometer-long grid is intended to link Ust-Srednekanskaya HPP with Natalka and other ventures in the Magadan region in order to significantly improve the Group's power supply and potentially to reduce the current electricity tariff. Although the construction plan is currently being finalized, construction of the grid is scheduled for completion in 2018. Any new construction relating to the grid will remain the Group's property. The operations are planned to be performed by the Group or by the Group together with MagadanEnergo. The project has additional effects in the form of revenues from the services related to the supply of electricity to third-party consumers and the possibility of extending the Natalka processing plant. Completion of the grid's construction and subsequent commissioning is scheduled for 2018, and the remainder of the government subsidy is due to be paid in instalments, with the last instalment due upon completion of the grid. The Company expects the total capital expenditure for the project to amount to US$152 million.

Transportation

The Group's produced doré gold is accumulated as unfinished product at secured sites maintained at the Olimpiada mine (including doré gold produced at the Blagodatnoye and Titimukhta mines), Verninskoye mine and Kuranakh mine. Slime gold from the Group's Alluvials operations is accumulated at four special stocks of the Group's subsidiary, JSC ZDK Lenzoloto. The doré gold / slime gold is transported on armored vehicles from the storage facilities, either directly to the refinery (in case of the Olimpiada mine) or to local airports (Bodaibo, Irkutsk region, or Neryungri, Yakutia region), from where it is flown to state-owned refinery plants. The transportation is handled by armed guards, either employed by the Group, with support from local police departments, or hired armed guards from companies which provide professional services in handling and deliveries of valuable cargoes (such as Rosincas of the CBR, the Courier Communications Central Board or Joint Stock Company "**Special Transportation Services**"). Rosincas is a subsidiary of the CBR, which provides encashment services in the Russian Federation. The Courier Communication Central Board is the federal state unitary enterprise, which provides a number of services, including reception, processing, storage and delivery of confidential correspondence and valuable cargoes. Shipments are insured with reputable Russian insurance companies.

In addition, the Group has entered into several socio-economic agreements with the regional governments of the Krasnoyarsk, Irkutsk, Yakutia and Magadan regions in connection with the development of infrastructure, including transportation roads.

Consumables

The Group has a centralized procurement department for bulk purchases of certain supplies. Supplies subject to central procurement policies are agreed upon in accordance with Group policy and include explosives, cyanide, grinding balls and fuel.

The Group has developed key relationships with a limited number of suppliers and contractors for procurement of its consumables. The Group's cyanide is currently supplied by two suppliers, as the Group believes that there are limited alternatives for sourcing cyanide from other suppliers. The Group obtains most of its fuel from one supplier.

The transportation of coal supplies is currently through one shipping contractor, since there are currently no feasible alternatives.

Purchase of ore produced by third parties

Since 2014, the Group has also started purchasing ore produced by third parties who have mining operations but no ore-processing capacity. For example, the Group processes ore purchased under an off-take agreement with Veduga mine (Krasnoyarsk region) on its Olimpiada and Titimukhta mill operations.

In 2016, the Group purchased approximately 551 thousand tonnes of Veduga ore pursuant to the off-take agreement. The Group does not expect to purchase any ore from the Veduga mine in 2017.

Capital expenditures

The Group has spent significant sums of capital expenditure on production equipment, production materials and construction services, while the Group management's current development pipeline contemplates significant investments in the periods between 2017 and 2019.

The following table shows the Group's capital expenditures by project for the periods indicated. For a description of capital expenditures for the three months ended 31 March 2017 and 2016 and for the years ended 31 December 2016, 2015 and 2014, see "*Operating and Financial Review—Discussion of Results of Operations*".

	Year ended 31 December				*Three months ended 31 March*
(in millions of U.S. dollars)	*2016*	*2015*	*2014*	*2013*	*2017*
Natalka	215	113	308	1,051	76
Olimpiada	80	39	56	146	14
Blagodatnoye	20	13	17	54	3
Verninskoye	24	21	38	53	5
Alluvials	16	5	17	18	7
Titimukhta	–	1	6	2	–
Kuranakh	33	10	6	16	8
Exploration	10	7	6	26	1
Other (including power projects)	70	59	71	66	14
Total	**468**[1]	**268**	**525**	**1,432**	**128**

Note:

1. Not including the Group's prepayment for SL Gold's participation in the auction for Sukhoi Log.

The following table shows the Group's estimated capital expenditures for the years ended 31 December 2017, 2018 and 2019.

	Year ended 31 December		
(in millions of U.S. dollars)	*2017*	*2018*	*2019*
Development (excluding Sukhoi Log)	439	390	279
Maintenance and other	321[2]	136	147
Sukhoi Log exploration[1]	20	50	35
Total	**781**	**577**	**461**

Notes:

1. Depending on market conditions, the Group expects to spend its estimated pre-production capital expenditure for the years 2017-2019 on the exploration program and engineering studies for Sukhoi Log (including, for example, drilling, hiring a technical consultant, and further delineating reserves). See "*—Advanced stage exploration projects—Sukhoi Log—4. Next steps—Estimated Capital Requirements*".
2. Including capitalized interest and operating expenses for Natalka prior to production launch.

The Group's estimated development capital expenditure is expected to decrease by 2019, as the Group's second stage growth program – focusing on the commissioning of Natalka and the implementation of growth projects at the Group's brownfield sites – is scheduled to be completed by the end of 2019.

The Group's estimated maintenance capital expenditure includes the minimum capital expenditure required to sustain the Group's current operations as calculated by AMC (see "*Exhibit A: AMC Competent Person's Report*") and the Group's estimates for the capital expenditure expected to be required for small-scale projects, such as information technology improvements; research and development; new TOP projects; and exploration works at the Group's greenfield assets (excluding Sukhoi Log). The Group's actual maintenance capital expenditures in future periods depend on a number of factors, which cannot be ascertained with any certainty and may differ materially from the above estimates, and no reliance should be placed on these estimates as being indicative of future capital expenditures.

Capital expenditure is subject to market and other factors which cannot be predicted, including the levels of inflation, the price of gold, the exchange rates, and the costs of labor, raw and other materials, equipment and services used in operations. As a result, actual capital expenditure is likely to vary from the Group's current estimates, potentially significantly.

Refining

Refining of the Group's doré / slime gold is performed at independent refining plants. The Group outsources the refining of gold that it produces to OJSC Krastsvetmet and, through JSC Aldanzoloto GRK, to JSC Prioksky Plant of Non-Ferrous Metals. Both refiners are included by the LBMA in its list of refining companies that meet "Good Delivery" standards. In addition to OJSC Krastsvetmet and JSC Prioksky Plant of Non-Ferrous Metals, there are six other refining plants in Russia which are included in the LBMA's Good Delivery list. The Group may consider, in the future, entering into agreements with one or more of these plants. Doré gold produced at the Olimpiada, Blagodatnoye and Titimukhta mines and slime gold from the alluvial operations is processed at OJSC Krastsvetmet and doré gold produced at the Kuranakh mine is processed at both OJSC Krastsvetmet and JSC Prioksky Plant of Non-Ferrous Metals. OJSC Krastsvetmet accounts for the majority of the Group's gold refinery volumes. Treatment charge is agreed between the refiner and the gold supplier based on analysis of the sample of melted doré gold or slime.

Krasnoyarsk refinery – OJSC Krastvetmet

OJSC Krastsvetmet, a state-owned refinery, was established in 1943 and is located in Krasnoyarsk. OJSC Krastsvetmet employs a miller chlorination process, wet chemical parting and wohlwill electrolytic process and has a processing capacity of 8 moz per year. OJSC Krastsvetmet is accredited by the LBMA for the refining of gold and silver, and by the Dubai and Shanghai exchanges for the refining of gold.

Prioksky refinery – JSC Prioksky Plant of Non-Ferrous Metals

JSC Prioksky Plant of Non-Ferrous Metals, a state-owned refinery, was established in 1989 and is located in Kasimov, in the Ryazan region. JSC Prioksky Plant employs pyrometallurgical chlorination, miller chlorination process, wohlwill electrolytic process and solvent extraction and has a processing capacity of 7 moz per year. JSC Prioksky Plant is accredited by the LBMA for the refining of gold and silver.

Sales

Sales of gold by the Group are made through JSC Polyus, which sells gold produced by its Krasnoyarsk business unit, as well as gold produced by its subsidiaries at the other business units as their agent. The Company believes that this centralized sales system improves the pricing terms that the Group is able to obtain for its products.

The table below shows the Group's total sales of gold for the periods indicated. All such sales during this period were made to the domestic market.

	Year ended 31 December			*Three months ended 31 March*
	2016	*2015*	*2014*	*2017*
Gold sales (koz)	1,915	1,768	1,691	487

The Russian authorities regulate the sale of gold in Russia and sales may be made to licensed commercial banks or under an export license obtained from the Russian Ministry of Industry and Trade. Over 90 per cent of the Group's gold was sold to four Russian banks (MDM Bank, Otkritie, Sberbank and VTB) in 2016. The Group's Russian subsidiaries did not export refined gold in 2016, due to obtaining more favorable contractual terms with the Russian banks, often including a small premium of up to approximately US$1 / oz. Sales of gold to Russian commercial banks are governed by the Group's sales policy. The Company hedges its gold sales revenue with the SPPP. The SPPP was initiated by the Group in March 2014 and is comprised of a series of zero cost Asian gold collars and gold forward contracts aimed at increasing the certainty of a material proportion of the Group's cash flow in light of gold price volatility. See note 13 to the 2016 Financial Statements. The Group's average realized refined gold sales prices were US$1,250 per ounce in 2016, US$1,159 per ounce in 2015 and US$1,277 per ounce in 2014, respectively.

Except for the sale of 10 thousand ounces in flotation concentrate by Olimpiada in 2014, the sale of 14 thousand ounces in flotation concentrate and the export of 1.3 tonnes of precious metals through an agency agreement with Otkritie in 2015, the Group sells gold in its domestic market primarily to Russian commercial banks in individual transactions pursuant to stand-by master agreements. The prices for these sales are based on the spot LBMA price (London morning and, to a lesser extent, afternoon gold price fixing) at the time of delivery. Payment for gold is made in roubles at the applicable rate of exchange of the rouble and the U.S. dollar, typically with advance payment or immediate payment terms. The gold is sold ex-works at the refinery and title and risk to the gold transfers to the customer at the warehouse of the refining plant (primarily, OJSC Krastsvetmet and JSC Prioksky Plant of Non-Ferrous Metals).

In addition, the Group generated approximately 3 per cent of its revenue in 2016 through selling flotation concentrate produced at Olimpiada's Mill No. 1. Flotation concentrate is sold at spot contracts, with the price determined at a discount to the spot gold price of approximately 30-35 per cent. The price also varies with the gold grade in flotation concentrate. Approximately 50 per cent of this concentrate is sold to Russian off-takers and approximately 50 per cent is exported by the Group to China and South Korea. No export duties are levied on the Group's flotation concentrate exports.

Although the prices quoted on the international commodities markets determine the price of gold in both the Russian and international markets, there may be some variations in the pricing terms available in those markets as a result of variations in the discounts and premiums that the Group negotiates with its customers to reflect transportation, insurance and other costs.

Polyus Project

The Group carries out project design and engineering centrally through LLC Polyus Project. As of 31 December 2016, there are 146 specialists of LLC Polyus Project involved in designing and engineering works for the Group, including designing of industrial plants and equipment, preparation of project documentation, engineering, surveying land plots and general project planning. LLC Polyus Project is also responsible for preparing project documentation on demolition, dismantlement and shut-down of buildings and construction projects, inspection of environmental and fire controls and the on-going inspection of various construction projects of the Group. LLC Polyus Project has a proven track record of successful completion of projects, including both optimization projects and the construction of mines from the greenfield stage, such as the Blagodatnoye mine. LLC Polyus Project is currently involved in modernization works at the Olimpiada, Titimukhta and Blagodatnoye mines. LLC Polyus Project reconfigured the Mill No. 1 processing plant, undertaken in order to treat higher-grade ore from Olimpiada. The reconfiguration was completed in September 2016, increasing the plant's throughput capacity to 3 mtpa as compared to 2.4 mtpa previously. In addition, LLC Polyus Project is implementing initiatives to upgrade the Blagodatnoye mill, improving recovery rates and increasing the throughput capacity from 6.0 to 8.0 mtpa by upgrading and debottlenecking the existing processing flows. LLC Polyus Project is also the general design contractor for JSC Matrosova Mine (Natalka), JSC Aldanzoloto GRK (Kuranakh) and JSC Pervenets (Verninskoye).

Total Optimization Program (TOP)

In 2014, as part of its focus on operational excellence and cost discipline, the Group launched the TOP to streamline the implementation of capital expenditure-light operational improvements across its business. The TOP's objective is to introduce quick measures with a proven economic effect and that do not require investment in excess of RUB 35 million per initiative. Such measures have a payback period of not more than two years and an IRR greater than 20 per cent. The operations performance improvement is enhanced by the standardization of the business, supported by a personnel development system and driven by a customer focus.

The TOP was initially only launched at the Krasnoyarsk business unit, where a total of 97 initiatives have been implemented since 2014. For example, following the review of the drive layout for the wet SAG mill (7x7) No. 10, the Group decided to replace an intermediate shaft with a lighter, hollow shaft with two bearing supports. This resulted in the reduction in pressure emitted from components and even distribution of the load between both sides of a ring gear. The installation of a ring gear with a smaller diameter helped increase the shell rotation rate during repair works leading to shorter downtime, and a new design of the drive enabled the changing of a pinion together with a semi-coupling and a ring gear that reduced idle time at the mill. The implementation of this initiative resulted in a reduction of the mill drive downtime from two 60 hour periods each year to one 48 hour period per year; a decrease in the spare parts consumption rate from 10 to 4 per year for bearings and from 5 to 2 per year for pinions; and the additional recovery of 85 kg of gold per year. The Adjusted EBITDA effect of this initiative is estimated to be US$2.7 million.

In 2015, the TOP was rolled out across all of the Group's production units, including auxiliary units. A total of 310 initiatives have been launched since 2014, generating positive results. For instance, in the year ending 31 December 2013, the Kuranakh mine was the highest-cost, underperforming asset within the Group's mining portfolio, with a TCC of US$1,085 per ounce, an AISC of US$1,302 per ounce, and Adjusted EBITDA margin of 15 per cent and recoveries of 84 per cent. With the implementation of the TOP in 2015, Kuranakh made significant mining improvements (optimization of ore transportation, logistic improvements and blasting work enhancements), processing improvements (blending of ore fed to the mill to improve its chemical and mineralogical composition, optimization of reagents' consumption, decrease in equipment downtimes and optimization of new equipment purchases). One such initiative – the intensification of the thickening process at the gold recovery plant – only required capital expenditure of RUB 10.8 million (US$0.2 million) and resulted in incremental Adjusted EBITDA of an estimated US$6.3 million. Furthermore, processing capacity at Kuranakh increased from 3.8 mtpa to 4.5 mtpa. As a result of the implementation of the TOP, by the end of 2016 Kuranakh had the potential to increase its gold output by approximately 35 per cent. In addition, Kuranakh's TCC decreased to US$499 per ounce, AISC decreased to US$782 per ounce, Adjusted EBITDA margin increased to 53 per cent and recoveries increased to 88 per cent.

The TOP has also had a positive impact on the Group's other business units, such as Verninskoye and Alluvials. With respect to the Group as a whole, the Company estimates that the TOP delivered a US$94 million positive impact on the Group's earnings in 2015 from 252 initiatives and a US$134 million positive impact on the Group's earnings in 2016 from 374 initiatives. By business unit, the Company estimates that the TOP delivered a positive impact on Adjusted EBITDA in 2016 as follows: Krasnoyarsk business unit: US$109 million from 97 initiatives; Verninskoye: US$11 million from 135 initiatives; Kuranakh: US$13 million from 109 initiatives; and Alluvials: US$2 million from 31 initiatives. The Group expects further improvements in 2017 and beyond.

Polyus Production System

The Polyus Production System is a strategy of more efficient manufacturing processes and a system of continuous improvement of processes, quality and organization of operations that seeks to ensure the Company's global competitive advantage. The key elements of the Polyus Production System are as follows:

(1) strategy, goal-setting (vision, mission, strategy; system of long-term and annual objectives; strategic plan to achieve targets);

(2) operations system (efficient process model: operations, service and functional processes; advanced toolbox to ensure continuous improvement; development and implementation of clearly defined operational standards; regular audits to improve the system; methodology to identify and implement best practices);

(3) organizational efficiency (efficient organization structure with minimum management levels; system of goal-setting in accordance with business objectives, breakdown of objectives at all levels; compensation policy offering an incentive to achieve ambitious targets; system of regular employee performance review; efficient meeting and reporting system); and

(4) mentality and behavior (development of corporate culture promoting efficiency; nurturing leaders to change the corporate culture; system of mandatory training programs; regular communication of objectives and priorities; feedback and discussion of efficiency at all levels; communication of best practices and leaders' results of changing the corporate culture; values and principles).

The implementation of these elements in all areas should enable the Group to make sustainable changes and to lay a foundation for further continuous improvements through the leadership of the management and active involvement of the Group's employees.

In order to promote this culture of continuous improvement, the following seven key principles were developed, which reflect working practices that the Group seeks its employees to apply:

(1) improving the process by targeting the result (defines the final result of the process and the target status of the process; the process is described and visualized, standards of operations are developed);

(2) eliminating losses (each employee identifies and eliminates losses in his/her work; any process is evaluated from the standpoint of value and exposure to losses);

(3) solving the problem where it occurs (managers promptly address issues at the production site rather than from their offices; problem solving is monitored);

(4) leveling of the workload (overload of people and equipment is eliminated; a balanced planning system is developed; variations in processes are eliminated);

(5) standardization and use of visual control for the activity (processes, operations and methods are standardized; visual monitoring of targets, plans, implementation of measures, problem solving; the standards are applied, monitored and adjusted);

(6) work in-team to achieve the targeted result (team targets are set; client-focused system and communication between units is organized; the principle of cooperation in problem solving is applied); and

(7) promotion of leaders to change the corporate culture (the Company focuses on nurturing leaders to change the corporate culture; development of skills, training in applying tools and methods in practice are implemented; transparent programs of career development are prepared).

The Group's track record of operational improvement has four key components: an integrated HSE system (see "—*Health and Safety*"); operations performance improvement (see "—*Total Optimization Program (TOP)*"); repairs performance improvement through process model optimization, organization of repairs and automation of maintenance and repairs processes (including TRM (autonomous equipment maintenance));

and optimization of the production procurement function via a category management system, the integration of service procurement, warehousing and transport logistic processes, and an increase in stock turnover.

Research and Development

The Group carries out research and development activities in support of its core activities.

The Group established its research and development center in 2004 in the city of Krasnoyarsk to support its exploration, mining and ore processing activities. The center employed 82 researchers and other staff as at 31 December 2016. The center has performed over 500 research and development projects, of which over 80 per cent have been implemented into the Group's production processes, while the Group has successfully obtained patents for 32 inventions. The center uses technologically advanced instruments, including an atomic-emission spectrometer, a spectrophotometer and an atomic-absorption spectrometer, and comprises of the following laboratories:

- ***Mineralogical laboratory***, which studies ores from the deposits to which the Group holds licenses to optimize exploration, production and ore processing. This laboratory accumulates data on mineral and chemical composition, the structural and textural features of bed-rocks and ores and the behavior of ores during processing and gold extraction rates.

- ***Geomechanics and engineering laboratory***, which develops technologies for mining, mine engineering and mine construction. Its activities include the study of the physical and technological properties of rocks and soils and the evaluation of the stability of pit benches and walls. This laboratory is developing a proprietary database to record the physical and technological parameters of ores and rocks from the deposits to which the Group holds licenses.

- ***Biotechnology laboratory***, which develops technologies and carries out complex research on improving the biotechnological schemes for processing gold-loaded ores and concentrates received from them. They are also engaged in the study and use of associations of microorganisms for the industrial problems of bio-oxidation gold-loaded ores and concentrates; improving research techniques and the operative control of processes of bio-oxidation of mineral raw materials; improving production schedules for bio-oxidation of mineral raw materials; introducing developed biotechnologies in manufacture; studying optimum technological parameters of processes for bio-oxidation of ores and concentrates; and carrying out trials and industrial tests on the basis of technological parameters and bio-oxidation modes. The Group employs the inventions in biotechnological sphere to process refractory ores of the Olimpiada deposit. Specially breaded bacteria oxidize the sulphide minerals in the ore and liberates the occluded gold for subsequent recover via leach extraction. In order to increase the stability and high productivity of the bio-oxidation mills, chemoautotrophic microorganisms are added to the process under acidic conditions (pH less than 2.0). Currently, JSC Polyus is a patent holder for patented technologies of bacterial processing of refractory gold bearing sulphide ores and patented technology for the addition of microorganisms in the process, while the technology itself is protected by the BIONORD® trademark. In order to increase gold recovery and to decrease reagent costs at the process stage of the hydrometallurgical section, the addition of microorganisms active in acidic conditions (pH 7.5-8. 0) was the selected approach. This process underwent various pilot plant tests, with preliminary tests indicating that the use of the microorganisms decreases reagent costs by more than 40 per cent, while increasing the gold recovery rate. Some pilot plant tests on biodegradation of rhodanides and cyanides that have been conducted at sorption tails of the Olimpiada mill have shown that the selected addition of microorganisms fully oxidizes rhodanides and cyanides in concentrations of 1600 mg/l and 50 mg/l, respectively. By employing this process, the Group's operations have significantly decreased their detrimental impact on the environment.

- ***Ore-processing laboratory***, which is one of the core divisions of the research and development center. It develops flotation, gravitational enrichment, magnetic separation, concentration, filtration and other technologies for ore processing.

- ***Hydrometallurgy laboratory,*** which develops complex ore processing technologies and equipment utilizing leaching, absorption and thermal treatment. This laboratory also develops new absorption chemicals and alternative non-cyanide leaching agents, as well as waste treatment and refinement technologies.
- ***Analytical laboratory,*** which specializes in the evaluation of the gold and precious metal content in ores, ore concentrates and ore treatment products, as well as the development of precise measurement technologies.
- In addition, the Group has a laboratory of pyrometallurgical processes. This laboratory focuses on the development of technologies for thermal ore treatment to minimize the impact on the environment of those operations.

Sustainable development

The Group is committed to aligning with the ICMM Sustainable Development Framework. ICMM was established in 2001 to advance the metals and mining industry's commitment to sustainable development. ICMM brings together 23 mining and metals companies, as well as 34 national and regional mining associations and global commodity associations. In 2013, the Group commenced the ICMM membership application process. As part of this application for membership, an independent consultant carried out a strategic review of the policies and practices of the Group to analyze and assess the degree of current alignment with ICMM's principles, position statements and reporting and assurance requirements. On 29 June 2015, the Company joined ICMM. The Company is the first company from Eastern Europe and the CIS to earn membership in ICMM, which demonstrates the Group's commitment to responsible and sustainable development in the metals and mining industry, as well as providing an opportunity to interact with all the other member companies and improve best practices.

To check and verify implementation and adherence to the ICMM Sustainable Development Framework, the Group routinely implements a number of audit and assurance activities. Since 2012, the Group has been working with the internal team and a wide range of internationally established consultancies to review and verify current performance. For example, since 2012 the Group has completed:

- ***Risk Assessment***: whereby each business unit and site contributed to regular risk assessments, which inform the Group's understanding of material risks across the business and included consideration of sustainability aspects.
- ***ICMM Gap Analysis***: whereby each operation has contributed to a strategic review of Company policies and practices to identify gaps relative to the ICMM Sustainable Development Framework and the actions that are needed to address those gaps.
- ***HSE Management System Audits***: annual audits undertaken by a third-party consultant as part of the Company's commitment to continuous improvement and certification of existing ISO 14001 and OHSAS 18001 EHS Management Systems.
- ***Legal Compliance Audits***: completed by local regulators and/or the Group's Legal Department, Internal Control Department and HSE Department to check and verify compliance with applicable laws and regulations.
- ***Anti-Corruption Reviews***: targeted audits and investigations to check and verify compliance with the Group's Anti-Corruption Policy and anti-corruption laws.

The Group seeks to strengthen its sustainability management system through its governance framework. The Group has developed a new set of sustainability standards and policies, which complies with the requirements and recommendations of both the ICMM and the International Financial Corporation ("**IFC**"), and has introduced principles and procedures to address key aspects of sustainability, including social and environmental impact assessments, the sustainable use of natural resources, human rights and community engagement.

The Group produces an annual Sustainability Report in accordance with the GRI G4 guidelines, which is independently verified. For the Group, sustainability reporting serves to reinforce its culture of commitment to responsible mining at all levels. The Group acknowledges the importance of responsible environmental and social data disclosure, and as a member of the ICMM endorses the organization's sustainability principle 10, and implements effective and transparent engagement, communication and independently verified reporting arrangements with its stakeholders.

Environmental

The Group strives to minimize both relevant consumption rates and the environmental impact of its operations and comply with the industry best practices and requirements. In 2015, the HSE Department was strengthened, and the position of Head of the Environmental Office was also established.

Environmental issues are assessed by the Group's environmental personnel and a number of working groups on site. The Group has invested in new technologies and equipment to reduce the environmental impact of its operations. The majority of the Group's mining sites and professional services have established Environmental Management Systems. The Group's integrated HSE management system continued to be enhanced in 2015, with a further three business units certified under ISO 14001 and OHSAS 18001. As a result, all of the Group's mines now comply with these standards. The Group continues to improve its integrated management system based on ISO 14001 and OHSAS 18001 requirements.

The Group has various initiatives for raising environmental awareness among employees, including publishing informational materials on environmental topics in its corporate newspaper. In 2015, as in 2014, the Group organized a list of mandatory environmental training sessions. The Group actively supports public environmental volunteering: during 2015, the Yakutia Kuranakh business unit's employees participated in several environmental events, including "Green spring – 2015", "Green Russia" and "International Environment Day". The Group views environmental reporting and awareness-raising programs to be a necessary part of managing environmental performance, facilitating the early prevention of environmental incidents, as well as increased awareness of environmental issues and protection.

The Group is dedicated to continuous improvement and to addressing various environmental challenges, including efficient water treatment, climate change adaptation, waste management and others. In 2016, all business units received new waste treatment licenses and upgraded their waste transportation agreements with their partners due to a change in the Russian environmental legislation. The Group has pledged to support and promote the initiatives and values contained within the global agreement on climate change signed at the 2015 United Nations Climate Change Conference, COP 21 in Paris.

The Group's total environmental stewardship expenditures, which include the protection and rational use of natural and water resources, capital investment to environmental stewardship, protection of land resources, waste management and air emissions control, was US$22.06 million in 2015, as compared with US$55.4 million in 2014. The decrease was primarily due to the depreciation of the rouble against the U.S. dollar.

The Group budgeted approximately RUB 1,140 million and RUB 1,779 million for costs related to compliance with environmental, health and safety requirements for 2016 and 2017, respectively, with figures for 2017 provided on a preliminary basis and being subject to change.

Cyanide neutralization

As is common with gold industry operations, the Group's gold processing operations currently require significant quantities of cyanide-based chemicals, which potentially present risks to human health and the environment. The Group is seeking to reduce the use of cyanides in its gold extraction processes through the development of alternative technologies, including implementation of cyanide-free leaching. The Group is working on installing an efficient cyanide management system at all business units in accordance with the requirements of the International Cyanide Management Code. This work includes improvement of the cyanide neutralization facilities, ensuring that all necessary safety precautions are made in cyanide storage and transportation, and engagement of compliant cyanide producers. The Group's standard on cyanide management, which was developed in 2015, covers risks associated with cyanide purchasing and transportation, and sets forth requirements related to these processes which are designed to ensure both human and environmental safety. The standard sets out the requirements for purchasing, transporting, storing, using and neutralizing cyanide in accordance with Russian legislation and the International Cyanide Management Code. The Group seeks to have at least one business unit to be certified in compliance with the International Cyanide Management Code in 2018. The Group also focuses on tailings management to optimize related activities and enhance safety. The Group applies tripartite supervision over these activities: design inspection, HSE control and internal audit.

Rational use of natural resources

The Group focuses on the rational use of natural resources and raw materials. Raw materials are repeatedly used, where possible. The Group uses a closed circuit system for the water supply at all of its production units, with up to 91.66 per cent water reused/recycled in the process.

Protection and rehabilitation of land

The Group is actively engaged in the reclamation and rehabilitation of disturbed land. For example, in order to mitigate the environmental impact of its operations, the Group constructed landfills for the disposal of solid consumer waste and a landfill for industrial waste at the Olimpiada, Verninskoye and Kuranakh mines. The Group is required by regulation to develop a closure plan for each mine and to allocate a budget for site rehabilitation in the event of a mine closure. The Group intends to establish and update closure plans for all mines in accordance with Russian legislation and the ICMM guidelines, and conducted a closure workshop in December 2014. Each of the operating subsidiaries of the Group conducts an inventory of affected land plots on an annual basis so that these land plots can be effectively recultivated in the future.

Waste management

More than 99 per cent of all waste generated during production in 2015 was classified as non-hazardous waste from ore-mining and processing operations (Hazard Class IV and V under the applicable Russian categories), including hard rock and tailings, process tailings and coal slag. Hard rock and tailings are removed and disposed of in specially designed and built waste facilities, where their safe storage can be ensured. Domestic and industrial solid waste, slag and cinders are all disposed of at specially constructed waste disposal sites.

At the end of 2015, the Group introduced a solid domestic and industrial waste disposal and neutralization program at the Olimpiada site. The program covers two separate locations for waste recycling (Olimpiada and Blagodatnoye), and will not only allow environmentally safe waste disposal and neutralization at each mine site, but also provide the necessary conditions to allow the further recycling of various types of waste. The Group also uses recognized best practices for separate waste collection at Olimpiada and, following recent changes in Russian environmental legislation, the Group has aligned its waste operations with the updated regulatory requirements.

The Group is not involved in transportation, import, export or treatment of waste deemed hazardous under the terms of the Basel Convention Annexes I, II, III and VIII.

Water use and water resource protection

The water supply for the Group's utility and production needs is drawn from local surface water bodies and underground sources. The Group targets the efficient and sustainable use of water resources and the establishment of closed water supply systems, enabling the Group to effectively recycle water for its main production processes at its processing plants at the Olimpiada, Kuranakh and Verninskoye mines. Water treatment remains a priority issue for the Group. The Group plans to conduct a water balance assessment at each business unit and is in the process of developing water management and water balance plans for the Olimpiada and Verninskoye mines and updating the existing plan for Natalka. The Group plans to implement an integrated detoxification system that can treat heavy metals, different types of cyanide, sulphates, conductivity, turbidity and other types of contaminants at the Olimpiada mine. Progress was made at the

Olimpiada mine site, where new additional sewage treatment facilities are being constructed. After the construction, which is expected to be completed in 2017, additional environmentally efficient water treatment methods will be available. Yakutia Kuranakh business unit, as a representative of Unified State System of Aquatic Resources Environmental Monitoring, implements the Bolshoy Kuranakh river state environmental monitoring program within its operating area.

Another important challenge for the Group is wastewater disposal and the reduction of disposals of polluting agents into the sewage systems and surface water bodies to acceptable permitted levels. The Group puts necessary controls in place at each of its mines in order to determine and monitor water quality on an on-going basis.

Protection of air, energy efficiency and emission of greenhouse gases

Key sources of atmospheric emissions in gold ore production include drilling and blasting operations and open pit equipment. The bulk of harmful emissions consists of suspended substances, such as dust, fuel combustion products and incompletely burned blasting agents, which emit sulphur, nitrogen oxides and carbon monoxide.

To suppress dust levels, open pit roads and shovel/bulldozer operation areas are watered in the summertime. To reduce or remove gas and dust emissions during blasting, several technologies are used, including using blasting agents with near-zero oxygen balance, blasting the shells with air gaps, neutralizing additives for stemming purposes and spraying blasted rock after each blast. To reduce atmospheric emissions at the ore processing stage, various gas purification systems are used, including aspiration systems, battery cyclones, foam gas purifiers and exhaust neutralizers.

The Group pays special attention to air quality at its sites. The Group has retained an independent consultant to conduct a preliminary assessment of ventilation systems and to develop a work plan for subsequent inspection of ventilation systems at Olimpiada processing facilities. The Group has also launched a ventilation and gas cleaning pilot project at its Olimpiada mine.

The Group recognizes its responsibility to constructively engage on climate change issues. The Group implemented a climate change policy in 2015 in order to set and annually review GHG emissions controls objectives and targets. The Group's greenhouse gas emissions amounted to 3.29 and 3.25 million tonnes of CO2-e in 2015 and 2014, respectively.

Actual emissions of atmospheric pollutants in 2015 and 2014 throughout the Group's operations in Russia did not exceed the maximum admissible levels.

Health and Safety

The Group is subject to occupational health and safety ("**OHS**") requirements of Russian legislation and international regulations related to occupational health and safety. All of the Group's entities have established commissions performing industrial control over OHS at all facilities. Health and safety management at all of the Group's businesses is overseen centrally by the Group's management.

The Group has also implemented international standards to improve the existing system of health and safety management in accordance with OHSAS 18001 and ISO 14001. The Group continues to work on aligning the integrated HSE management systems at business units with best international practices, with a view to fully implementing an integrated HSE management system by 2018. All of the Group's mining business units are now OHSAS 18001 certified. The Irkutsk ore business unit and Logistics service obtained certification in 2015. The Group plans to obtain OHSAS 18001 certificates for Polyus Stroy and the Magadan business unit (at the construction stage) in the fourth quarter of 2016 to the first quarter of 2017.

As part of the integrated HSE management system implementation, the revision and alignment of key local regulatory frameworks was carried out, including the Health and Safety Policy, Golden Safety Rules, the Incident Root Causes Analysis ("**IRCA**") Standard and the Medical Support Standard. A new Traffic Safety Policy was introduced and a Policy on the Prevention of Alcohol, Drugs and Psychotropic Substances Consumption was approved and implemented at all business units. The Group is planning in 2016 to complete a general review of HSE standards and procedures to bring it into full compliance with OHSAS 18001, ISO 14001, Russian legal requirements and ICMM's principles.

Health and Safety statistics

In 2016, there were 26 lost time injuries resulting in one work-related and zero contractor-related fatalities at the Group's facilities, as compared to 17 lost time injuries resulting in one work-related and one contractor-related fatalities at the Group's facilities in 2015. In 2015, there were 17 lost time injuries resulting in one work-related and one contractor-related fatalities at the Group's facilities, as compared to 20 lost time injuries resulting in four work-related and five contractor-related fatalities at the Group's facilities in 2014. The Group's LTIFR has improved by 40 per cent over the past four years. The Group seeks to develop and implement measures to eliminate violations and prevent the reoccurrence of such incidents in the future.

The table below sets forth a summary of the Group's lost time injuries for the periods indicated.

	Year ended 31 December		
	2016	*2015*	*2014*
Krasnoyarsk	6	4	–
Irkutsk (alluvial)	1	2	1
Irkutsk (ore)	2	1	2
Yakutia (Kuranakh)	4	3	2
Magadan	2	–	1
Exploration (Nezhdaninskoye)	–	–	–
Services[1]	11	7	14
Total	**26**	**17**	**20**

Note:

1. Polyus Stroy, Polyus Project, Polyus Schit, Polyus Logistics

All of the Group's business units have health service facilities and perform regular medical checks of employees working in health hazard areas. Medical aid posts are established at all of the Group's business units to carry out a medical inspection on employees before their shift begins, during working hours and at the end of their shift. The Group also provides medical care accessibility, which in practice results in a sufficient quantity of medical units, health centers, first-aid boxes on sites and available ambulances. The Group has developed an emergency medical response plan and established contracts with health care centers and air medical services for all operational business units. In 2015, the Verninskoye mine site obtained a license to carry out medical examinations (pre-/post-travel), as well as drug and alcohol checks, and the majority of the Group's health management system performance targets were achieved. In 2015, the Group's total expenditure on health and safety was RUB 347.7 million (US$5.7 million at the average US$/RUB exchange rate for the year).

The international standard for reporting industrial accidents is the LTIFR. An incident becomes registered as a Lost Time Injury when a worker loses a single shift. In 2015, as a result of the Group's focus on the implementation of its health and safety management systems and the introduction of risk assessment mechanisms, LTIFR continued to decrease to 0.08 in 2015, an 11 per cent decrease as compared to 2014 (though LTIFR increased to 0.13 in 2016). The Group uses a 200,000 man hour denominator in accordance with GRI requirements (Sustainability Reporting Guidelines).

Health and Safety training

The Group has introduced a health and safety policy and training programs at all of its business units aimed at detecting and preventing dangerous and hazardous activities at workplaces. New hires undergo safety induction and are appointed a mentor for the duration of their training. All business units conduct regular appraisals of the managers and staff working in industrial and labor safety.

In partnership with DuPont, the Group is planning a two-year safety culture program with a focus on behavior-based audits, risk assessment, root-cause analysis and an integrated safety management structure. In 2015, the following training programs were implemented: leadership and dedication of managers, HSE risk analysis and assessment, accident reporting and IRCA, and behavioral audits. During the year 2015, more than 2,000 employees, including senior management of business units, completed these training programs.

A Safety Working Group was established in September 2014 and the Group is planning to organize health and safety committees at each business unit in order to facilitate the implementation of the Company's safety culture across the entire Group.

Insurance

The Group has implemented a property risk insurance program with one-year coverage starting from 1 September 2016 that provides coverage for the replacement of key production equipment, buildings and structures, and for losses resulting from a temporary disruption in production. The policy covers the main business units: JSC Polyus, JSC Pervenets, JSC Aldanzoloto GRK, and Mamakan Hydro Power Plant. The coverage is on an all-risks basis, including pollution clean-up, strikes, civil commotions, construction, and damage or collapse of the tailings dam. The total insured sum under the insurance policy amounts to US$3,373 million (US$2,063 million for direct physical loss or damage and machinery breakdown and US$1,310 million for business interruption), with liability for each event that results in a loss being incurred by the Group capped at US$400 million. Significant costs relating to operational property damage, machinery breakdown and business interruption will be covered under the insurance program over the policy excess limits. Most of the coverage has been placed with the London insurance providers rated A- and higher by S&P. To mitigate the risks of transportation of its valuable cargo, the gold mining companies of the Group have cargo agreements with specialized transport companies that include cargo insurance. Shipments are insured with reputable Russian insurance companies.

Employees

The table below sets out the average number of people employed by the Group as at the dates indicated.

	As at 31 December		
	2016	*2015*	*2014*
Krasnoyarsk business unit	5,364	5,545	5,605
Irkutsk (alluvial) business unit	3,211	3,091	2,368
Irkutsk (ore) business unit	1,541	1,598	1,600
Yakutia (Kuranakh) business unit	1,802	1,883	1,821
Magadan business unit	850	784	1,262
Services	5,087	4,831	4,818
Moscow headquarters	403	389	337
Total	**18,258**	**18,121**	**17,811**

The Company's management considers its employees to be one of the most important assets of the organization and has implemented a personnel policy which focuses on:

- developing motivation schemes to increase labor productivity;
- ensuring a high level of industrial safety and appropriate working conditions;
- optimizing staff numbers and responsibilities to increase production efficiency; and
- increasing the level of employee skills.

Trade union

Approximately 38 per cent of the Group's employees are represented by labor unions of the Group. However, these employees are not required to join the union. The Group's relations with its employees, including working hours, health and safety, disputes, termination of employment, vacations and benefits, are governed, in accordance with Russian labor law, by a collective bargaining agreement. Recently expired collective bargaining agreements were renewed on substantially the same terms for a period of one to three years.

Salaries

The wages, salaries and other benefits the Group pays its employees are intended to facilitate recruitment and retention of qualified personnel to the remote areas where the Group operates. In 2016, the wages, salaries and other staff costs component of cost of gold sales decreased by 5 per cent compared to 2015, and by 25 per cent in 2015 as compared to 2014; however, as all of the Group's labor expenses are denominated in roubles, the depreciation of the rouble was a key factor in this decline in labor costs, despite the effect of annual salary indexation. See "*Operating and Financial Review—Cost of gold sales*".

Employee salaries comprise of a base salary payment, which is calculated based on the employee's grade and position and, if applicable, for example in the case of mine workers, the number of hours worked. The base salary is indexed for inflation on an annual basis. The base salary may be supplemented with a discretionary performance-linked bonus, paid on an annual basis, and/or with hardship compensation established under Russian law for work in the far north and/or in particularly difficult or dangerous conditions. Approximately 20 per cent of the Group's employees work in the Yakutia and Magadan regions, in the far north of Russia. In addition, employees are entitled to a range of benefits under the terms of the collective bargaining agreement. The Group also offers its employees to participate in a supplementary medical insurance program.

Professional development

The Group regards the professional development of its staff as a key area of its human resources policy and employs a system of staff mentorship. The Group organizes training programs for its personnel with a qualified team of instructors at the Group's own training facilities, scientific-research institute and state educational institutions.

Facilities

The Group has voluntarily provided its employees with certain amenities, leisure and sporting facilities. In addition, the Group occasionally purchases apartments for employees of a managerial position so that they are able to live closer to the mines. In 2016, the budget for maintaining the facilities for the Group's employees was RUB 100 million. The budget for 2017 has increased to RUB 500 million as a result of the need to construct new dormitories for the Group's employees in the Irkutsk business unit. The Group expects this increase to be a one-off significant expense, in particular due to the infrastructure for employees at the Natalka site, which is due to be commissioned at the end of 2017, already being in place.

Equity-settled share-based payment plans (Long Term Incentive Plan)

On 22 December 2016, the Board of Directors of the Company approved a Long Term Incentive Plan (LTIP) according to which the members of top management of the Group are entitled to a conditional award in the form of the Company's ordinary shares linked to the achievement of a combination of financial and non-financial performance conditions set by the Board of Directors for three-year performance periods. A total of up to 20 executives are currently entitled to participate in the LTIP.

The LTIP stipulates three rolling performance periods (*i.e.*, 2016-2017, 2016-2018 and 2017-2019). The total number of shares that may be distributed under the LTIP is up to 1,913,200 Shares (approximately 1.5 per cent of the Company's total share capital), which can be granted from newly issued ordinary shares, treasury shares, or otherwise. At the end of each performance period the shares will be transferred to the members of top management depending on whether the performance conditions have been achieved.

Key performance indicators ("**KPIs**") for the members of top management of the Group are aimed to align the interests of shareholders with the interests of top management and create shareholder value. KPIs include both operational and financial metrics and are evaluated based on a three-year performance period. Performance against each KPI is evaluated separately. A high level summary of the calculation of each KPI and their weight towards the total performance evaluation is set forth below:

- ***Absolute Total Shareholder's Return KPI*** (weight – 30 per cent) is calculated as CAGR for the three upcoming years, with the preceding year's actual results used as the baseline;
- ***Adjusted EBITDA KPI*** (weight – 30 per cent) is calculated as the sum of absolute values for the applicable performance period;
- ***Gold Production KPI*** (weight – 25 per cent) is calculated as the sum of absolute values for the applicable performance period;
- ***Safety Culture Level KPI*** (weight – 15 per cent) is calculated as the moving average rating of the independently assessed safety culture level for the applicable performance period.

The ordinary shares of the Company are to be vested to the LTIP participants, provided that the established KPIs are achieved.

Regional Investment Project Regime

On 23 June 2016, Russian tax law was amended to simplify the procedure for the application of tax incentives for companies registered in the Far East of Russia and the Transbaikal region. As a result of the amendment, such companies have been able to claim tax relief relating to taxable profits and mineral extraction tax ("**MET**"), with effect from the most recent tax period, without being included on the Register of Participants in Regional Investment Projects. For the tax relief to apply, the company is required to have invested over RUB 50 million within three years or over RUB 500 million within five years. As the Group satisfied the investment requirement for Verninskoye, a zero coefficient to MET has been applied for Verninskoye since August 2016, and will be applied for a total period of twenty-four months. Upon the expiry of such twenty-four month period, the MET coefficient shall be increased by 0.2 over each subsequent twenty-four month period, until the MET coefficient is 1. In addition, since 2017, the Group has applied a zero per cent tax rate for profits generated at Verninskoye, which would otherwise be subject to both regional and federal tax. This tax relief will be applicable for the next five years. For the five years following such five-year period, the regional tax rate for profits will increase to 10 per cent, while the federal tax rate will remain at zero per cent.

Due to the Group's investment in Natalka and the planned capital expenditure for Sukhoi Log (see "*Business—Advanced stage exploration projects—Sukhoi Log*"), it is expected that these projects would also be eligible for the tax incentives established for participants of Regional Investment Project Regime.

The provisions of tax law, at both the federal and regional level, which govern the application of incentives for participants of the Regional Investment Project Regime are new and complex. As a result, it is possible that the tax authorities may challenge the application of any tax relief received under the Regional Investment Project Regime. Due to the limited number of clarifications from the tax authorities and a lack of court decisions, the outcome of any such potential disputes is unclear. Any such challenge by the tax authorities to the application of the tax relief received by the Group under the Regional Investment Project Regime could adversely affect the value of the Securities.

Corporate Social Responsibility

The Group believes that establishing strong and trusting relationships with local communities and recognizing how important this is for the well-being of communities and for fostering regional development are operational priorities, as well as prerequisites for the Group's successful long-term development. The

Group has a wide operational geography; consequently, it has an influence on various communities, including indigenous peoples, rural populations and urban residents. The Group is committed to all the communities which it has an impact on, and strives to maximize the positive effects that arise from its activities, while at the same time mitigating negative ones.

In October 2015, a new sponsorship and charity policy was created by the government relations department and adopted by the management of the Group. The policy defines the principles of charitable activities, donations and sponsorship, as well as the priorities and mechanisms for their implementation. The policy was developed in order to standardize the process of implementing and planning charitable activities and to increase their positive impacts on communities. The policy was designed in accordance with best international practices and, in particular, in compliance with ICMM's principles.

Under the policy, the Group prioritizes the following charitable and sponsorship activities:

- regional development (social/physical infrastructure development);
- education and science;
- sports and healthy lifestyles;
- ecology and environmental protection;
- support for vulnerable social groups; and
- promoting gold mining industry unions and associations.

Recent Litigation

On 13 March 2017, non-profit organization "National Ecological Fund" (the "**Claimant**") filed a statement of claim with the Arbitrazh Court of the Moscow city against SL Gold and the Russian Federal Subsoil Agency disputing the results of the Sukhoi Log auction granting the license to SL Gold. The Claimant alleged that certain procedural steps in connection with the auction were breached, which resulted in the initial auction price being undervalued, and that exploration and development of Sukhoi Log deposit in the manner contemplated by SL Gold will present significant additional environmental risks. Following the hearing in the court of first instance on 12 April 2017, all claims of the Claimant were dismissed. On 11 May 2017, the Claimant appealed the decision of the court of first instance, and the proceedings in the Ninth Arbitrazh Court of Appeal are currently pending. The Company believes that the claim is meritless and is fully committed to vigorously defending its interests and position.

Key Financial Information

The table set forth below shows certain selected consolidated financial and operating information of the Group as of the dates and for the periods indicated below. For further financial information, see "*Selected Consolidated Financial and Operating Information*" and "*Operating and Financial Review*".

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December*				*Three months ended 31 March*
	2016	*2015*	*2014*	*2013*	*2017*
Gold production (koz)	1,968	1,763	1,696	1,652	450
Gold sold (koz)	1,915	1,768	1,691	1,631	487
Average realized refined gold price (excluding effect of SPPP) (US$/oz)	1,250	1,159	1,277	1,385	1,217
Average realized refined gold price (including effect of SPPP) US$/oz)	1,287	1,225	1,302	1,385	1,258
Total cash costs (US$/oz)	389	424	585	707	380
Total revenue	2,458	2,188	2,239	2,327	609
Adjusted EBITDA	1,536	1,278	1,018	917	383
Adjusted EBITDA margin (%)	62	58	45	39	63
Capital expenditures	468	268	525	1,432	128
Free cash flow (FCF)	826	351	282	(908)	182
Gross debt	4,981	2,189	1,818	1,144	4,615
Cash and cash equivalents	1,740	1,825	1,482	840	1,487
Net debt	3,241	364	336	304	3,128
Net debt / Adjusted EBITDA (last 12 months) (x)	2.11	0.28	0.33	0.33	2.0

CAPITALIZATION

The following table sets forth the Company's consolidated cash and cash equivalents and capitalization as of 31 March 2017, derived from the Interim Financial Statements included elsewhere in this Prospectus. The following table should be read in conjunction with "*Selected Consolidated Financial and Operating Information*", "*Operating and Financial Review*" and the Financial Statements included elsewhere in this Prospectus.

(in millions of U.S. dollars)	*As of 31 March 2017*
Cash and cash equivalents	**1,487**
Current borrowings	24
Non-current borrowings	4,591
Total borrowings	**4,615**
Capital and reserves:	
Share capital	7
Additional paid-in capital	2,294
Treasury shares	(3,713)
Cash flow hedge revaluation reserve	3
Translation reserve	(2,742)
Retained earnings	4,121
Accumulated deficit attributable to shareholders of the Company	**(30)**
Capitalization (total borrowings and equity attributable to shareholders of the Company	**4,585**

There have been no material changes in the consolidated capitalization of the Company and its subsidiaries since 31 March 2017.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

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

The financial information as of and for the years ended 31 December 2016, 2015 and 2014 has been derived from the Annual Financial Statements included elsewhere in this Prospectus. The financial data set forth as of and for the year ended 31 December 2013 are unaudited and have been extracted without material adjustment from the Company financial statements prepared in accordance with IFRS for such year. The financial information as of 31 March 2017 and for the three months ended 31 March 2017 and 2016 set forth below has been derived from the Interim Financial Statements included elsewhere in this Prospectus. Prospective investors should not rely on interim results as being indicative of results the Group may expect for the full year.

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

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December*				*Three months ended 31 March*	
	2016	*2015*	*2014*	*2013*	*2017*	*2016*
Gold production (koz)	1,968	1,763	1,696	1,652	450	384
Gold sold (koz)	1,915	1,768	1,691	1,631	487	400
Average realized refined gold price (excluding effect of SPPP) (US$/oz)	1,250	1,159	1,277	1,385	1,217	1,186
Average realized refined gold price (including effect of SPPP) (US$/oz)	1,287	1,225	1,302	1,385	1,258	1,260
Consolidated statement of profit or loss information						
Gold sales	2,429	2,159	2,197	2,259	600	505
Other sales	29	29	42	68	9	6
Total revenue	**2,458**	**2,188**	**2,239**	**2,327**	**609**	**511**
Cost of gold sales	(891)	(876)	(1,174)	(1,347)	(225)	(173)
Cost of other sales	(28)	(25)	(33)	(47)	(9)	(6)
Gross profit	**1,539**	**1,287**	**1,032**	**933**	**375**	**332**
Selling, general and administrative expenses	(151)	(143)	(174)	(216)	(42)	(34)
Other expenses, net	(31)	(2)	(22)	(16)	(3)	(1)
Reversal of impairment	4	22	17	(472)	–	1
Operating profit	**1,361**	**1,164**	**853**	**229**	**330**	**298**
Finance costs, net	(145)	(45)	(26)	(9)	(63)	(32)
Interest income	40	69	31	25	11	8
Gain / (loss) on derivative financial instruments and investments, net	119	(125)	(934)	–	108	(13)
Foreign exchange gain, net	396	149	123	1	190	116
Profit before income tax	**1,771**	**1,212**	**47**	**246**	**576**	**377**
Income tax expense	(326)	(191)	(222)	(98)	(77)	(83)
Profit / (loss) for the period	**1,445**	**1,021**	**(175)**	**148**	**499**	**294**
Profit / (loss) for the period attributable to:						
Shareholders of the Company	1,420	987	(216)	135	504	297
Non-controlling interests	25	34	41	13	(5)	(3)
Earnings / (loss) per share (U.S. Cents), basic and diluted	10	5	(1)	1	4	2

(in millions of U.S. dollars)	Year ended 31 December 2016	2015	2014	2013	Three months ended 31 March 2017	2016
Consolidated cash flow information						
Net cash generated from operating activities	1,178	1,103	871	443	282	291
Net cash (utilized in) / generated from investing activities	(280)	(676)	(1,727)	(1,119)	(15)	72
Net cash (utilized in) / generated from financing activities	(1,015)	220	1,353	586	(538)	(880)
Net (decrease) / increase in cash and cash equivalents	**(117)**	**647**	**497**	**(90)**	**(271)**	**(517)**
Cash and cash equivalents at beginning of the period	1,825	1,213	792	890	1,740	1,825
Effect of foreign exchange rates on cash and cash equivalents	32	(35)	(76)	(8)	18	18
Cash and cash equivalents at end of the period	**1,740**	**1,825**	**1,213**	**792**	**1,487**	**1,326**

(in millions of U.S. dollars)	As of 31 December 2016	2015	2014	2013	As of 31 March 2017
Consolidated statement of financial position information					
ASSETS					
Non-current assets					
Property, plant and equipment	2,938	2,023	2,351	3,527	3,426
Derivative financial instruments and investments	57	411	172	2	35
Inventories	264	184	227	295	269
Deferred tax assets	75	46	47	–	90
Other non-current assets	37	8	3	–	40
Total non-current assets	**3,371**	**2,672**	**2,800**	**3,824**	**3,860**
Current assets					
Inventories	369	296	440	702	403
Derivative financial instruments and investments	10	205	193	–	1
Deferred expenditures	10	13	13	16	30
Trade and other receivables	58	23	10	24	54
Advances paid to suppliers and prepaid expenses	19	17	16	28	15
Taxes receivable	89	59	47	248	77
Bank deposits	–	–	269	48	–
Cash and cash equivalents	1,740	1,825	1,213	792	1,487
Total current assets	**2,295**	**2,438**	**2,201**	**1,858**	**2,067**
TOTAL ASSETS	**5,666**	**5,110**	**5,001**	**5,682**	**5,927**

(in millions of U.S. dollars)	As of 31 December 2016	2015	2014	2013	As of 31 March 2017
EQUITY AND LIABILITIES					
Equity attributable to shareholders of the Company[1]	(508)	1,976	1,716	3,910	(30)
Non-controlling interests	94	71	83	78	96
TOTAL EQUITY	**(414)**	**2,047**	**1,799**	**3,988**	**66**
Non-current liabilities					
Site restoration, decommissioning and environmental obligations	38	32	49	69	36
Borrowings	4,698	2,151	1,728	923	4,591
Derivative financial instruments	456	509	423	–	459
Deferred revenue	76	–	–	–	82
Deferred consideration	–	–	–	–	101
Deferred tax liabilities	182	133	150	134	189
Other non-current liabilities	32	20	21	32	35
Total non-current liabilities	**5,482**	**2,845**	**2,371**	**1,158**	**5,493**
Current liabilities					
Borrowings	283	38	90	221	24
Derivative financial instruments	–	–	547	–	–
Trade, other payables and accrued expenses	222	151	158	262	244
Deferred consideration	–	–	–	–	21
Taxes payable	93	29	36	53	79
Total current liabilities	**598**	**218**	**831**	**536**	**368**
TOTAL LIABILITIES	**6,080**	**3,063**	**3,202**	**1,694**	**5,861**
TOTAL EQUITY AND LIABILITIES	**5,666**	**5,110**	**5,001**	**5,682**	**5,927**

Note:

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

(in millions of U.S. dollars, unless otherwise indicated)	Year ended 31 December 2016	2015	2014	2013	As of 31 March 2017	2016
Non-IFRS measures						
Adjusted EBITDA	1,536	1,278	1,018	917	383	330
Adjusted EBITDA margin (%)	62	58	45	39	63	65
Net debt	3,241	364	336	304	3,128	3,496
Net debt / Adjusted EBITDA (last 12 months) (x)[1]	2.11	0.28	0.33	0.33	2.0	2.69
Adjusted net profit	952	937	622	568	203	201
Adjusted net profit margin (%)	39	43	28	24	33	39

Note:

1. Net debt to Adjusted EBITDA ratio is calculated as net debt as at the end of the relevant period divided by Adjusted EBITDA for the relevant period. For the purposes of the net debt to Adjusted EBITDA ratio as of 31 March, 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).

Adjusted EBITDA

Adjusted EBITDA has been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*". The following table sets out a reconciliation of the Group's Adjusted EBITDA for the three months ended 31 March 2017 and 2016.

	Three months ended 31 March		
(in millions of U.S. dollars, unless otherwise indicated)	*2017*	*2016*	*Change (%)*
Profit for the period	**499**	**294**	**70**
Income tax	77	83	(7)
Foreign exchange gain, net	(190)	(116)	64
(Gain) / loss on derivative financial instruments and investments, net	(108)	13	N.A.[2]
Interest income	(11)	(8)	38
Finance costs, net	63	32	97
Depreciation and amortisation	39	30	30
Reversal of impairment	–	(1)	(100)
Long-term incentive plan	7	3	133
Special charitable contributions[1]	7	–	N.A.[2]
Adjusted EBITDA	**383**	**330**	**16**
Total revenue	609	511	19
Adjusted EBITDA margin (%)	**63**	**65**	**(2) ppts**

Notes:

1. Reflects a special contribution being made outside the scope of the Company's existing charity policy and outside of the key regions in which it is present.
2. Not applicable.

The following table sets out a reconciliation of the Group's Adjusted EBITDA for the years ended 31 December 2016 and 2015.

	Year ended 31 December		
(in millions of U.S. dollars, unless otherwise indicated)	*2016*	*2015*	*Change (%)*
Profit for the year	**1,445**	**1,021**	**42**
Income tax	326	191	71
Foreign exchange gain, net	(396)	(149)	166
(Gain) / loss on derivative financial instruments and investments, net	(119)	125	N.A.[1]
Interest income	(40)	(69)	(42)
Finance costs, net	145	45	222
Depreciation and amortisation	148	128	16
Reversal of impairment	(4)	(22)	(82)
Long-term incentive plan	19	7	171
Loss on property, plant and equipment disposal	12	1	1,100
Adjusted EBITDA	**1,536**	**1,278**	**20**
Total revenue	2,458	2,188	12
Adjusted EBITDA margin (%)	**62**	**58**	**4 ppts**

Note:

1. Not applicable.

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

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December*		
	2015	*2014*	*Change (%)*
Profit / (loss) for the year	**1,021**	**(175)**	**N.A.**[1]
Income tax	191	222	(14)
Foreign exchange gain, net	(149)	(123)	21
Loss on derivative financial instruments and investments, net	125	934	(87)
Interest income	(69)	(31)	123
Finance costs, net	45	26	73
Depreciation and amortisation	128	182	(30)
Reversal of impairment	(22)	(17)	29
Long-term incentive plan	7	–	N.A.[1]
Loss on property, plant and equipment disposal	1	–	N.A.[1]
Adjusted EBITDA	**1,278**	**1,018**	**26**
Total revenue	2,188	2,239	(2)
Adjusted EBITDA margin (%)	**58**	**45**	**13 ppts**

Note:

1. Not applicable.

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

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December*		
	2014	*2013*	*Change (%)*
(Loss) / profit for the year	**(175)**	**148**	**N.A.**[1]
Income tax	222	98	127
Foreign exchange gain, net	(123)	(1)	N.A.[1]
Loss on derivative financial instruments and investments, net	934	–	N.A.[1]
Interest income	(31)	(25)	24
Finance costs, net	26	9	189
Depreciation and amortisation	182	214	(15)
(Reversal of impairment) / impairment losses	(17)	472	N.A.[1]
Loss on property, plant and equipment disposal	–	2	(100)
Adjusted EBITDA	**1,018**	**917**	**11**
Total revenue	2,239	2,327	(4)
Adjusted EBITDA margin (%)	**45**	**39**	**6 ppts**

Note:

1. Not applicable.

Net Debt

Net debt has been calculated by management based on the information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*". The following table sets out a reconciliation of the Group's net debt as at 31 March 2017 and 2016.

(in millions of U.S. dollars, unless otherwise indicated)	*Three months ended 31 March 2017*	*Year ended 31 December 2016*	*Change (%)*
Non-current borrowings	**4,591**	**4,698**	**(2)**
+ current borrowings	24	283	(92)
– cash and cash equivalents	(1,487)	(1,740)	(15)
Net debt	**3,128**	**3,241**	**(3)**

The following table sets out a reconciliation of the Group's net debt as at 31 December 2016 and 2015.

	Year ended 31 December		
(in millions of U.S. dollars, unless otherwise indicated)	*2016*	*2015*	*Change (%)*
Non-current borrowings	**4,698**	**2,151**	**118**
+ current borrowings	283	38	645
– cash and cash equivalents	(1,740)	(1,825)	(5)
Net debt	**3,241**	**364**	**790**

The following table sets out a reconciliation of the Group's net debt as at 31 December 2015 and 2014.

	Year ended 31 December		
(in millions of U.S. dollars, unless otherwise indicated)	*2015*	*2014*	*Change (%)*
Non-current borrowings	**2,151**	**1,728**	**24**
+ current borrowings	38	90	(58)
– cash and cash equivalents	(1,825)	(1,213)	50
– bank deposits	–	(269)	(100)
Net debt	**364**	**336**	**8**

The following table sets out a reconciliation of the Group's net debt as at 31 December 2014 and 2013.

	Year ended 31 December		
(in millions of U.S. dollars, unless otherwise indicated)	*2014*	*2013*	*Change (%)*
Non-current borrowings	**1,728**	**923**	**87**
+ current borrowings	90	221	(59)
– cash and cash equivalents	(1,213)	(792)	53
– bank deposits	(269)	(48)	460
Net debt	**336**	**304**	**11**

Adjusted Net Profit

Adjusted net profit has been calculated by management based on the information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*". The following table sets out a reconciliation of the Group adjusted net profit for the three months ended 31 March 2017 and 2016.

(in millions of U.S. dollars, unless otherwise indicated)	*Three months ended 31 March* 2017	2016	*Change (%)*
Profit for the period	**499**	**294**	**70**
– reversal of impairment	–	(1)	(100)
+ impact from derivative financial instruments	(108)	13	N.A.[1]
– impact from foreign exchange	(190)	(116)	64
+ / – loss / (income) tax related to abovementioned items	2	11	(80)
Adjusted net profit	**203**	**201**	**1**
Total revenue	609	511	19
Adjusted net profit margin (%)	**33**	**39**	**(6) ppts**

Note:

1. Not applicable.

The following table sets out a reconciliation of the Group adjusted net profit for the years ended 31 December 2016 and 2015.

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December* 2016	2015	*Change (%)*
Profit for the year	**1,445**	**1,021**	**42**
– reversal of impairment	(4)	(22)	(82)
+ impact from derivative financial instruments	(119)	125	N.A.[1]
– impact from foreign exchange	(396)	(149)	166
+ / – loss / (income) tax related to abovementioned items	26	(38)	N.A.[1]
Adjusted net profit	**952**	**937**	**2**
Total revenue	2,458	2,188	12
Adjusted net profit margin (%)	**39**	**43**	**(4) ppts**

Note:

1. Not applicable.

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

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December* 2015	2014	*Change (%)*
Profit / (loss) for the year	**1,021**	**(175)**	**N.A.[1]**
– reversal of impairment	(22)	(17)	29
+ impact from derivative financial instruments	125	934	(87)
– impact from foreign exchange	(149)	(123)	21
+ / – loss / (income) tax related to abovementioned items	(38)	3	N.A.[1]
Adjusted net profit	**937**	**622**	**51**
Total revenue	2,188	2,239	(2)
Adjusted net profit margin (%)	**43**	**28**	**15 ppts**

Note:

1. Not applicable.

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

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December*		
	2014	*2013*	*Change (%)*
Profit / (loss) for the year	**(175)**	**148**	**N.A.**[1]
– (reversal of impairment) / impairment losses	(17)	472	N.A.[1]
+ impact from derivative financial instruments	934	–	N.A.[1]
– impact from foreign exchange	(123)	(1)	N.A.[1]
+ / – loss / (income) tax related to abovementioned items	3	(51)	N.A.[1]
Adjusted net profit	**622**	**568**	**10**
Total revenue	2,239	2,327	(4)
Adjusted net profit margin (%)	**28**	**24**	**4 ppts**

Note:

1. Not applicable.

Total Cash Costs

TCC and TCC per ounce sold have been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*".

The following table shows the Group's TCC per ounce sold for the three months ended 31 March 2017 and 2016.

(in millions of U.S. dollars, unless otherwise indicated)	*Three months ended 31 March*		
	2017	*2016*	*Change (%)*
Cost of gold sales	**225**	**173**	**30**
– property, plant and equipment depreciation	(40)	(29)	38
– provision for annual vacation payment	(3)	–	N.A.[1]
– employee benefit obligations cost	–	(1)	(100)
– change in allowance for obsolescence of inventory	1	–	N.A.[1]
+ non-monetary changes in inventories[2]	2	–	N.A.[1]
TCC	**185**	**143**	**29**
Gold sales ('000 ounces)	487	400	22
TCC (US$ per ounce sold)	**380**	**357**	**6**

Notes:

1. Not applicable.
2. "Non-monetary changes in inventories" is a calculation of the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

The following table shows the Group's TCC per ounce sold for the years ended 31 December 2016 and 2015.

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December* 2016	2015	*Change (%)*
Cost of gold sales	**891**	**876**	**2**
– property, plant and equipment depreciation	(154)	(126)	22
– provision for annual vacation payment	–	(1)	(100)
– employee benefit obligations cost	(1)	(4)	(75)
– change in allowance for obsolescence of inventory	(3)	–	N.A.[1]
+ non-monetary changes in inventories[2]	12	4	200
TCC	**745**	**749**	**(1)**
Gold sales ('000 ounces)	1,915	1,768	8
TCC (US$ per ounce sold)	**389**	**424**	**(8)**

Notes:

1. Not applicable.
2. "Non-monetary changes in inventories" is a calculation of the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

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

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December* 2015	2014	*Change (%)*
Cost of gold sales	**876**	**1,174**	**(25)**
– property, plant and equipment depreciation	(126)	(174)	(28)
– provision for annual vacation payment	(1)	1	N.A.[1]
– employee benefit obligations cost	(4)	(1)	300
– change in allowance for obsolescence of inventory	–	(14)	(100)
+ non-monetary changes in inventories[2]	4	3	33
TCC	**749**	**989**	**(24)**
Gold sales ('000 ounces)	1,768	1,691	5
TCC (US$ per ounce sold)	**424**	**585**	**(28)**

Notes:

1. Not applicable.
2. "Non-monetary changes in inventories" is a calculation of the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

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

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

Notes:

1. Not applicable.
2. "Non-monetary changes in inventories" is a calculation of the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

The following table shows the reconciliation of the TCC and TCC per ounce sold for the Group's Krasnoyarsk business unit for the three months ended 31 March 2017 and 2016.

	Olimpiada		*Blagodatnoye*		*Titimukhta*		*Krasnoyarsk Segment*		*All Other Segments*[1]		*Consolidated*	
	Three months ended 31 March		*Three months ended 31 March*		*Three months ended 31 March*		*Three months ended 31 March*		*Three months ended 31 March*		*Three months ended 31 March*	
(In millions of U.S. dollars, unless otherwise indicated)	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
Cost of gold sales	**125**	**78**	**43**	**34**	**–**	**14**	**168**	**126**	**57**	**47**	**225**	**173**
– property, plant and equipment depreciation	(22)	(12)	(5)	(4)	–	(2)	(27)	(18)	(13)	(11)	(40)	(29)
– provision for annual vacation payment	(1)	–	–	–	–	–	(1)	–	(2)	–	(3)	–
– employee benefit obligations cost	1	–	–	–	–	–	1	–	(1)	(1)	–	(1)
– change in allowance for obsolescence of inventory	1	–	–	–	–	–	1	–	–	–	1	–
+ non-monetary changes in inventories[2]	2	–	–	–	–	–	2	–	–	–	2	–
TCC	**106**	**66**	**38**	**30**	**–**	**12**	**144**	**108**	**41**	**35**	**185**	**143**
Gold sales ('000 ounces)	268	167	124	110	–	31	392	308	95	92	487	400
TCC (US$ per ounce sold)	**393**	**401**	**306**	**268**	**–**	**371**	**366**	**351**	**432**	**380**	**380**	**357**

Notes:

1. All Other Segments consist of Irkutsk alluvial, Irkutsk ore, Yakutia Kuranakh, Magadan, Exploration, Capital construction, and Unallocated.
2. "Non-monetary changes in inventories" is a calculation of the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

The following table shows the reconciliation of the TCC and TCC per ounce sold for the Group's Krasnoyarsk business unit for the years ended 31 December 2016 and 2015.

	Olimpiada		*Blagodatnoye*		*Titimukhta*		*Krasnoyarsk Segment*		*All Other Segments*[1]		*Consolidated*	
	Year ended 31 December		*Year ended 31 December*		*Year ended 31 December*		*Year ended 31 December*		*Year ended 31 December*		*Year ended 31 December*	
(In millions of U.S. dollars, unless otherwise indicated)	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
Cost of gold sales	**428**	**367**	**146**	**166**	**25**	**63**	**599**	**596**	**292**	**280**	**891**	**876**
– property, plant and equipment depreciation	(68)	(42)	(19)	(21)	(6)	(16)	(93)	(79)	(61)	(47)	(154)	(126)
– provision for annual vacation payment	1	–	–	–	–	–	1	–	(1)	(1)	–	(1)
– employee benefit obligations cost	–	(2)	–	(1)	–	–	–	(3)	(1)	(1)	(1)	(4)
– change in allowance for obsolescence of inventory	(2)	1	(1)	–	–	–	(3)	1	–	(1)	(3)	–
+ non-monetary changes in inventories[2]	5	(8)	4	2	(1)	7	8	1	4	3	12	4
TCC	**364**	**316**	**130**	**146**	**18**	**54**	**512**	**516**	**233**	**233**	**745**	**749**
Gold sales ('000 ounces)	903	761	450	424	43	108	1,396	1,293	519	475	1,915	1,768
TCC (US$ per ounce sold)	**405**	**416**	**290**	**345**	**414**	**498**	**367**	**399**	**448**	**490**	**389**	**424**

Notes:

1. All Other Segments consist of Irkutsk alluvial, Irkutsk ore, Yakutia Kuranakh, Magadan, Exploration, Capital construction, and Unallocated.
2. "Non-monetary changes in inventories" is a calculation of the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

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

	Olimpiada		*Blagodatnoye*		*Titimukhta*		*Krasnoyarsk Segment*		*All Other Segments*[1]		*Consolidated*	
	Year ended 31 December		*Year ended 31 December*		*Year ended 31 December*		*Year ended 31 December*		*Year ended 31 December*		*Year ended 31 December*	
(In millions of U.S. dollars, unless otherwise indicated)	*2015*	*2014*	*2015*	*2014*	*2015*	*2014*	*2015*	*2014*	*2015*	*2014*	*2015*	*2014*
Cost of gold sales	**367**	**468**	**166**	**210**	**63**	**100**	**596**	**778**	**280**	**396**	**876**	**1,174**
– property, plant and equipment depreciation	(42)	(62)	(21)	(33)	(16)	(12)	(79)	(107)	(47)	(67)	(126)	(174)
– provision for annual vacation payment	–	–	–	–	–	–	–	–	(1)	1	(1)	1
– employee benefit obligations cost	(2)	(1)	(1)	–	–	–	(3)	(1)	(1)	–	(4)	(1)
– change in allowance for obsolescence of inventory	1	(7)	–	(4)	–	–	1	(11)	(1)	(3)	–	(14)
+ non-monetary changes in inventories[2]	(8)	(2)	2	–	7	2	1	–	3	3	4	3
TCC	**316**	**396**	**146**	**173**	**54**	**90**	**516**	**659**	**233**	**330**	**749**	**989**
Gold sales ('000 ounces)	761	732	424	393	108	94	1,293	1,219	475	472	1,768	1,691
TCC (US$ per ounce sold)	**416**	**541**	**345**	**442**	**498**	**956**	**399**	**541**	**490**	**699**	**424**	**585**

Notes:

1. All Other Segments consist of Irkutsk alluvial, Irkutsk ore, Yakutia Kuranakh, Magadan, Exploration, Capital construction, and Unallocated.
2. "Non-monetary changes in inventories" is a calculation of the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

All-In Sustaining Costs (AISC)

The following table shows the Group's AISC per ounce sold for the three months ended 31 March 2017 and 2016.

(in millions of U.S. dollars, unless otherwise indicated)	*Three months ended 31 March* 2017	2016	*Change (%)*
Total TCC	**185**	**143**	**29**
+ Selling, general and administrative expenses	42	34	24
Less: amortisation and depreciation included in selling, general and administrative expenses	(1)	(1)	–
+ stripping activity asset additions	35	17	106
+ sustaining capital expenditures[2]	22	22	–
+ unwinding of discounts on decommissioning liabilities	–	1	(100)
adding back expenses excluded from cost of gold sales			
+ provision for annual vacation payment	3	–	N.A.[1]
+ employee benefit obligations cost	–	1	(100)
+ change in allowance for obsolescence of inventory	(1)	–	N.A.[1]
Total AISC	**285**	**217**	**31**
Gold sold ('000 ounces)	487	400	22
AISC (US$ per ounce sold)	**586**	**543**	**8**

Notes:

1. Not applicable.
2. Sustaining capital expenditures represents capital expenditures at existing operations comprising mine development costs and on-going replacement of mine equipment and other capital facilities, and does not include capital expenditures for major growth projects or enhancement capital for significant infrastructure improvements at existing operations.

The following table shows the Group's AISC per ounce sold for the years ended 31 December 2016 and 2015.

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December* 2016	2015	*Change (%)*
Total TCC	**745**	**749**	**(1)**
+ Selling, general and administrative expenses	151	143	6
Less: amortisation and depreciation included in selling, general and administrative expenses	(5)	(3)	67
+ research expenses and other sustaining expenses	1	1	–
+ stripping activity asset additions	55	104	(47)
+ sustaining capital expenditures[2]	141	51	176
+ unwinding of discounts on decommissioning liabilities	3	4	(25)
adding back expenses excluded from cost of gold sales			
+ provision for annual vacation payment	–	1	(100)
+ employee benefit obligations cost	1	4	(75)
+ change in allowance for obsolescence of inventory	3	–	N.A.[1]
Total AISC	**1,095**	**1,054**	**4**
Gold sold ('000 ounces)	1,915	1,768	8
AISC (US$ per ounce sold)	**572**	**596**	**(4)**

Notes:

1. Not applicable.
2. Sustaining capital expenditures represents capital expenditures at existing operations comprising mine development costs and on-going replacement of mine equipment and other capital facilities, and does not include capital expenditures for major growth projects or enhancement capital for significant infrastructure improvements at existing operations.

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

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December* 2015	2014	*Change (%)*
Total cash costs	**749**	**989**	**(24)**
+ Selling, general and administrative expenses	143	174	(18)
Less: amortisation and depreciation included in selling, general and administrative expenses	(3)	(4)	(25)
+ research expenses and other sustaining expenses	1	–	N.A.[1]
+ stripping activity asset additions	104	109	(5)
+ sustaining capital expenditures[2]	51	99	(48)
+ unwinding of discounts on decommissioning liabilities	4	4	–
adding back expenses excluded from cost of gold sales			
+ provision for annual vacation payment	1	(1)	N.A.[1]
+ employee benefit obligations cost	4	1	300
+ change in allowance for obsolescence of inventory	–	14	(100)
Total AISC	**1,054**	**1,385**	**(24)**
Gold sold ('000 ounces)	1,768	1,691	5
AISC (US$ per ounce sold)	**596**	**819**	**(27)**

Notes:

1. Not applicable.
2. Sustaining capital expenditures represents capital expenditures at existing operations comprising mine development costs and on-going replacement of mine equipment and other capital facilities, and does not include capital expenditures for major growth projects or enhancement capital for significant infrastructure improvements at existing operations

Free Cash Flows (FCF)

The Group's FCF increased by 135 per cent in 2016 to US$826 million, as compared to US$351 million in 2015. FCF has been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*".

The following table shows the Group's FCF for the periods indicated.

(in millions of U.S. dollars)	*Year ended 31 December* 2016	2015	2014	2013	*Three months ended 31 March* 2017	2016
Net cash generated from operating activities	**1,178**	**1,103**	**871**	**443**	**282**	**291**
– purchases of property, plant and equipment	(405)	(326)	(570)	(1,347)	(113)	(73)
– payments for capitalized deferred stripping costs	–	–	–	(37)	–	–
+ interest received	50	62	30	29	12	11
– payment for currency collars	–	(494)	(55)	–	–	–
+ other cash flows from investing activities	3	6	6	4	1	1
FCF	**826**	**351**	**282**	**(908)**	**182**	**230**

Adjusted Net Working Capital

Adjusted net working capital decreased by 51 per cent in 2016 as compared to 2013 in U.S. dollar terms, reflecting the management's objective of achieving greater efficiency and control over the Group's working capital. In 2016, adjusted net working capital increased by 20 per cent as compared to 2015, due to a growth in ore stockpiles, a higher VAT receivable due to construction works at Natalka, and a growth in accounts receivable as a result of flotation concentrate sales to third parties.

The following table shows the Group's adjusted net working capital as of 31 March 2017 and as of 31 December 2016, 2015, 2014 and 2013.

	As at 31 December				*As at 31 March*
(in millions of U.S. dollars)	*2016*	*2015*	*2014*	*2013*	*2017*
+ inventories	633	480	667	997	672
+ deferred expenditures	10	13	13	16	30
+ trade and other receivables	58	23	10	24	54
+ advances paid to suppliers and prepaid expenses	19	17	16	28	15
+ taxes receivable	89	59	47	248	77
– trade and other payables	(222)	(151)	(158)	(262)	(244)
– taxes payable	(93)	(29)	(36)	(53)	(79)
Adjusted net working capital	**494**	**412**	**559**	**998**	**525**

	As at 31 December				*As of 31 March*
(in millions of U.S. dollars)	*2016*	*2015*	*2014*	*2013*	*2017*
Current assets	**2,295**	**2,438**	**2,201**	**1,858**	**2,067**
– Current liabilities	**(598)**	**(218)**	**(831)**	**(536)**	**(368)**
Net working capital	**1,697**	**2,220**	**1,370**	**1,322**	**1,699**
Adjusted for:					
– cash and cash equivalents	(1,740)	(1,825)	(1,213)	(792)	(1,487)
– current bank deposits	–	–	(269)	(48)	–
– current assets derivative financial instruments and investments	(10)	(205)	(193)	–	(1)
+ non-current inventories	264	184	227	295	269
+ current liabilities derivative financial instruments	–	–	547	–	–
+ short-term borrowings and current portion of non-current borrowings	283	38	90	221	24
+ current deferred consideration	–	–	–	–	21
Adjusted net working capital	**494**	**412**	**559**	**998**	**525**

OPERATING AND FINANCIAL REVIEW

The following Operating and Financial Review includes forward-looking statements that involve risks and uncertainties. See "Risk Factors" and "Forward-Looking Statements" for a discussion of important factors that could cause the actual results to differ materially from the results described in the forward-looking statements contained in this Prospectus. The financial information as of and for the years ended 31 December 2016, 2015 and 2014 has been derived from the Annual Financial Statements included elsewhere in this Prospectus, and the financial information for the three months ended 31 March 2017 and 2016 has been derived from the Interim Financial Statements included elsewhere in this Prospectus. The following should be read in conjunction with the Financial Statements and the related notes included in this Prospectus. Investors should not rely solely on the information contained in this section.

Overview

The Group is the largest gold mining group in Russia based on ounces of gold produced, according to the Russian Union of Gold Miners, and with 71 million ounces of gold in JORC Proved and Probable Ore Reserves, has the second largest gold reserves in the world based on the latest reserves and resources statements of other gold mining companies. The Group develops and mines hard rock gold and alluvial gold deposits, with its principal deposits in the Krasnoyarsk, Irkutsk, Magadan and Republic of Sakha (Yakutia) regions of Russia. The Group's total gold production in 2016 reached 1,968 thousand ounces, surpassing the production guidance for 2016 by 11 per cent. For the year ended 31 December 2016, the Group had total gold sales of US$2,429 million, total revenue of US$2,458 million, cost of gold sales of US$891 million and profit for the year of US$1,445 million, and, as at 31 December 2016, total assets of US$5,666 million and total equity deficit of US$414 million. The Group's net debt as of 31 December 2016 was US$3,241 million. The Group's Adjusted EBITDA was US$1,536 million in 2016. TCC was US$389 per ounce in 2016, and AISC was US$572 per ounce in 2016. For the three months ended 31 March 2017, the Group had total gold sales of US$600 million, total revenue of US$609 million, cost of gold sales of US$225 million and profit for the period of US$499 million, and, as at 31 March 2017, total assets of US$5,927 million and total equity of US$66 million. The Group's net debt as of 31 March 2017 was US$3,128 million. The Group's Adjusted EBITDA was US$383 million in the first three months of 2017. Total cash cost was US$380 per ounce in the first three months of 2017, and AISC was US$586 per ounce in the first three months of 2017.

Significant Factors Affecting the Group's Financial Results

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

	Year ended 31 December			*Three months ended 31 March*	
Average price/rate	*2016*	*2015*	*2014*	*2017*	*2016*
Average London afternoon gold price fixing (US$ per ounce)(1)	1,251	1,160	1,266	1,219	1,183
Average US$/RUB rate(2)	66.83	61.32	38.60	58.64	74.91
Period end US$/RUB rate(2)	60.66	72.88	56.26	56.38	67.61

Notes:

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

Gold Prices

The market price of gold is the most significant factor influencing the revenues, profitability and operating cash flow of the Group. The global gold price has declined significantly since 2012, and has been subject to volatile movements over short periods of time. In 2015, the average London afternoon gold pricing fixing was US$1,160 per ounce, 8 per cent lower than in 2014, when it averaged US$1,266 per ounce. In 2016, the gold price was volatile and traded in the range US$1,077 per ounce to US$1,366 per ounce and averaged US$1,251 per ounce, 8 per cent higher than in 2015, when it averaged US$1,160 per ounce. Gold opened in 2017 at US$1,151 per ounce and was US$1,247 per ounce on 29 June 2017. The Group initiated the SPPP in 2014, comprised of a series of zero cost Asian gold collars and gold forward contracts, aimed at increasing the certainty of a material proportion of the Group's cash flow in light of gold price volatility. In 2015, the SPPP covered 575 thousand ounces of gold sold during the year (33 per cent of total gold sold in 2015) and mitigated the decrease in gold price in 2015. In 2016, the SPPP covered 852.5 thousand ounces of gold sold during the year (45 per cent of total gold sold in 2016). See note 13 to the 2016 Financial Statements. In the three months ended 31 March 2017, the SPPP covered 200 thousand ounces of gold sold during the period (41 per cent of total gold sold in the three months ended 31 March 2017).

Foreign Currency Exchange Rates

The Group's revenue from gold sales is denominated in U.S. dollars, whereas most of the Group's operating expenses and capital expenditures are denominated in roubles. Accordingly, an appreciation of the rouble against the U.S. dollar may negatively affect the Group's margins by increasing the U.S. dollar value of its rouble-denominated costs. Conversely, an appreciation of the U.S. dollar may positively affect the Group's margins by decreasing the U.S. dollar value of its rouble-denominated costs. The combination of sanctions imposed on the Russian economy (related to the Ukrainian conflict), combined with a steep fall in the oil price from US$96 per barrel Brent in 2014 to US$48 per barrel Brent on 29 June 2017, caused a sharp decline in the value of the rouble. In 2015, the average US$/RUB exchange rate was 61.32, compared to 38.60 in 2014, representing a 59 per cent year-on-year rouble decrease, and was 72.88 at year-end. In 2016, the average US$/RUB exchange rate was 66.83, compared to 61.32 in 2015, representing a 9 per cent year-on-year rouble decrease, and was 60.66 at year-end. In the first three months ended 31 March 2017, the average US$/RUB exchange rate was 58.64, compared to 74.91 in the three months ended 31 March 2016. The rouble started strengthening in the second half of February 2016, moving from RUB 77.78/US$1.00 on 16 February 2016 to RUB 59.09/US$1.00 on 30 June 2017. This fall in the rouble positively affected the Group's operating margins in 2014, 2015 and 2016, though it reduced the value of the Group's net assets shown in its financial statements due to the use of the rouble as the functional currency of the Group's production subsidiaries.

In 2014, the Group sought to hedge its currency risk by purchasing put options and selling call options for a total amount of US$1,900 million. As a result of these transactions, the Group did not fully benefit from the rouble devaluation at the cash flow level in 2014. The negative effect from the collars in 2014 amounted to US$594 million. During 2015, all remaining outstanding options matured and resulted in a gain of US$2 million recognized in the profit or loss statement due to the revaluation of the currency collars. From 2016, the Group is fully unhedged with regard to the rouble in terms of free cash flow and EBITDA and, thus, is expected to benefit from any rouble devaluation. Cross-currency swaps effectively hedge the Company's debt in U.S. dollars and will expire in 2019 and 2021, matching corresponding debt maturities. However, to the extent any of its cash flows are unhedged, an appreciation of the rouble against the U.S. dollar may negatively affect the Group's margins and its results of operations.

Seasonality

The Group's sales volumes of gold are typically higher in the summer months, primarily as a result of the seasonal nature of the Group's alluvial operations. Due to the cold temperatures of the winter months in the Irkutsk region, production of gold at the Group's alluvial operations is limited mainly to the period of May to October. In 2016, gold production at alluvial operations comprised 9 per cent of the Group's total gold production (10 per cent in 2015). In addition, the more favorable weather conditions of the summer months enable the Krasnoyarsk business unit to produce and sell higher volumes of gold as compared to the winter period. See "*Risk Factors — The Group's principal operations are located in remote areas with harsh climates, which requires limiting production operations in the Irkutsk region to specific times of year, and the delivery of supplies to the areas where it operates may be disrupted or transportation costs may increase*".

Projections of the Group's TCC

The Company has included below information related to estimated TCC for the Group for 2017, 2018 and 2019. In addition, the Company has included elsewhere in this Prospectus the Group's estimated life-of-mine average TCC for each of Natalka and Chertovo Koryto upon their expected commissioning (see "*Business—Yakutia region—Natalka*" and "*Business—Advanced stage exploration projects—Chertovo Koryto*", respectively). The Group's actual TCC in future periods depend on a number of factors, which cannot be ascertained with any certainty and may differ materially from the below estimates, and no reliance should be placed on these estimates as being indicative of future TCC. See "*Risk Factors*" and "*Forward-Looking Statements*" for a discussion of important factors that could cause the actual TCC to differ materially from the below estimates. There may also be additional factors or risks of which the Group is currently unaware, which could have the effect set forth above.

Estimated TCC for 2017-2019

The Company expects that the Group's TCC in 2017-2019 will remain below US$400 per ounce. Based on the current cash cost structure, approximately 85 per cent of the Group's costs included into TCC (with the exception of mineral extraction tax linked to the U.S. dollar-based gold price) are rouble-denominated and approximately 15 per cent are linked to U.S. dollars. The table below shows the Groups' TCC estimates for the periods indicated, based on the assumptions applied in the AMC Report of a gold price of US$1,250/oz and a US$/RUB exchange rate of 65 roubles per US$1.00 (see "*Exhibit A: AMC Competent Person's Report*"):

	Year ended 31 December		
(in U.S. dollars per ounce sold)	*2017*	*2018*	*2019*
TCC	362	379	355

The Group calculated the TCC estimates in accordance with the Company's accounting policy (see "*Operating and Financial Review—Critical accounting judgments and key sources of estimation uncertainty*" for a list of significant accounting policies as of and for the year ended 31 December 2016), applying the same methodology that has been used by the Group for calculating TCC in 2013, 2014, 2015 and 2016 (see "*Selected Consolidated Financial and Operating Information—Total Cash Costs*"). The estimation of the Group's TCC is based on the life of mine plans, production profile and forward-looking mining, processing, gold refining and transport costs for the Group's existing assets set forth by AMC in the AMC Report.

When estimating TCC for Natalka and Verninskoye, the Group assumed the tax rates of the Regional Investment Project Regime, due to the eligibility of these assets for the tax benefits under the current Regional Investment Project Regime. See "*Business—Regional Investment Project Regime*".

TCC is subject to market and other factors which cannot be predicted, including the levels of inflation, the price of gold, the exchange rates, and the costs of labor, raw and other materials, equipment and services used in operations. As a result, actual TCC is likely to vary from the Group's current estimates, potentially significantly.

Discussion of Results of Operations for the Three Months Ended 31 March 2017 and 2016

The following table shows a summary of the Group's condensed consolidated interim statement of profit or loss and the percentage change in the three months ended 31 March 2017 as compared to the three months ended 31 March 2016.

(in millions of U.S. dollars, unless otherwise indicated)	*Three months ended 31 March* 2017	2016	*Change (%)*
Gold sales	600	505	19
Other sales	9	6	50
Total revenue	**609**	**511**	**19**
Cost of gold sales	(225)	(173)	30
Cost of other sales	(9)	(6)	50
Gross profit	**375**	**332**	**13**
Gross profit margin	62%	65%	(3) ppts
Selling, general and administrative expenses	(42)	(34)	24
Other expenses, net	(3)	(1)	200
Reversal of impairment	–	1	(100)
Operating profit	**330**	**298**	**11**
Finance costs, net	(63)	(32)	97
Interest income	11	8	38
Gain / (loss) on derivative financial instruments and investments, net	108	(13)	N.A.[1]
Foreign exchange gain, net	190	116	64
Profit before income tax	**576**	**377**	**53**
Income tax expense	(77)	(83)	(7)
Profit for the period	**499**	**294**	**70**
Profit attributable to:			
Shareholders of the Company	504	297	70
Non-controlling interests	(5)	(3)	67
Earnings per share (U.S. Cents), basic and diluted	4	2	100

Note:

1. Not applicable.

Adjusted EBITDA

Adjusted EBITDA has been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*". The following table sets out a reconciliation of the Group's Adjusted EBITDA in the three months ended 31 March 2017 as compared to the three months ended 31 March 2016.

(in millions of U.S. dollars, unless otherwise indicated)	*Three months ended 31 March* 2017	2016	*Change (%)*
Profit for the period	**499**	**294**	**70**
Income tax	77	83	(7)
Foreign exchange gain, net	(190)	(116)	64
(Gain) / loss on derivative financial instruments and investments, net	(108)	13	N.A.[2]
Interest income	(11)	(8)	38
Finance costs, net	63	32	97
Depreciation and amortisation	39	30	30
Long-term incentive plan	7	3	133
Reversal of impairment	–	(1)	(100)
Special charitable contributions[1]	7	–	N.A.[2]
Adjusted EBITDA	**383**	**330**	**16**
Total revenue	609	511	19
Adjusted EBITDA margin (%)	**63**	**65**	**(2) ppts**

Notes:

1. Reflects a special contribution being made outside the scope of the Company's existing charity policy and outside of the key regions in which it is present.
2. Not applicable.

The Group's Adjusted EBITDA increased by 16 per cent to US$383 million for the three months ended 31 March 2017, as compared to US$330 million for the three months ended 31 March 2016, while the Adjusted EBITDA margin decreased by 2 percentage points to 63 per cent for the three months ended 31 March 2017 as compared to 65 per cent for the three months ended 31 March 2016.

Adjusted EBITDA growth was predominantly driven by Olimpiada and Blagodatnoye, which achieved double digit growth of their gold sales volumes. These two assets generated 82 per cent of the Group's Adjusted EBITDA for the three months ended 31 March 2017.

The Adjusted EBITDA growth reflects the Group's increased production, which has been driven by higher ore processing volumes at all of the Group's hard rock mining assets as a result of the continuous focus on improving operational efficiency and cost control.

Total Cash Costs

The following table shows the Group's TCC and TCC per ounce sold in the three months ended 31 March 2017 as compared to the three months ended 31 March 2016. TCC and TCC per ounce sold have been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*".

(in millions of U.S. dollars, unless otherwise indicated)	Three months ended 31 March 2017	2016	Change (%)
Cost of gold sales	**225**	**173**	**30**
– property, plant and equipment depreciation	(40)	(29)	38
– provision for annual vacation payment	(3)	–	N.A.[(1)]
– employee benefit obligations cost	–	(1)	(100)
– change in allowance for obsolescence of inventory	1	–	N.A.[(1)]
+ non-monetary changes in inventories[(2)]	2	–	N.A.[(1)]
TCC	**185**	**143**	**29**
Gold sales (‘000 ounces	487	400	22
TCC (US$ per ounce sold)	**380**	**357**	**6**

Note:

1. Not applicable.
2. “Non-monetary changes in inventories” is a calculation of the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

The Group’s TCC increased by 6 per cent to US$380/oz for the three months ended 31 March 2017, as compared to US$357/oz for the three months ended 31 March 2016, primarily as a result of the rouble appreciating by 21 per cent against the U.S. dollar for the three months ended 31 March 2017 as compared to the three months ended 31 March 2016. This increase was mitigated by operational efficiency initiatives, lower consumables and lower spares expenses, as well as strong operational results during the three months ended 31 March 2017, such as the increased hourly throughput at Blagodatnoye, Verninskoye and Kuranakh and higher grade in ore processed at Olimpiada.

TCC at Olimpiada decreased by 2 per cent to US$393/oz for the three months ended 31 March 2017, as compared to the three months ended 31 March 2016, despite the appreciation of the rouble. This decrease was mainly attributable to higher grades in ore processed (3.45 g/t for the three months ended 31 March 2017 as compared to 2.99 g/t for the three months ended 31 March 2016) and as a result of the Company stopping the processing of higher cost Veduga ore.

At Blagodatnoye, TCC increased by 14 per cent to US$306/oz for the three months ended 31 March 2017, as compared to the three months ended 31 March 2016, as a result of the appreciation of the rouble. This was partially offset by operational improvements, including increased hourly throughput, following the upgrade of the first grinding line, and processing of lower cost stockpiled ore.

At Verninskoye, TCC decreased by 3 per cent to US$389/oz for the three months ended 31 March 2017, as compared to the three months ended 31 March 2016. This decrease was mainly due to the tax concessions received at Verninskoye since mid-2016 and operational improvements, including the gradual increase in hourly throughput and recoveries following improvements at the flotation, sorption and cyanidation circuits.

At Kuranakh, TCC increased by 22 per cent to US$585/oz for the three months ended 31 March 2017, as compared to the three months ended 31 March 2016, primarily due to the appreciation of the rouble. The hourly throughput level was improved at Kuranakh due to the increased productivity of grinding equipment, which, together with the physical properties of the ore treated, fully offset the negative impact of the annual electricity tariff indexation and the decline in average grade in ore processed as a result of lower grades in ore mined (a 4 per cent decrease for the three months ended 31 March 2017 as compared to the three months ended 31 March 2016).

Due to the seasonality of placer deposits, no gold was produced at Alluvials in the three months ended 31 March 2017. The washing season ended in November 2016, and was resumed, in line with past practice, in April 2017.

All-In Sustaining Costs

The following table shows the Group's AISC and AISC per ounce sold in the three months ended 31 March 2017 as compared to the three months ended 31 March 2016.

(in millions of U.S. dollars, unless otherwise indicated)	*Three months ended 31 March* 2017	2016	*Change (%)*
Total TCC	**185**	**143**	**29**
+ selling, general and administrative expenses	42	34	24
Less: amortisation and depreciation included in selling, general and administrative expenses	(1)	(1)	–
+ stripping activity asset additions	35	17	106
+ sustaining capital expenditures	22	22	–
+ unwinding of discounts on decommissioning liabilities	–	1	(100)
adding back expenses excluded from cost of gold sales			
+ provision for annual vacation payment	3	–	N.A.[1]
+ employee benefit obligations costs	–	1	(100)
+ change in allowance for obsolescence of inventory	(1)	–	N.A.[1]
Total AISC	**285**	**217**	**31**
Gold sold ('000 ounces)	487	400	22
AISC (US$ per ounce sold)	**586**	**543**	**8**

Note:

1. Not applicable.
2. Sustaining capital expenditures represents capital expenditures at existing operations comprising mine development costs and on-going replacement of mine equipment and other capital facilities, and does not include capital expenditures for major growth projects or enhancement capital for significant infrastructure improvements at existing operations.

The Group's AISC/oz increased by 8 per cent to US$586/oz for the three months ended 31 March 2017, as compared to US$543/oz for the three months ended 31 March 2016. This increase was due to increased TCC, selling, general and administrative expenses and increased stripping expenses.

The individual mine AISC/oz performance similarly reflected the individual mine TCC/oz performance, with AISC at Olimpiada decreasing by 2 per cent to US$564/oz for the three months ended 31 March 2017 as compared to the three months ended 31 March 2016, while AISC at Blagodatnoye increased by 32 per cent to US$518/oz for the three months ended 31 March 2017 as compared to the three months ended 31 March 2016, due to the increased mining works in line with the mine plan (rock moved volumes increased by 61 per cent for the three months ended 31 March 2017 as compared to the three months ended 31 March 2016). At Verninskoye, AISC increased by 29 per cent for the three months ended 31 March 2017 as compared to the three months ended 31 March 2016, due to increased selling, general and administrative expenses, and sustaining capital expenditure. At Kuranakh, AISC decreased by 1 per cent to US$743/oz for the three months ended 31 March 2017 as compared to the three months ended 31 March 2016, due to the negative impact on costs for the three months ended 31 March 2016 as a result of the renovation of the mining fleet.

Gold Sales

The following table shows the results and breakdown of the Group's gold sales in the three months ended 31 March 2017 as compared to the three months ended 31 March 2016.

Gold Sales	*Three months ended 31 March* 2017	2016	*Change (%)*
Gold sales (US$ millions)	600	505	19
Gold sales ('000 ounces)	487	400	22
Average realized refined gold price (excluding effect of SPPP) (US$ per ounce)	1,217	1,186	3
Average realized refined gold price (including effect of SPPP) (US$ per ounce)	1,258	1,260	N.M.(1)
Average London afternoon gold price fixing (US$ per ounce)(1)	1,219	1,183	3
Premium of average selling price (including effect of SPPP) over average London afternoon gold price fixing (US$ per ounce)	39	77	(49)

Notes:

1. Not material.
2. Source: London Bullion Market Association.

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

Production of Gold ('000 ounces)	*Three months ended 31 March* 2017	2016	*Change (%)*
Refined Gold Production			
Krasnoyarsk region			
Olimpiada mine(1)	219	151	45
Blagodatnoye mine	108	100	8
Titimukhta(1)	–	28	(100)
Poputninskoye	–	2	(100)
Irkutsk region			
Verninskoye	54	56	(4)
Alluvials	–	–	–
Republic of Sakha (Yakutia) region			
Kuranakh	41	38	8
Refined gold	**422**	**375**	**13**
Gold in flotation concentrate	28	9	211
Total gold produced	**450**	**384**	**17**

Notes:

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

For the three months ended 31 March 2017, the Group's revenue from gold sales increased by 19 per cent to US$600 million, as compared to US$505 million for the three months ended 31 March 2016, primarily due to increased gold sales volumes. The average realized refined gold price remained largely flat at US$1,258/oz for the three months ended 31 March 2017, as compared to US$1,260/oz for the three months ended 31 March 2016, while gold sales increased by 22 per cent to 487 thousand ounces for the three months ended 31 March 2017, as compared to 400 thousand ounces for the three months ended 31 March 2016. The average LBMA gold price increased by 3 per cent to US$1,219/oz for the three months ended 31 March 2017, as compared to US$1,183/oz for the three months ended 31 March 2016. The Group's SPPP further supported revenue generation by improving the average selling price for the three months ended 31 March 2017 by US$39/oz (as compared to the improvement in the average selling price of US$77/oz for the three months ended 2016). The SPPP covered 200 koz of gold sold in the three months ended 31 March 2017 and generated US$19 million in the three months ended 31 March 2017.

Cost of Gold Sales

The following tables shows the components of the Group's cost of gold sales for the three months ended 31 March 2017 and 2016.

	Three months ended 31 March		
(in millions of U.S. dollars)	*2017*	*2016*	*Change (%)*
Labor	53	42	26
Consumables and spares	49	51	(4)
Tax on mining	29	26	12
Fuel	16	14	14
Power	7	6	17
Outsourced mining services	–	2	(100)
Other	11	7	57
Cash operating costs	**165**	**148**	**11**
Depreciation and amortisation of operating assets	40	29	38
Decrease / (increase) in gold-in-process and refined gold inventories	20	(4)	N.A.[1]
Cost of gold sales	**225**	**173**	**30**

Note:

1. Not applicable.

The Group's cash operating costs increased by 11 per cent to US$165 million for the three months ended 31 March 2017, as compared to US$148 million for the three months ended 31 March 2016, mainly due to the rouble appreciating by 21 per cent against the U.S. dollar for the three months ended 31 March 2017 as compared to the three months ended 31 March 2016. The Group's decision to stop processing higher cost Veduga ore also contributed to the increase. However, the Group's operational expenses decreased (excluding Mineral Extraction Tax) in rouble terms. The Group remains focused on operational optimization and improving efficiency.

Labor expenses increased by 26 per cent to US$53 million for the three months ended 31 March 2017 from US$42 million for the three months ended 31 March 2016. This was mainly due to the appreciation of the rouble as all of the Group's labor expenses are denominated in roubles. The Group's labor expenses comprise 32 per cent of the Group's total cash operating costs. The negative impact of annual salary indexation, however, was fully offset by headcount reduction.

Consumables and spares expenses decreased by 4 per cent to US$49 million for the three months ended 31 March 2017 from US$51 million for the three months ended 31 March 2016, primarily due to lower maintenance expenses and a decrease in ore input costs at Olimpiada as a result of the Group stopping the processing of higher cost Veduga ore (the Group processed 242 thousand tonnes of Veduga ore in the three months ended 31 March 2016). This decrease was offset by increased production, resulting in a higher consumption of cyanide and other chemical agents. Consumables and spares expenses comprise 30 per cent of the Group's cash operating costs.

Mineral Extraction Tax payments, which comprise 18 per cent of the Group's cash operating costs, increased by 12 per cent to US$29 million in the three months ended 31 March 2017 from US$26 million in the three months ended 31 March 2016, as a result of a 17 per cent increase in production volumes for the three months ended 31 March 2017 as compared to the three months ended 31 March 2016 and a moderate increase in the average realized gold price (excluding the effect of the SPPP). Tax concessions received since mid-2016 at Verninskoye positively impacted the Group's Mineral Extraction Tax payments.

Fuel costs increased by 14 per cent to US$16 million in the three months ended 31 March 2017 from US$14 million in the three months ended 31 March 2016, mainly due to the appreciation of the rouble, which was partly offset by lower transportation costs at Olimpiada. Diesel fuel consumption declined as the transport route was shortened with the completion of the Vostochny pit cutback.

Following the appreciation of the rouble, as well as the annual tariff indexation, the Group's power costs increased by 17 per cent to US$7 million in the three months ended 31 March 2017 from US$6 million in the three months ended 31 March 2016.

Other costs increased by 57 per cent to US$11 million in the three months ended 31 March 2017 from US$7 million in the three months ended 31 March 2016, mainly as a result of higher transportation expenses.

Selling, general and administrative expenses

The following table sets forth the selling, general and administrative expenses of the Group for the three months ended 31 March 2017 and 2016 and the percentage change.

	Three months ended 31 March		
(in millions of U.S. dollars)	*2017*	*2016*	*Change (%)*
Salaries	27	26	4
Distribution expenses related to gold-bearing products	4	–	N.A.[(1)]
Taxes other than mining and income taxes	3	3	–
Professional services	2	2	–
Amortisation and depreciation	1	1	–
Other	5	2	150
Total	**42**	**34**	**24**

Note:

1. Not applicable.

The Group's selling, general, and administrative expenses increased by 24 per cent to US$42 million for the three months ended 31 March 2017, as compared to US$34 million for the three months ended 31 March 2016, mainly due to the appreciation of the rouble and an increase in distribution expenses relating to flotation concentrate sales.

Equity-settled share-based payment plans

On 22 December 2016, the Board of Directors of the Company approved a new long term incentive plan (the "**LTIP**"), according to which the members of top management of the Group are entitled to a conditional award in the form of the Company's ordinary shares linked to the achievement of a combination of financial and non-financial performance targets. The LTIP stipulates three rolling performance periods (*i.e.*, 2016-2017, 2016-2018 and 2017-2019). The total number of shares that may be distributed under the LTIP is up to 1,913,200 Shares (approximately 1.5 per cent of the Company's total share capital), which can be granted from newly issued ordinary shares, treasury shares, or otherwise.

For the three months ended 31 March 2017, the total expense for the reporting period arising from the LTIP was recognized within salaries in the Group's selling, general and administrative expenses in the amount of US$7 million as compared to US$3 million for the three months ended 31 March 2016.

Finance costs and interest income

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

(in millions of U.S. dollars)	*Three months ended 31 March* 2017	2016	*Change (%)*
Interest on borrowings	87	43	102
Gain on exchange of interest payments under cross currency swap	(9)	(6)	50
Write-off of unamortised debt cost due to early extinguishment of debt	11	15	(27)
Unwinding of interest on deferred consideration	1	–	N.A.[1]
Other	1	1	–
Sub-total finance cost	**91**	**53**	**72**
Interest included in the cost of qualifying assets	(28)	(21)	33
Total finance cost expensed	**63**	**32**	**97**

The Group's total finance costs were US$63 million in the three months ended 31 March 2017, as compared to US$32 million in the three months ended 31 March 2016. This increase was mainly due to the Group's continued interest capitalization with regards to the Natalka development project, where construction works are on-going. The capitalized interest relating to the Natalka project and Sukhoi Log amounted to US$28 million for the three months ended 31 March 2017, a 33 per cent increase as compared to the three months ended 31 March 2016, as a result of the acceleration of construction at Natalka. Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps) increased to US$78 million for the three months ended 31 March 2017, as compared to US$37 million for the three months ended 31 March 2016, due to higher outstanding borrowings on average for the period. As at 31 March 2017, the portion of the Group's debt instruments with floating interest rates decreased to 30 per cent (as compared to 52 per cent as at 31 December 2016).

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

Net gain on derivative financial instruments and investments was US$108 million for the three months ended 31 March 2017, as compared to a net loss amounting to US$13 million for the three months ended 31 March 2016.

The following table sets forth the components of the gain / (loss) on derivative financial instruments and investments, net for the periods indicated and the percentage change.

(in millions of U.S. dollars)	*Three months ended 31 March* 2017	2016	*Change (%)*
Revaluation gain on cross currency swaps	96	90	7
Gain on disposal of subsidiary	–	16	(100)
Revaluation loss on ineffective part of the revenue stabilizer under Tranches 1 and 2	(30)	(64)	(53)
Revaluation loss on revenue stabilizer under Tranches 3 and 4	(49)	(69)	(29)
Revaluation (loss) / gain on interest rate swap	(1)	14	N.A.[1]
Gain on disposal of joint venture	92	–	N.A.[1]
Total	**108**	**(13)**	**N.A.[1]**

Note:

1. Not applicable.

Revenue stabilizer

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

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

Tranches 1 and 2 of the revenue stabilizer arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognized in the cash flow hedge revaluation reserve within the condensed consolidated interim statement of changes in equity, whilst the remaining change in the fair value of the US$30 million loss is reflected in the condensed consolidated interim statement of profit or loss. During the three months ended 31 March 2017, under Tranches 1 and 2, a gain of US$5 million was recognized in the cash flow hedge revaluation reserve within the consolidated interim statement of changes in equity and following the sale of the hedged volume of gold and the exercise of certain options US$16 million was subsequently reclassified to gold sales within the condensed consolidated interim statement of profit or loss.

Tranches 3 and 4 are accounted at fair value. During the three months ended 31 March 2017, loss resulting from the change in fair value totaled US$49 million. Following the sale of the hedged volume of gold and the exercise of certain options, US$3 million was subsequently reclassified to gold sales in the condensed consolidated interim statement of profit or loss.

For the three months ended 31 March 2017, the positive effect on revenue from the revenue stabilizer program amounted to US$19 million as compared to US$30 million for the three months ended 31 March 2016.

Disposal of Nezhdaninskoye

In March 2017, the Group entered into an agreement to sell its 82.34 per cent stake in UVGK Holdings Limited, a joint venture entity formed by the Group with Polymetal, which holds 100 per cent of the share capital of JSC South-Verkhoyansk Mining Company, the holder of the license for the Nezhdaninskoye deposit. The stake was sold for a total consideration of US$158 million. The consideration consists of two parts:

- cash consideration of US$100 million was paid on the completion of the transaction in March 2017;
- contingent cash consideration of US$58 million, which could be adjusted upon the 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 the Group's investment in the joint venture at the date of sale resulted in a gain of US$92 million and has been recognized in the condensed consolidated interim statement of profit or loss. The fair value of the contingent consideration is linked to the achievement of certain operational and financial parameters, which cannot be yet properly assessed and evaluated given the project stage. The Group will assess the fair value once such operational and financial parameters can be reliably estimated.

Gold forward

During the year ended 31 December 2014, the Group entered into financing contracts to sell a total of 310 thousand ounces of gold monthly in equal quantities over a period of two years starting from 1 July 2014 and ending on 30 June 2016 at a fixed price of US$1,321 per ounce. The gold forward contract was designated as a cash flow hedge. There are no outstanding balances with regards of gold forwards as of 31 March 2017.

Cross currency swaps

Rouble denominated credit facilities with fixed interest rate

The revenue of the Group is linked to U.S. dollars, because the gold price is denominated in U.S. dollars.

In 2014, the Group entered into cross currency swaps with leading Russian banks to hedge interest payments and principal amounts nominated in roubles. Under the cross currency swap agreements dated in 2014, the Group paid to the banks on a quarterly basis LIBOR plus a margin of 2.47 per cent in U.S. dollars and received from the banks 10.35 per cent in roubles; and at maturity on 9 April 2019, the Group will exchange the related principal amounts by paying US$1,023 million and receiving RUB 35,999 million.

In 2016, the Group amended these cross currency contracts and entered into new fixed rate swap, offsetting the floating swap, so that the following terms were in place during the three months ended 31 March 2017:

- the Group quarterly pays to the banks 3.94 per cent in U.S. dollars and receives from the banks 10.35 per cent in roubles; and at maturity (9 April 2019) the Group exchanges principal amounts by paying US$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 per cent in U.S. dollars and receives from the banks 10.35 per cent in roubles; and at maturity (9 April 2019) the Group exchanges principal amounts by paying US$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.

Russian bonds

The Group entered into cross currency swaps with leading Russian banks for a total amount of RUB 15 billion to hedge interest payments and principal amounts in exchange for Russian bonds. Under the cross currency swap agreements, the Group will semi-annually pay to the banks six-month LIBOR plus margin of 4.45 per cent for RUB 10 billion and 5.9 per cent for RUB 5 billion in U.S. dollars and receive from the banks 12.1 per cent in RUB; and at maturity (July 2021), the Group will exchange the principal amounts by paying US$255 million and receiving RUB 15 billion.

The Group accounted for these derivative financial instruments at fair value which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps for the three months ended 31 March 2017 resulted in a revaluation gain of US$96 million recognized in the condensed consolidated interim statement of profit or loss (a gain of US$90 million for the three months ended 31 March 2016). The gain on the exchange of interest payments in the amount of US$9 million is recognized within the finance cost (a gain of US$6 million for the three months ended 31 March 2016).

The fair value measurement is based on spot currency exchange rates and forward U.S. dollar LIBOR and RUB rates, which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

Interest rate swaps

In 2014, the Group entered into interest rate swap agreements, under which the Group pays semi-annually and until 29 April 2020 LIBOR plus 3.55 per cent in U.S. dollars and receives 5.625 per cent in U.S. dollars in respect of a US$750 million nominal amount. The purpose of this swap is to decrease the effective interest rate for PGIL's US$750 million 5.625 per cent guaranteed notes due 2020 (the "**PGIL Eurobonds**"). In 2016, the Group signed new offsetting interest rate swap agreements, under which the Group semi-annually pays until 29 April 2020 to the banks 5.342 per cent in U.S. dollars and receives from the banks LIBOR plus 3.55 per cent in U.S. dollars in respect of a US$750 million nominal amount to effectively swap variable interest rate payments under the 2014 rate swaps into fixed rate payments.

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. The Group accounts for it at fair value, which was determined using a discounted cash flow valuation technique.

For the three months ended 31 March 2017, the loss on charges in the fair value of the interest rate swaps in the amount of US$1 million was recognized in the condensed consolidated interim statement of profit or loss, as compared to a gain of US$14 million for the three months ended 31 March 2016.

The fair value measurement is based on inputs (forward U.S. dollar LIBOR rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

Foreign exchange gain

The Company's foreign exchange gain in the three months ended 31 March 2017 amounted to US$190 million, as compared to a US$116 million gain in the three months ended 31 March 2016. The increase reflects the revaluation of U.S. dollar-denominated liabilities and bank deposits as the functional currency of the subsidiaries of the Group is roubles.

Income tax expense

The Company's income tax amounted to US$77 million in the three months ended 31 March 2017. The current income tax expense for the three months ended 31 March 2017 increased by 7 per cent as compared to the three month period ended 31 March 2016, due to an increase in profit before tax, which was partially driven by an increase in foreign exchange gain.

Summary of performance results by business units for the three months ended 31 March 2017 and 2016

The following tables show the Group's performance results by business unit in the three months ended 31 March 2017 and 2016.

(in millions of U.S. dollars, unless otherwise indicated)	*Three months ended 31 March 2017* Gold sales	Gold sold ('000 ounces)	Production ('000 ounces)	Adjusted EBITDA	TCC per ounce of gold sold (US$ per ounce)	AISC per ounce of gold sold (US$ per ounce)	Capital expenditures
Krasnoyarsk	485	392	355	314	366[1]	532[2]	23
Irkutsk alluvial	–	–	–	–	–	–	7
Irkutsk ore	65	54	54	38	389	610	5
Yakutia Kuranakh	50	41	41	26	585	743	8
Magadan	–	–	–	1	–	–	76
Sukhoi Log	–	–	–	–	–	–	140
Exploration	–	–	–	–	–	–	1
Capital construction	–	–	–	–	–	–	6
Unallocated	–	–	–	4	–	–	2
Total	**600**	**487**	**450**	**383**	**380**	**586**	**268**

Notes:

1. Calculated as weighted average of the relevant TCC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$393 per ounce for Olimpiada, US$306 per ounce for Blagodatnoye, US$0 per ounce for Titimukhta.
2. Calculated as weighted average of the relevant AISC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$564 per ounce for Olimpiada, US$518 per ounce for Blagodatnoye, US$0 per ounce for Titimukhta.

(in millions of U.S. dollars, unless otherwise indicated)	*Three months ended 31 March 2017* Gold sales	Gold sold ('000 ounces)	Production ('000 ounces)	Adjusted EBITDA	TCC per ounce of gold sold (US$ per ounce)	AISC per ounce of gold sold (US$ per ounce)	Capital expenditures
Krasnoyarsk	395	308	289	270	351[1]	498[2]	17
Irkutsk alluvial	1	–	–	(4)	682	–	3
Irkutsk ore	62	53	56	39	399	472	2
Yakutia Kuranakh	45	38	38	26	478	752	9
Magadan	–	–	–	–	–	–	37
Exploration	2	1	–	1	1,088	1,130	1
Capital construction	–	–	–	–	–	–	26
Unallocated	–	–	–	(2)	–	–	1
Total	**505**	**400**	**384**	**330**	**357**	**543**	**96**

Notes:

1. Calculated as weighted average of the relevant TCC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$401 per ounce for Olimpiada, US$268 per ounce for Blagodatnoye, US$371 per ounce for Titimukhta.
2. Calculated as weighted average of the relevant AISC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$576 per ounce for Olimpiada, US$393 per ounce for Blagodatnoye, US$439 per ounce for Titimukhta.

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales in the three months ended 31 March 2017 and 2016. Realized gains on derivatives of US$19 million were included within gold sales as compared to US$30 million in the three months ended 31 March 2016.

Krasnoyarsk business unit (Olimpiada, Blagodatnoye and Titimukhta mines)

In the three months ended 31 March 2017, the Krasnoyarsk business unit sold 392 thousand ounces of gold, as compared to 308 thousand ounces of gold sold in the three months ended 31 March 2016. Sales volumes exclude gold produced from the Poputninskoye deposit, where trial mining was launched in 2015 and continued in 2016. Total gold production amounted to 355 thousand ounces of gold in the three months ended 31 March 2017, as compared to 289 thousand ounces of gold in the three months ended 31 March 2016. Total gold produced represents refined gold output together with gold contained in concentrate.

Irkutsk alluvial operations (alluvial deposits)

In the three months ended 31 March 2017, the Irkutsk alluvial deposits did not sell any gold, due to the seasonality of placer deposits. The washing season ended in November 2016, in line with past practice, and was resumed in April 2017. Maintenance and preparation work was performed at the deposits in the three months ended 31 March 2017.

Irkutsk ore business unit (Verninskoye mine)

In the three months ended 31 March 2017, the Irkutsk ore business unit sold 54 thousand ounces of gold, as compared to 53 thousand ounces of gold sold in the three months ended 31 March 2016. Gold production amounted to 54 thousand ounces of gold in the three months ended 31 March 2017, as compared to 56 thousand ounces of gold in the three months ended 31 March 2016.

Yakutia Kuranakh business unit (Kuranakh mine)

In the three months ended 31 March 2017, the Yakutia Kuranakh business unit sold 41 thousand ounces of gold, as compared to 38 thousand ounces of gold sold in the three months ended 31 March 2016. Gold production amounted to 41 thousand ounces of gold in the three months ended 31 March 2017, as compared to 38 thousand ounces of gold in the three months ended 31 March 2016.

Review of Financial Sustainability and Solvency for the three months ended 31 March 2017 and 2016

Analysis of statement of financial position items

The table below shows an extraction of key items from the Group's condensed consolidated interim statement of financial position as of 31 March 2017.

(in millions of U.S. dollars)	*31 March 2017*
ASSETS	
Non-current assets	
Property, plant and equipment	3,426
Derivative financial instruments and investments	35
Inventories	269
Deferred tax assets	90
Other non-current assets	40
Total non-current assets	**3,860**
Current assets	
Inventories	403
Derivative financial instruments and investments	1
Deferred expenditures	30
Other receivables	54
Advances paid to suppliers and prepaid expenses	15
Taxes receivable	77
Cash and cash equivalents	1,487
Total current assets	**2,067**
TOTAL ASSETS	**5,927**
EQUITY AND LIABILITIES	
Equity attributable to shareholders of the Company[1]	(30)
Non-controlling interests	96
TOTAL EQUITY	**66**
Non-current liabilities	
Site restoration, decommissioning and environmental obligations	36
Borrowings	4,591
Derivative financial instruments	459
Deferred revenue	82
Deferred consideration	101
Deferred tax liabilities	189
Other non-current liabilities	35
Total non-current liabilities	**5,493**
Current liabilities	
Borrowings	24
Trade and other payables	244
Deferred consideration	21
Taxes payable	79
Total current liabilities	**368**
TOTAL LIABILITIES	**5,861**
TOTAL EQUITY AND LIABILITIES	**5,927**

Note:

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

Borrowings

As of 31 March 2017, the Group's total borrowings (excluding liabilities arising from derivative financial instruments) amounted to US$4,615 million. The Group's debt portfolio remains dominated by U.S. dollar-denominated instruments, representing 80 per cent of the total gross debt as of 31 March 2017 (82 per cent increase as compared to 31 December 2016). This was due to the Group entering into a seven-year US$2,500 million credit facility with Sberbank in January 2016. The RUB 36,000 million credit facility from Sberbank obtained in April 2014 and the RUB 15,000 million bonds placed in July 2015 were both economically hedged through cross-currency swaps. As of 31 March 2017, the main sources of the Group's total borrowings were as follows: Sberbank loans (40 per cent); Eurobonds (44 per cent); bank loans, excluding Sberbank (10 per cent); and rouble-denominated bonds (6 per cent). As of 31 March 2017, 30 per cent of the Group's total borrowings had floating interest rates, while 70 per cent had fixed rates.

The following table sets forth the components of the Group's total borrowings as of 31 March 2017 and 31 December 2016:

	Nominal rate %	*As of 31 March 2017*	*As of 31 December 2016*
Credit facilities with financial institutions nominated in US$ with variable interest rates	US$ LIBOR + margins ranging from 1.35% to 4.50%	1,279	2,513
PGIL US$ credit facilities with fixed interest rates	4.799% – 5.725%	2,038	1,237
Credit facilities with financial institutions nominated in RUB with fixed interest rates	10.35%	584	541
Credit facilities with financial institutions nominated in US$ with fixed interest rates	3.75% – 4.10%	331	331
Notes due in 2025 (Russian bonds) with noteholders' early repayment option in 2021	12.1%	271	253
Letters of credit with deferred payments terms with variable rates	Euribor + 1.8%, US$ LIBOR + 1.15%	9	19
Lease liabilities nominated in US$ with fixed interest rate	5.1% – 8.5%	15	6
Credit facilities with financial institutions nominated in RUB with variable interest rates	Central bank rate + 2.3%	88	81
Sub-total		**4,615**	**4,981**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(24)	(283)
Long-term borrowings		**4,591**	**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.

During the three months ended 31 March 2017, the Group received a US$800 million loan from PGIL, which was financed by PGIL's issued US$ 800 million guaranteed notes due 7 February 2023 with a coupon of 5.250 per cent per annum.

On 31 March 2017, US$1,250 million of credit facilities with financial institutions denominated in U.S. dollars with variable interest rates were repaid in advance of the payment schedule.

Reclassification of Russian bonds

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

The bondholders had to notify the Company by 24 March 2017 to exercise their right, but no notification was received from bondholders and, therefore, the total outstanding amount of the Russian bonds was reclassified to long-term as of 31 March 2017.

Unused credit facilities

In 2014, one of the Group's subsidiaries entered into a five year RUB 40,000 million credit line with VTB Bank to fund its general corporate purposes. As of 31 March 2017, the amount of unused credit facilities was RUB 40,000 million (equivalent to US$709 million, covering all debt repayments up to 2020, totaling approximately US$664 million at the RUB/U.S. dollar exchange rate in effect as at 31 March 2017).

Other matters

JSC Polyus has guaranteed liabilities of all the companies in the Group for all outstanding borrowings, except for the Russian bonds.

There were a number of financial covenants under several loan agreements in effect as of 31 March 2017, according to which certain subsidiaries of the Company and the Company itself are limited:

- in the distribution of their assets (the Group is not allowed to divest more than 10 per cent of its assets in any form of transaction without prior consent of the banks. This limitation is applicable to the most significant subsidiaries of the Group);
- in its right to dispose of the controlling share in certain significant subsidiaries of the Group;
- 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 31 December 2016. The Group checks its compliance with these covenants on a semi-annual basis, with the next compliance check due to take place based on the Group's financial results as of 30 June 2017.

The following table sets forth the currency breakdown of the Group's total borrowings as of 31 March 2017 and 31 December 2016:

(in millions of U.S. dollars)	*As at 31 March 2017*	*As at 31 December 2016*
EUR	3	6
RUB	943	876
US$	3,669	4,099
Total	**4,615**	**4,981**

The following table sets forth the debt maturity schedule of the Group's total borrowings as of 31 March 2017:

Due in	*(in millions of U.S. dollars)*[1]
2017	24
2018	24
2019	616
2020	780
2021	795
2022	741
2023+	1,682

Note:

1. The debt maturity breakdown is based on actual maturities and excludes US$47 million of bank commissions included in borrowings, in accordance with IFRS.

Cash and cash equivalents and bank deposits

As of 31 March 2017, the Group's cash and cash equivalents amounted to US$1,487 million, as compared to US$1,740 million as of 31 December 2016.

The Group's cash position is comprised primarily of U.S. dollars, as revenue is fully linked to the U.S. dollar-denominated gold price, while the rouble exchange rate is subject to significant volatility.

The following table sets forth the currency composition of cash, cash equivalents and bank deposits as of 31 March 2017 and 31 December 2016.

(in millions of U.S. dollars)	*As at 31 March 2017*	*As at 31 December 2016*
RUB	224	238
US$	1,263	1,502
Total	**1,487**	**1,740**

Cash flow analysis

The following table sets forth the main components of the Group's consolidated cash flow statement for the three months ended 31 March 2017 and 2016.

	Three months ended 31 March	
(in millions of U.S. dollars)	*2017*	*2016*
Consolidated cash flow information		
Net cash generated from operating activities	282	291
Net cash (utilized in) / generated from investing activities	(15)	72
Net cash utilized in financing activities	(538)	(880)
Net decrease in cash and cash equivalents	**(271)**	**(517)**
Cash and cash equivalents at beginning of the period	1,740	1,825
Effect of foreign exchange rates on cash and cash equivalents	18	18
Cash and cash equivalents at end of the period	**1,487**	**1,326**

Operating activities

For the three months ended 31 March 2017, the Group generated operational cash flow of US$282 million, due to the Group's strong Adjusted EBITDA and a US$8 million working capital release as a result of the net effect from VAT-related items (including reimbursement of VAT receivables at Natalka, the Krasnoyarsk business unit and Kurunakh) and settlement of accounts receivable related to the supply of flotation concentrate to third parties.

Investing activities

For the first three months of 2017, the Group's capital expenditure increased by 33 per cent to US$128 million from US$96 million for the three months ended 31 March 2016, due to the increase in maintenance capital expenditure and the on-going construction at Natalka and the Group's brownfield development projects.

The Group's main development project, Natalka, saw a 105 per cent growth in capital expenditure for the first three months ended 31 March 2017 to US$76 million. The assembling of gravity concentrators and electrowinning cells was completed and the installation of thickeners is progressing as planned. In addition, the regrinding mill has been delivered to the sorption complex. The construction work is expected to accelerate in 2017. The Group anticipates commissioning the Natalka mine by the end of 2017, followed by a ramp-up period to reach the design parameters. In addition, the Group re-launched mining operations at Natalka in January 2017 (the deposit was previously mined from 2013 through 2014).

The Group increased capital expenditure at Olimpiada to US$14 million, due to preparations to connect the mine to the new Razdolinskaya-Tayga grid and construction of the BIO-4 circuit at the Mills No. 1, 2 and 3 complex. The Group expects to launch the BIO-4 project by the end of 2017, which is anticipated to provide the Company with the capacity to process all flotation concentrate in-house.

Capital expenditure at Blagodatnoye was US$3 million in the first three months ended 31 March 2017, a decrease of 57 per cent over the first three months ended 31 March 2016, primarily due to the completion of stage one of the Mill's processing capacity expansion project to 8 mtpa. In the remainder of 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. In addition, the Company continued working on the design related to the heap leach project.

At Verninskoye, capital expenditure was US$5 million in the first three months ended 31 March 2017, as compared to US$2 million in the first three months ended 31 March 2016. In 2016, the Group completed the first stage of the mill's capacity expansion project, and the Group will proceed with the second stage in 2017. The Company expects to reach its designed target throughput capacity of 3.0 mtpa for the mill over the course of three stages in 2017-2018.

At Kuranakh, capital expenditure decreased to US$8 million in the first three months ended 31 March 2017, as compared to US$9 million in the first three months ended 31 March 2016, mainly due to the completion of the first stage of the expansion of the Kuranakh mill's capacity to 4.5 mtpa. Completion of the project's second-stage is expected by the end of 2018, with the mill's processing capacities expected to reach 5.0 mtpa. The heap leach project is on schedule and is expected to be launched by the end of 2017.

Capital expenditure at Alluvials increased to US$7 million, due to higher exploration activity as well as the on-going worn-out equipment replacement program.

Other areas of investing activities in the three months ended 31 March 2017 comprised an additional payment of US$15 million for the Sukhoi Log license and the receipt of US$12 million of interest.

In January 2017, SL Gold submitted the highest bid during the Sukhoi Log auction totaling RUB 9.4 billion (approximately US$153 million), of which RUB 8.551 billion (approximately US$138 million) had been prepaid by SL Gold on 21 December 2016.

The Group received US$100 million from the sale of its 82.34 per cent interest in UVGK Holdings Limited, a joint venture entity formed by the Group with Polymetal, which holds 100 per cent of the share capital of JSC South-Verkhoyansk Mining Company, the holder of the mining and exploration license for the Nezhdaninskoye gold deposit in Russia's Yakutia region. Under the terms of the agreement, US$100 million was paid upon completion of the transfer of the shares and the Group will receive a contingent part of US$58 million once the project meets certain operational and financial criteria.

Financing activities

Net cash flow utilized in financing activities totaled US$538 million in the three months ended 31 March 2017, as compared to US$880 million in the three months ended 31 March 2016.

In the three months ended 31 March 2017, the Group completed a 50 per cent pre-payment of its US$2.5 billion seven-year credit facility with PJSC Sberbank, using both cash on balance and the proceeds from the 2023 Notes. This refinancing, together with the Company's share buy-back in the three months ended 31 March 2016, resulted in the US$342 million decrease in net cash flow utilized in the three months ended 31 March 2017 as compared to the three months ended 31 March 2016.

Capital expenditures, acquisitions of subsidiaries and stripping activity asset

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

(in millions of U.S. dollars)	*Three months ended 31 March* 2017	2016	*Change (%)*
Natalka	76	37	105
Olimpiada	14	6	133
Blagodatnoye	3	7	(57)
Verninskoye	5	2	150
Alluvials	7	3	133
Titimukhta	–	–	–
Kuranakh	8	9	(11)
Exploration	1	1	–
Other (including power projects)	14	31	(55)
Total	**128**	**96**	**33**

On 16 December 2016, JSC Polyus entered into a number of option agreements with RT, a wholly owned subsidiary of Russian state-owned Rostec Corporation. Under these option agreements, the Group intends to increase its ownership interest in SL Gold, a 54.6 per cent (initially, 51 per cent) subsidiary of the Group, by 20.3 per cent (initially, 23.9 per cent) within five years (and has the right to accelerate) for undiscounted consideration of US$118.1 million (initially, US$138.9 million). On 25 May 2017, JSC Polyus exercised the first option to acquire an additional 3.6 per cent participation interest in SL Gold, and the transfer of the stake was registered on 9 June 2017.

On 26 January 2017, the date when the Group became committed under the option agreements, the Group assessed their fair value. Fair value at the initial recognition in the amount of US$121 million, being discounted cash flows measured based on the discount factors, which are observable in the market on that date and varying from 3.0 per cent to 4.9 per cent per annum was accounted for as deferred consideration for Sukhoi Log, with a corresponding increase in exploration and evaluation assets. Thereafter, deferred consideration for Sukhoi Log was presented at amortized cost with change between the carrying value and fair value at initial recognition in the amount of US$1 million presented as unwinding of interest on deferred consideration for Sukhoi Log.

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

US$ million	*As at 31 March 2017*
Balance at the beginning of the reporting period	–
Fair value on initial recognition presented as an increase in exploration and evaluation assets	121
Unwinding of interest on deferred consideration for Sukhoi Log	1
Balance at the end of the reporting period	**122**

The balance as of 31 March 2017 in the amount of US$122 million was presented as follows: US$101 million was presented within long-term liabilities and the remaining US$21 million within short-term liabilities.

The fair value measurement on the date of initial recognition is based on inputs (spot currency exchange rates and forward U.S. dollar 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 31 March 2017, the fair value of the deferred consideration for Sukhoi Log is equal to the carrying value, due to the short period between the reporting date and the date of initial recognition.

Contingent Liabilities

Capital commitments

The Group's contracted capital expenditure commitments as at 31 March 2017 amounted to US$274 million as compared to US$257 million as at 31 December 2016. This increase is primarily due to the appreciation of the rouble against the U.S. dollar, which was applied to the expected capital expenditure that mainly comprises rouble-denominated costs.

Discussion of Results of Operations for the Years Ended 31 December 2016 and 2015

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

	Year ended 31 December		
(in millions of U.S. dollars, unless otherwise indicated)	*2016*	*2015*	*Change (%)*
Gold sales	2,429	2,159	13
Other sales	29	29	–
Total revenue	**2,458**	**2,188**	**12**
Cost of gold sales	(891)	(876)	2
Cost of other sales	(28)	(25)	12
Gross profit	**1,539**	**1,287**	**20**
Gross profit margin	63%	59%	4 ppts
Selling, general and administrative expenses	(151)	(143)	6
Other expenses, net	(31)	(2)	1,450
Reversal of impairment	4	22	(82)
Operating profit	**1,361**	**1,164**	**17**
Finance costs, net	(145)	(45)	222
Interest income	40	69	(42)
Gain / (loss) on derivative financial instruments and investments, net	119	(125)	N.A.[1]
Foreign exchange gain, net	396	149	166
Profit before income tax	**1,771**	**1,212**	**46**
Income tax expense	(326)	(191)	71
Profit for the period	**1,445**	**1,021**	**42**
Profit attributable to:			
Shareholders of the Company	1,420	987	44
Non-controlling interests	25	34	(26)
Earnings per share (U.S. Cents), basic and diluted	10	5	100

Note:

1. Not applicable.

Adjusted EBITDA

Adjusted EBITDA has been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*". The following table sets out a reconciliation of the Group's Adjusted EBITDA for the years ended 31 December 2016 and 2015.

	Year ended 31 December		
(in millions of U.S. dollars, unless otherwise indicated)	*2016*	*2015*	*Change (%)*
Profit for the period	**1,445**	**1,021**	**42**
Income tax	326	191	71
Foreign exchange gain, net	(396)	(149)	166
(Gain) / loss on derivative financial instruments and investments, net	(119)	125	N.A.[1]
Interest income	(40)	(69)	(42)
Finance costs	145	45	222
Depreciation and amortisation	148	128	16
Long-term incentive plan	19	7	171
Reversal of impairment	(4)	(22)	(82)
Loss on property, plant and equipment disposal	12	1	1,100
Adjusted EBITDA	**1,536**	**1,278**	**20**
Total revenue	2,458	2,188	12
Adjusted EBITDA margin (%)	**62**	**58**	**4 ppts**

Note:

1. Not applicable.

The Group's Adjusted EBITDA increased by 20 per cent to US$1,536 million in 2016 from US$1,278 million in 2015, with the Adjusted EBITDA margin improving by 4 percentage points to 62 per cent. This increase was mainly due to the full-scale rollout of the TOP, the weaker rouble against the U.S. dollar, higher sales volumes and the positive effect from the SPPP amounting to US$67 million.

Olimpiada and Blagodatnoye remained the main contributors to the Group's earnings in 2016. The Adjusted EBITDA growth reflects a combination of the supportive macro environment, the Company's focus on further implementation of operational efficiency improvements and cost control initiatives, as well as an increase in production driven by higher ore processing volumes at almost all of the Group's assets. At Olimpiada, there was 19 per cent increase in Adjusted EBITDA in 2016 as compared to 2015, largely due to higher sales volumes and a decrease in TCC/oz. Adjusted EBITDA at Blagodatnoye increased by 20 per cent in 2016 as compared to 2015, also reflecting higher sales volumes and a decrease in TCC/oz. Alluvials posted an increase in Adjusted EBITDA of 18 per cent in 2016 as compared to 2015, as a result of the higher grades in sands washed. All of the Group's operational assets contributed to the overall Adjusted EBITDA growth.

Total Cash Costs

The following table shows the Group's TCC and TCC per ounce sold for the years ended 31 December 2016 and 2015. TCC and TCC per ounce sold have been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*".

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December*		
	2016	*2015*	*Change (%)*
Cost of gold sales	**891**	**876**	**2**
– property, plant and equipment depreciation	(154)	(126)	22
– provision for annual vacation payment	–	(1)	(100)
– employee benefit obligations cost	(1)	(4)	(75)
– change in allowance for obsolescence of inventory	(3)	–	N.A.[1]
+ non-monetary changes in inventories[2]	12	4	200
TCC	**745**	**749**	**(1)**
Gold sales (‘000 ounces)	1,915	1,768	8
TCC (US$ per ounce sold)	**389**	**424**	**(8)**

Note:

1. Not applicable.
2. “Non-monetary changes in inventories” is a calculation of the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

The Group’s TCC per ounce decreased by 8 per cent to US$389 per ounce in 2016 from US$424 per ounce in 2015. This was underpinned by the strong operational performance of the Group’s assets, initiatives to improve efficiency and the depreciation of the rouble. TCC of US$745 million, excluding mineral extraction tax of US$134 million, was US$611 million in 2016 (63 per cent for processing, 33 per cent for mining and 4 per cent for general costs and other expenses). All of the hard rock operations demonstrated a year-on-year cost improvement, except for Alluvials, which posted a TCC per ounce increase.

The most visible progress was achieved at Kuranakh, with TCC declining by 17 per cent in 2016 to US$499 per ounce as compared to 2015, primarily driven by operational improvements, including improved performance of the grinding circuits, and increased ore processing volumes due to less-refractory quartz-pyrite ore in the Mill’s feed. Kuranakh entered the electricity wholesale market in January 2016, which had a positive effect on electricity costs.

At the Group’s largest mine, Olimpiada, TCC decreased by 3 per cent in 2016 to US$405 per ounce as compared to 2015. This decrease was due to the depreciation of the rouble, which fully offset the negative effect of higher consumables prices, increased repair expenses and annual salary indexation. The relatively small decrease in TCC was due to the reduced volumes of processed low-cost stockpiled ore as compared to 2015.

At Blagodatnoye, TCC decreased by 16 per cent in 2016 to US$290 per ounce as compared to 2015. This was primarily driven by improvements in production, including higher grades and higher grinding circuit capacity. The use of the mining fleet temporarily reallocated from Olimpiada mine’s Vostochny pit resulted in increased mining activity and higher volumes of ore mined, leading to a lower cost per tonne of ore mined.

At Titimukhta, TCC decreased by 17 per cent in 2016 to US$414 per ounce as compared to 2015. As a result of the completion of the reconfiguration of Olimpiada’s Mill No. 1 in September 2016, mining and processing activities at Titimukhta were halted in favour of treating ore from Olimpiada in the second half of 2016.

At Verninskoye, TCC decreased by 7 per cent in 2016 to US$389 per ounce as compared to 2015. This was mainly due to operational improvements, including an increase in recoveries, surpassing the design target parameter of 86 per cent as a result of improvements at the sorption and cyanidation circuits. The decline in TCC was partially affected by scheduled maintenance works.

At Alluvials, TCC increased by 3 per cent in 2016 to US$598 per ounce as compared to 2015. This was due to higher spare expenses and outsourced mining services costs, which was partially offset by the depreciation of the rouble.

All-In Sustaining Costs

The following table shows the Group's AISC and AISC per ounce sold for the years ended 31 December 2016 and 2015 and the percentage change from year to year.

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December*		
	2016	*2015*	*Change (%)*
Total TCC	**745**	**749**	**(1)**
+ selling, general and administrative expenses	151	143	6
Less: amortisation and depreciation included in selling, general and administrative expenses	(5)	(3)	67
+ research expenses and other sustaining expenses	1	1	–
+ stripping activity asset additions	55	104	(47)
+ sustaining capital expenditures	141	51	176
+ unwinding of discounts on decommissioning liabilities	3	4	(25)
adding back expenses excluded from cost of gold sales			
+ provision for annual vacation payment	–	1	(100)
+ employee benefit obligations costs	1	4	(75)
+ change in allowance for obsolescence of inventory	3	–	N.A.[1]
Total AISC	**1,095**	**1,054**	**4**
Gold sold ('000 ounces)	1,915	1,768	8
AISC (US$ per ounce sold)	**572**	**596**	**(4)**

Note:

1. Not applicable.
2. Sustaining capital expenditures represents capital expenditures at existing operations comprising mine development costs and on-going replacement of mine equipment and other capital facilities, and does not include capital expenditures for major growth projects or enhancement capital for significant infrastructure improvements at existing operations.

The Group's AISC per ounce decreased by 4 per cent in 2016 to US$572 per ounce from US$596 per ounce in 2015, primarily due to lower TCC and reduced stripping expenses. AISC at Titimukhta decreased by 38 per cent in 2016 to US$465 per ounce as compared to 2015, as a result of the decision to cease activities at the Titimukhta mine following completion of the reconfiguration of Olimpiada's Mill No. 1 in September 2016. At Kuranakh, however, AISC increased by 5 per cent in 2016 to US$782 per ounce as compared to 2015, due to the renovation of the mining fleet.

Gold Sales

The following table shows the results and breakdown of the Group's gold sales for the years ended 31 December 2016 and 2015 and the percentage change from year to year.

Gold Sales	*Year ended 31 December*		
	2016	*2015*	*Change (%)*
Gold sales (US$ millions)	2,429	2,159	13
Gold sales ('000 ounces)	1,915	1,768	8
Average realized refined gold price (excluding effect of SPPP) (US$ per ounce)	1,250	1,159	8
Average realized refined gold price (including effect of SPPP) (US$ per ounce)	1,287	1,225	5
Average London afternoon gold price fixing (US$ per ounce)[1]	1,251	1,160	8
Premium of average selling price (including effect of SPPP) over average London afternoon gold price fixing (US$ per ounce)	36	65	(45)

Note:

1. Source: London Bullion Market Association.

The following table shows the results and breakdown of the Group's gold production for the years ended 31 December 2016 and 2015 and the percentage change from year to year.

	Year ended 31 December		
Production of Gold ('000 ounces)	*2016*	*2015*	*Change (%)*
Refined Gold Production			
Krasnoyarsk region			
Olimpiada mine	817	743	10
Blagodatnoye mine	457	425	8
Titimukhta[(1)]	40	102	(61)
Poputninskoye	7	2	350
Irkutsk region			
Verninskoye	187	161	16
Alluvials	169	168	1
Republic of Sakha (Yakutia) region			
Kuranakh	160	145	10
Refined gold	**1,841**[(2)]	**1,746**	**6**
Gold in flotation concentrate	126	17	641
Total gold produced	**1,968**	**1,763**	**12**

Notes:

1. Including refined gold produced from ore purchased from the third party-owned Veduga mine under an off-take agreement.
2. Including 4.4 koz of gold produced at Matrosov Mine (pilot production).

The Group's revenue from gold sales increased by 13 per cent to US$2,429 million in 2016 from US$2,159 million in 2015. In 2016, gold sales volumes increased by 8 per cent to 1,915 thousand ounces from 1,768 thousand ounces in 2015. The average LBMA gold price increased by 8 per cent to US$1,251 per ounce as compared to 2015. The Group's SPPP, launched in March 2014, further supported revenue generation, improving the average selling price in 2016 by US$36/oz (compared to an improvement to the average selling price of US$65/oz in 2015). The SPPP covered 852.5 koz of gold sold in 2016.

On 23 May 2016, a pit wall failure occurred at Vostochny pit at Olimpiada, which resulted in a nine day suspension of mining works at the pit. The suspension of mining works at Olimpiada enabled its mining fleet to be used at Blagodatnoye to accelerate stripping works. Despite the incident at the mine, treatment volumes at Olimpiada were increased by 19 per cent in 2016 due to the availability of previously stockpiled ore.

Cost of Gold Sales

The following tables shows the components of the Group's cost of gold sales for the years ended 31 December 2016 and 2015 and the percentage change from year to year.

(in millions of U.S. dollars)	*Year ended 31 December* 2016	2015	*Change (%)*
Labor	227	239	(5)
Consumables and spares	242	205	18
Tax on mining	134	140	(4)
Fuel	72	74	(3)
Power	22	35	(37)
Outsourced mining services	8	12	(33)
Other	58	60	(3)
Cash operating costs	**763**	**765**	**N.M.**[1]
Depreciation and amortisation of operating assets	154	126	22
Increase in gold-in-process and refined gold inventories	(26)	(15)	73
Cost of gold sales	**891**	**876**	**2**

Note:

1. Not material.

The Group's cash operating costs slightly decreased to US$763 million in 2016 from US$765 million in 2015, despite an increase in production volumes. The depreciation of the rouble against the U.S. dollar and the impact of operational optimization initiatives, including those implemented under the TOP, offset almost all of the increase in variable costs as a result of higher production volumes and the cost of inflation. The Group's cost of gold sales increased to US$891 million in 2016 from US$876 million in 2015, representing a 2 per cent increase.

Labor expenses decreased by 5 per cent to US$227 million in 2016 from US$239 million in 2015. As all of the Group's labor expenses are denominated in roubles, rouble depreciation and a decrease in headcount were the key factors in declining labor costs, despite the negative effect of annual salary indexation.

Consumables and spares' consumption expenses increased by 18 per cent to US$242 million in 2016 from US$205 million in 2015. The increase was due to higher consumption of cyanide and other chemical agents as a result of processing higher volumes in the Company's mines and inflation, however, the on-going implementation of the TOP partially mitigated growth in variable costs.

Fuel costs decreased by 3 per cent to US$72 million in 2016 from US$74 million in 2015, as the increase in transportation costs at Krasnoyarsk was offset by the weaker rouble against the U.S. dollar.

Power costs decreased by 37 per cent to US$22 million in 2016 from US$35 million in 2015. Notwithstanding annual tariffs indexation and overall higher production volumes, the decrease in power costs was due to a decline in the average tariff at Kuranakh, as a result of Kuranakh entering the wholesale electricity market.

Mineral Extraction Tax payments decreased by 4 per cent to US$134 million in 2016 from US$140 million in 2015, as a result of the positive impact of tax concessions received at Verninskoye from mid-2016.

The cost of outsourced mining services decreased by 33 per cent to US$8 million in 2016 as compared to US$12 million in 2015.

Other costs declined by 3 per cent to US$58 million in 2016, despite an increase in transportation expenses.

Selling, general and administrative expenses

The following table sets forth the selling, general and administrative expenses of the Group for the years ended 31 December 2016 and 2015 and the percentage change from year to year.

(in millions of U.S. dollars)	*Year ended 31 December* 2016	2015	*Change (%)*
Salaries	105	100	5
Taxes other than mining and income taxes	12	12	–
Professional services	10	12	(17)
Amortisation and depreciation	5	3	67
Other	19	16	19
Total	**151**	**143**	**6**

The Group's selling, general and administrative expenses increased by 6 per cent to US$151 million in 2016 from US$143 million in 2015, primarily due to the negative effect of annual salary indexation, despite the effects of a weaker rouble against the U.S. dollar. The major component of selling, general and administrative expenses in 2016 continued to be salaries, which increased by 5 per cent to US$105 million as of 31 December 2016 from US$100 million as of 31 December 2015.

Finance costs and interest income

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

(in millions of U.S. dollars)	*Year ended 31 December* 2016	2015	*Change (%)*
Interest on borrowings	281	132	113
Gain on exchange of interest payments under cross currency swap	(34)	(39)	(13)
Gain on exchange of interest payments under interest rate swaps	(10)	(13)	(23)
Unwinding of discounts on site restoration, decommissioning and environmental liabilities	3	4	(25)
Other	2	2	–
Sub-total finance cost	**242**	**86**	**181**
Interest included in the cost of qualifying assets	(97)	(41)	137
Total finance cost expensed	**145**	**45**	**222**

The Group's total finance costs were US$145 million in 2016, as compared to US$45 million in 2015. This increase was mainly due to the Group's continued interest capitalization with regards to the Natalka development project, which has entered an active stage with an increase in the construction work being carried out. The capitalized interest relating to the Natalka project and Razdolinskaya-Tayga grid amounted to US$97 million in 2016, a 137 per cent increase as compared to 2015. Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps) increased to US$237 million in 2016, as compared to US$80 million in 2015. Interest payments increased due to higher gross debt, as well as an increase in the weighted average interest rate. In addition, in January 2016 the Company entered into a US$2.5 billion seven-year credit facility with PJSC Sberbank in order to finance the Company's share buyback.

To mitigate the interest rate risk, the Group decided to refinance its debt portfolio to increase the share of fixed rate debt with PGIL's US$500 million 4.699 per cent guaranteed notes due 2022 (the "**2022 Eurobonds**") and new credit lines together with the swaps of several loans from floating into fixed rate.

These brought the overall proportion of fixed-rate liabilities to 46 per cent of the Group's debt portfolio as of the end of 2016.

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

Net gain on derivative financial instruments and investments was US$119 million in 2016, as compared to a net loss amounting to US$125 million in 2015.

The following table sets forth the components of the gain / (loss) on derivative financial instruments and investments, net for the periods indicated and the percentage change.

	Year ended 31 December		
(in millions of U.S. dollars)	*2016*	*2015*	*Change (%)*
Revaluation gain on cross currency swaps	172	(198)	N.A.[1]
Gain on disposal of subsidiary	18	–	N.A.[1]
Revaluation loss on ineffective part of the revenue stabilizer under Tranches 1 and 2	(4)	19	N.A.[1]
Revaluation loss on revenue stabilizer under Tranches 3 and 4	(58)	49	N.A.[1]
Revaluation gain on interest rate swap	(9)	4	N.A.[1]
Gain on currency collars	–	2	(100)
Other	–	(1)	(100)
Total	**119**	**(125)**	**N.A.**[1]

Note:

1. Not applicable.

Revenue stabilizer

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

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

During the year ended 31 December 2015, the Group partially restructured its revenue stabilizer program, taking advantage of gold price movements during the year. The restructuring was done at zero cost. The Group neither paid nor received any cash consideration in any of the transactions. During the second half of 2015, the Group completed the restructuring of Tranches 1 and 2 of the revenue stabilizer program and began signing agreements under Tranche 3 and 4. The Group focused on deleveraging the revenue stabilizer structure by the restructuring of Tranches 1 and 2, which resulted in the closing out of part of the fourth-year options and the lowering of barriers on the remaining options for the first three years. Tranche 3 was launched in October 2015 and Tranche 4 of the revenue stabilizer program was launched in February 2016. With the launch of Tranche 4, the Company estimates that approximately 43 per cent of the Group's gold output in 2016 was protected under the revenue stabilizer.

During the year ended 31 December 2016, the Group entered into several new agreements under the Tranche 4 of the revenue stabilizer program. Under these agreements, the Group ensures a minimum weighted average price of US$1,271 per ounce for 300 thousand ounces of gold output during the first three years of the program, provided the gold price does not fall below US$900 per ounce. During the first three years from 1 January 2016, the Group benefits from price increases until the weighted average gold price reaches US$1,444 per ounce for 225 thousand ounces, in which case the weighted average price is capped at US$1,328 per ounce. Thereafter (period from 1 April 2019 to 31 December 2020 of the SPPP), the Group ensures a minimum weighted average price of US$1,000 per ounce for the price-protection amount of 300 thousand ounces, provided the gold price does not fall below US$950 per ounce. Additionally, the Group will have an obligation to sell 375 thousand ounces of gold at the weighted average gold price US$1,406 per ounce should the weighted average gold price exceed US$1,586 per ounce.

Tranches 1 and 2 of the revenue stabilizer arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognized in the cash flow hedge revaluation reserve within equity, whilst the remaining change in the fair value of the US$4 million loss is reflected in the consolidated statement of profit or loss (see note 10 to the 2016 Financial Statements). During the year ended 31 December 2016, under Tranches 1 and 2, a loss of US$65 million was recognized in the cash flow hedge revaluation reserve within consolidated statement of changes in equity and following the sale of the hedged volume of gold and the exercise of certain options US$53 million was subsequently reclassified to gold sales within the consolidated statement of profit or loss.

Tranches 3 and 4 are accounted at fair value through profit and loss. During the year ended 31 December 2016, loss resulting from the change in fair value totaled US$58 million (see note 10 to the 2016 Financial Statements). During the year ended 31 December 2016, following the sale of the hedged volume of gold and the exercise of certain options US$6 million was subsequently reclassified to gold sales within the consolidated statement of profit or loss.

In 2016, the positive effect on revenue from the revenue stabilizer program amounted to US$59 million.

Gold forward

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

During the year ended 31 December 2016, US$12 million of loss was recognized in the cash flow hedge revaluation reserve within consolidated statement of changes in equity and following the sale of the hedged amount of gold US$8 million was reclassified from the cash flow hedge revaluation reserve within consolidated statement of changes in equity into gold sales within the consolidated statement of profit or loss. There were no outstanding gold forward contracts since 30 June 2016.

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

For the year ended 31 December 2016, the combined effect of gold-linked derivatives (revenue stabilizer and forward contracts) on revenue amounted to US$67 million.

Cross currency swaps

Rouble denominated credit facilities with fixed interest rate

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

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

During 2016, the Group amended these cross currency contracts and entered into a new fixed rate swap, offsetting the floating swap under the following terms:

- the Group quarterly pays to the banks 3.94 per cent in U.S. dollars and receives from the banks 10.35 per cent in roubles; and at maturity (9 April 2019) the Group exchanges principal amounts by paying US$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 per cent in U.S. dollars and receives from the banks 10.35 per cent in roubles; and at maturity (9 April 2019) the Group exchanges principal amounts by paying US$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.

Russian bonds

In July 2015, the Group placed RUB 15 billion in bonds. To economically hedge interest payments and principal amounts in exchange for these Russian bonds, the Group entered into cross currency swaps with leading Russian banks for a total amount of RUB 15 billion. Under the cross currency swap agreements, the Group will semi-annually pay to the banks six-month LIBOR plus margin of 4.45 per cent for RUB 10 billion and 5.9 per cent for RUB 5 billion in U.S. dollars and receive from the banks 12.1 per cent in RUB; and at maturity (July 2021), the Group will exchange the principal amounts by paying US$255 million and receiving RUB 15 billion.

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

Interest rate swaps

In the first half of 2014, the Group entered into an interest rate swap agreement with leading Russian banks, under which the Group pays semi-annually and until 29 April 2020 LIBOR plus 3.55 per cent in U.S. dollars and receives 5.625 per cent in U.S. dollars in respect of a US$750 million nominal amount. The purpose of this swap is to decrease the effective interest rate for PGIL's US$750 million 5.625 per cent guaranteed notes due 2020 (the "**PGIL Eurobonds**"). In 2016, the Group amended these interest rate swaps and entered into a new fixed rate swap, offsetting the floating swap when the Group semi-annually pays to the banks 5.342 per cent and receives from the banks LIBOR plus 3.55 per cent.

According to IAS 39, the swaps were not eligible to be designated as either a cash flow or fair value hedge. The Group accounts for them at fair value, which was determined using a discounted cash flow valuation technique.

The overall positive effect in the year ended 31 December 2016 on finance costs from cross-currency and interest rate swaps amounted to US$44 million. This was recorded in finance costs as a realized gain on the exchange of interest payments under interest rate and cross currency swaps.

Foreign exchange gain

The Company's foreign exchange gain in 2016 amounted to US$396 million, as compared to a US$149 million gain in 2015. The increase reflects the revaluation of U.S. dollar-denominated liabilities and bank deposits as the functional currency of the subsidiaries of the Group is roubles.

In February 2016, the Group launched Tranche 4 of the revenue stabilizer program in addition to the three existing Tranches. The Company estimates that approximately 43 per cent of the Group's gold output in 2016 was protected under the revenue stabilizer. No changes were made to the gold forward program, and there are no outstanding balances with regards to the gold forward program as at 31 December 2016.

Income tax expense

The Company's income tax amounted to US$326 million in 2016. The income tax expense in 2016 increased by 71 per cent as compared to 2015, due to an increase in profit before tax, which was partially driven by a gain on derivative financial instruments and investments (compared to a loss in 2015) and a year-on-year increase in foreign exchange gains.

Summary of performance results by business units for the years ended 31 December 2016 and 2015

The following tables show the Group's performance results by business unit for the years ended 31 December 2016 and 2015.

	Year ended 31 December 2016						
(in millions of U.S. dollars, unless otherwise indicated)	*Gold sales*	*Gold sold ('000 ounces)*	*Production ('000 ounces)*	*Adjusted EBITDA*	*TCC per ounce of gold sold (US$ per ounce)*	*AISC per ounce of gold sold (US$ per ounce)*	*Capital expenditures*
Krasnoyarsk	1,773	1,396	1,447	1,170	367(1)	518(2)	120
Irkutsk alluvial	220	169	169	90	598	813	16
Irkutsk ore	232	186	187	146	389	530	24
Yakutia Kuranakh	199	160	160	107	499	782	33
Magadan	–	–	5	(2)	–	–	215
Exploration	5	4	–	1	1,010	1,073	10
Capital construction	–	–	–	1	–	–	43
Unallocated	–	–	–	23	–	–	7
Total	**2,429**	**1,915**	**1,968**	**1,536**	**389**	**572**	**468**
Advances paid for the participation in the auction for Sukhoi Log	–	–	–	–	–	–	138
Total	**2,429**	**1,915**	**1,968**	**1,536**	**389**	**572**	**606**

Notes:

1. Calculated as weighted average of the relevant TCC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$405 per ounce for Olimpiada, US$290 per ounce for Blagodatnoye, US$414 per ounce for Titimukhta.
2. Calculated as weighted average of the relevant AISC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$567 per ounce for Olimpiada, US$425 per ounce for Blagodatnoye, US$465 per ounce for Titimukhta.

	Year ended 31 December 2015						
(in millions of U.S. dollars, unless otherwise indicated)	*Gold sales*	*Gold sold ('000 ounces)*	*Production ('000 ounces)*	*Adjusted EBITDA*	*TCC per ounce of gold sold (US$ per ounce)*	*AISC per ounce of gold sold (US$ per ounce)*	*Capital expenditures*
Krasnoyarsk	1,611	1,293	1,289	1,007	399(1)	566(2)	58
Irkutsk alluvial	191	168	168	76	582	725	5
Irkutsk ore	189	161	161	115	417	535	21
Yakutia Kuranakh	165	144	145	70	598	748	10
Magadan	–	–	–	–	–	–	113
Exploration	3	2	–	3	694	815	7
Capital construction	–	–	–	1	–	–	53
Unallocated	–	–	–	6	–	–	1
Total	**2,159**	**1,768**	**1,763**	**1,278**	**424**	**596**	**268**

Notes:

1. Calculated as weighted average of the relevant TCC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$416 per ounce for Olimpiada, US$345 per ounce for Blagodatnoye, US$498 per ounce for Titimukhta.
2. Calculated as weighted average of the relevant AISC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$609 per ounce for Olimpiada, US$444 per ounce for Blagodatnoye, US$745 per ounce for Titimukhta.

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales during the years ended 31 December 2016 and 2015. Realized gains on derivatives of US$67 million were included within gold sales (US$116 million in 2015).

Krasnoyarsk business unit (Olimpiada, Blagodatnoye and Titimukhta mines)

In 2016, the Krasnoyarsk business unit sold 1,396 thousand ounces of gold, as compared to 1,293 thousand ounces of gold sold in 2015. Sales volumes exclude gold produced from the Poputninskoye deposit, where trial mining was launched in 2015 and continued in 2016. Total gold production amounted to 1,447 thousand ounces of gold, as compared to 1,289 thousand ounces of gold in 2015. Total gold produced represents refined gold output together with gold contained in concentrate.

Irkutsk alluvial operations (alluvial deposits)

In 2016, the Irkutsk alluvial deposits sold 169 thousand ounces of gold, as compared to 168 thousand ounces of gold sold in 2015. Gold production marginally increased to 169 thousand ounces of gold, as compared to 168 thousand ounces of gold in 2015.

Irkutsk ore business unit (Verninskoye mine)

In 2016, the Irkutsk ore business unit sold 186 thousand ounces of gold, as compared to 161 thousand ounces of gold sold in 2015. Gold production amounted to 187 thousand ounces of gold, as compared to 161 thousand ounces of gold in 2015.

Yakutia Kuranakh business unit (Kuranakh mine)

In 2016, the Yakutia Kuranakh business unit sold 160 thousand ounces of gold, as compared to 144 thousand ounces of gold sold in 2015. Gold production amounted to 160 thousand ounces of gold, as compared to 145 thousand ounces of gold in 2015.

Review of Financial Sustainability and Solvency for the years ended 31 December 2016 and 2015

Analysis of statement of financial position items

The table below shows key items from the Group's consolidated statement of financial position as at 31 December 2016 and 2015.

(in millions of U.S. dollars)	*31 December* 2016	2015
ASSETS		
Non-current assets		
Property, plant and equipment	2,938	2,023
Derivative financial instruments and investments	57	411
Inventories	264	184
Deferred tax assets	75	46
Other non-current assets	37	8
Total non-current assets	**3,371**	**2,672**
Current assets		
Inventories	369	296
Derivative financial instruments and investments	10	205
Deferred expenditures	10	13
Other receivables	58	23
Advances paid to suppliers and prepaid expenses	19	17
Taxes receivable	89	59
Cash and cash equivalents	1,740	1,825
Total current assets	**2,295**	**2,438**
TOTAL ASSETS	**5,666**	**5,110**
EQUITY AND LIABILITIES		
Equity attributable to shareholders of the Company[1]	(508)	1,976
Non-controlling interests	94	71
TOTAL EQUITY	**(414)**	**2,047**
Non-current liabilities		
Site restoration, decommissioning and environmental obligations	38	32
Borrowings	4,698	2,151
Derivative financial instruments	456	509
Deferred revenue	76	–
Deferred tax liabilities	182	133
Other non-current liabilities	32	20
Total non-current liabilities	**5,482**	**2,845**
Current liabilities		
Borrowings	283	38
Derivative financial instruments	–	–
Trade, other payables and accrued expenses	222	151
Taxes payable	93	29
Total current liabilities	**598**	**218**
TOTAL LIABILITIES	**6,080**	**3,063**
TOTAL EQUITY AND LIABILITIES	**5,666**	**5,110**

Note:

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

Borrowings

As of 31 December 2016, the Group's total borrowings (excluding liabilities arising from derivative financial instruments) amounted to US$4,981 million. The decision by the Group to obtain the US$2,500 million credit facility from Sberbank in January 2016 resulted in an increase in bank loans (increased by 174 per cent since the end of 2015) and in the Group's gross debt structure. It led to a decline in the share of public debt, including the PGIL Eurobonds and Russian bonds, to 30 per cent of the Group's gross debt as of 31 December 2016. The Group's debt portfolio remains dominated by U.S. dollar-denominated instruments, representing 82 per cent of the total gross debt as of 31 December 2016 (11 percentage point increase as compared to 31 December 2015). This was due to the Group entering into a seven-year credit facility with Sberbank in January 2016. The RUB 36,000 million credit facility from Sberbank obtained in April 2014 and the RUB 15,000 million bonds placed in July 2015 were both economically hedged through cross-currency swaps. As of 31 December 2016, the main sources of the Group's total borrowings were as follows: Sberbank loans (62 per cent); Eurobonds (25 per cent); bank loans, excluding Sberbank (8 per cent); and rouble-denominated bonds (5 per cent). As of 31 December 2016, 52 per cent of the Group's total borrowings had floating interest rates, while 48 per cent had fixed rates.

The following table sets forth the components of the Group's total borrowings as of 31 December 2016 and 2015:

		31 December	
	Nominal rate %	*2016*	*2015*
Credit facilities with financial institutions nominated in US$ with variable interest rates	US$ LIBOR + margins ranging from 1.35% to 4.50%	2,513	785
PGIL US$ credit facilities with fixed interest rates	4.799% – 5.725%	1,237	750
Credit facilities with financial institutions nominated in RUB with fixed interest rates	10.35%	541	461
Credit facilities with financial institutions nominated in US$ with fixed interest rates	3.75% – 4.10%	331	–
Notes due in 2025 (Russian bonds) with noteholders' early repayment option in 2021	12.1%	253	137
Letters of credit with deferred payments terms with variable rates	Euribor + 1.8%, US$ LIBOR + 1.15%	19	38
Lease liabilities nominated in US$ with fixed interest rate	5.1% – 7.5%	5	–
Lease liabilities nominated in RUB with fixed interest rate	15.6%	1	–
Credit facilities with financial institutions nominated in RUB with variable interest rates	Central bank rate + 2.3%	81	18
Sub-total		**4,981**	**2,189**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(283)	(38)
Long-term borrowings		**4,698**	**2,151**

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

- US$2,500 million credit facility agreement with Sberbank with maturity in 2023 at three-month LIBOR plus 4.5 per cent, entered into by JSC Polyus and supported by guarantees by PGIL and several other of the Company's subsidiaries, including JSC Matrosova Mine, JSC Pervenets, JSC Aldanzoloto GRK and Polyus Stroy LLC, as well as undertakings by PGIL and the Company to maintain their shareholdings in the Company and JSC Polyus, respectively, above certain thresholds;
- US$100 million credit facility agreement with Credit Bank of Moscow maturing in 2019 having an annual interest rate of three-month LIBOR plus 4.5 per cent.

In October 2016, PGIL issued US$500 million guaranteed notes due 28 March 2022 with a coupon of 4.699 per cent per annum.

In November 2016, the Group entered into the following credit facility agreements:

- US$200 million credit facility agreement with Unicreditbank with maturity in 2021;
- Amendment of US$200 million credit facility agreement with PJSC Rosbank. Under the amendment, US$65 million was repaid, resulting in the loan amount decreasing from US$200 million to US$135 million, the repayment date changed from 2018 to 2021.

In November and December 2016, the Group repaid in full amount the following loans:

(in millions of U.S. dollars)	*Amount of the loan*
Credit Bank of Moscow	180
Rosbank	50
Societe Generale	50
ING	100
Unicreditbank	255
Total	**635**

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

Reclassification of Russian bonds

The Company's Extraordinary General Shareholder Meeting approved the reorganization of the Company by way of a merger of LLC Polyus-Invest into the Company and the decrease of the Company's charter capital by way of cancellation of the Company's Shares held by LLC Polyus-Invest following the completion of the merger. As required under Russian law, the Company has notified the Russian tax authorities that it approved the reorganization and the charter capital decrease within three business days of the general shareholder meeting. The Company published on 18 January 2017 and 22 February 2017 a notification on the Company's reorganization and charter capital decrease. Under Russian law, the Company's creditors whose demands have arisen prior to the first publication of the notification described above were entitled, not later than 30 days from the date when the last notification was published (*i.e.*, by 24 March 2017), to demand in court the acceleration of the Company's obligations and, if such acceleration is not possible, to demand termination of the relevant agreement and seek damages resulting from such termination.

Unused credit facilities

In 2014, one of the Group's subsidiaries entered into a five year RUB 40,000 million credit line with VTB Bank to fund its general corporate purposes. As of 31 December 2016, the amount of unused credit facilities was RUB 40,000 million (equivalent to US$659 million, covering a substantial portion of debt repayments up to 2019, totaling approximately US$874 at the RUB/U.S. dollar exchange rate in effect at the end of the relevant period).

In 2015, one of the Group's subsidiaries entered into an 11 year RUB 6,054 million credit line with Gazprombank to fund deployment of the Razdolinskaya-Tayga power grid construction. As of 31 December 2016, credit facilities in the amount of RUB 1,072 million (US$18 million at the RUB/U.S. Dollar exchange rate in effect at the end of the period) were unused.

Other matters

JSC Polyus has guaranteed liabilities of all the companies in the Group for all outstanding borrowings.

There were a number of financial covenants under several loan agreements in effect as of 31 December 2016, according to which certain subsidiaries of the Company and the Company itself are limited:

- in the distribution of their assets (the Group is not allowed to divest more than 10 per cent of its assets in any form of transaction without prior consent of the banks. This limitation is applicable to the most significant subsidiaries of the Group);
- in its right to dispose of the controlling share in certain significant subsidiaries of the Group;
- 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 31 December 2016.

The following table sets forth the currency breakdown of the Group's total borrowings as of 31 December 2016 and 2015:

	As at 31 December	
(in millions of U.S. dollars)	*2016*	*2015*
EUR	6	13
RUB	876	616
US$	4,099	1,560
Total	**4,981**	**2,189**

The following table sets forth the debt maturity schedule of the Group's total borrowings as of 31 December 2016:

Due in	*(in millions of U.S. dollars)*[1]
2017	278
2018	20
2019	570
2020	776
2021	689
2022	957
2023+	1,748

Note:

1. The debt maturity breakdown is based on actual maturities and excludes US$57 million of bank commissions included in borrowings, in accordance with IFRS.

Cash and cash equivalents and bank deposits

As of 31 December 2016, the Group's cash and cash equivalents amounted to US$1,740 million, as compared to US$1,825 million as of 31 December 2015.

The Group's cash position is comprised primarily of U.S. dollars, as revenue is fully linked to the U.S. dollar-denominated gold price, while the rouble exchange rate is subject to significant volatility.

The following table sets forth the currency composition of cash, cash equivalents and bank deposits as at 31 December 2016 and 2015:

	As at 31 December	
(in millions of U.S. dollars)	*2016*	*2015*
RUB	238	104
US$	1,502	1,721
Total	**1,740**	**1,825**

Cash flow analysis

The following table sets forth the main components of the Group's consolidated cash flow statement for the years ended 31 December 2016 and 2015.

	Year ended 31 December	
(in millions of U.S. dollars)	*2016*	*2015*
Consolidated cash flow information		
Net cash generated from operating activities	1,178	1,103
Net cash utilized in investing activities	(280)	(676)
Net cash (utilized in) / generated from financing activities	(1,015)	220
Net (decrease) / increase in cash and cash equivalents	**(117)**	**647**
Cash and cash equivalents at beginning of the year	1,825	1,213
Effect of foreign exchange rates on cash and cash equivalents	32	(35)
Cash and cash equivalents at end of the year	**1,740**	**1,825**

Operating activities

Net cash generated from operating activities increased to US$1,178 million in 2016, as compared to US$1,103 million in 2015, driven by strong EBITDA generation as a result of lower costs, higher sales volumes, a weaker rouble and the benefits from the SPPP. This was achieved despite the US$92 million increase of working capital, mainly due to the increased ore stockpiles at Blagodatnoye, Verninskoye and Natalka, higher VAT receivables from active construction works at Natalka and advanced accelerated fuel procurement at Blagodatnoye. In addition, a US$36 million increase in accounts receivable related to an unpaid supply of flotation concentrate to third parties. Strict working capital controls continues to remain a priority for the Group.

Investing activities

In 2016, the Group had capital expenditure of US$468 million, which is 75 per cent higher than in 2015.

The Group's main development project, Natalka, saw a 90 per cent growth in capital expenditure in 2016 to US$215 million, due to a further increase in construction works. The construction of the primary crushing and main conveyor complex was completed and equipment for the grinding circuit was installed. In addition, construction of the crushed ore storage and reclaim facility is progressing as planned. The construction work is expected to expand in 2017, with the works at the grinding circuit and the gravity circuit expected to be finalized by the fourth quarter of 2017. The Group anticipates commissioning the Natalka mine by the end of 2017, followed by a ramp-up period to reach the design parameters. In addition, the Group re-launched mining operations at Natalka in January 2017 (the deposit was previously mined from 2013 through 2014).

The Group substantially increased capital expenditure at Olimpiada to US$80 million, due to the construction work to reconfigure Mill No. 1, which was completed in September 2016. The Group has also launched a project to expand the current BIO capacities, which is expected to be completed by the end of 2017 with sufficient capacity to enable the processing of gold in concentrate into doré gold.

Capital expenditure at Blagodatnoye was US$20 million in 2016, an increase of 54 per cent over 2015, primarily due to the implementation of projects to upgrade and expand the mill's throughput capacity to 8.0 mtpa of ore processed. The Company expects to stabilize the processing volumes and to increase the recovery rate in 2017. In addition, the Company continued working on the design related to the heap leach project.

At Verninskoye, capital expenditure was US$24 million in 2016, an increase of 14 per cent as compared to 2015, due to the completion of the first stage of the expansion of the mill's throughput capacity to 2.5 mtpa. The Company expects to reach its designed target throughput capacity of 3.0 mtpa for the mill over the course of several stages in 2017-2018.

At Kuranakh, capital expenditure increased to US$33 million in 2016, as compared to 2015, mainly due to the completion of the first stage of the expansion of the Kuranakh mill's capacity. The mill currently operates at a throughput capacity of 4.5 mtpa, which has resulted in increased production volumes and lower production costs. The expansion project is expected to be finalized by the end of 2017.

Capital expenditure at Alluvials increased to US$16 million, due to higher exploration activity as well as the on-going worn-out equipment replacement program.

As a result of the projects described above, the Company utilized US$280 million in investing activities in the 2016 as compared to US$676 million utilized in investing activities in 2015.

Financing activities

Cash flow utilized in financing activities totaled US$1,015 million in 2016, as compared to US$220 million generated from financing activities in 2015.

In January 2016, the Company obtained a US$2,500 million seven-year credit facility from PJSC Sberbank in order to finance the PGIL share buyback. In addition, the PGIL 2022 Eurobonds and other bank credit lines were used in the fourth quarter of 2016 to refinance the Group's borrowings with a maturity in 2017 to 2019 in order to increase the proportion of fixed-rate liabilities in the Group's debt portfolio.

In March 2016, LLC Polyus-Invest, a 100 per cent indirect subsidiary of the Company, completed a buy-back of the Company's Shares and ADRs, in which LLC Polyus-Invest purchased the following number of Shares:

Name of shareholders submitted its Shares for buy-back	*Number of Shares ('000)*	*Ownership (%)*	*Price per 1 Share (RUB)*	*Consideration (US$ million)*
PGIL	60,212	31.59	4,041	3,423
Minority shareholders	307	0.16	4,041	19
Buy-back direct expenses	–	–	–	1
Total	**60,519**	**31.75**		**3,443**

Capital expenditures, acquisitions of subsidiaries and stripping activity asset

The following table shows the Group's capital expenditures by project for the years ended 31 December 2016 and 2015 and the percentage change from year to year.

	Year ended 31 December		
(in millions of U.S. dollars)	*2016*	*2015*	*Change (%)*
Natalka	215	113	90
Olimpiada	80	39	105
Blagodatnoye	20	13	54
Verninskoye	24	21	14
Alluvials	16	5	220
Titimukhta	–	1	(100)
Kuranakh	33	10	230
Exploration	10	7	43
Other (including power projects)	70	59	19
Total	**468**	**268**	**75**

Other areas of investing activities in 2016 included a US$138 million prepayment for the Group's participation in the Sukhoi Log auction and US$50 million of interest received. In addition, the Group received US$76 million (RUB 4.619 billion) of government grants for the construction of the "Ust-Omchug—Omchak" power grid. This constitutes a partial amount of the RUB 9.9 billion (approximately US$152 million at the exchange rate of 65 roubles per US$1.00) government subsidy which was granted to the Group in September 2016. The construction of the grid is expected to be completed in 2018, which is expected to result in a reduction in electricity costs at Natalka. The remainder of the government subsidy will be paid in instalments, with the last instalment due upon completion of the grid in 2018. See note 19 to the 2016 Financial Statements.

Dividends

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

Should the net debt/adjusted EBITDA ratio for the previous 12 months be higher than 2.5x, the Board of Directors of the Company will exercise discretion on dividends, taking into account the Group's financial position, free cash flow, outlook and macro-economic environment.

The Board of Directors of the Company may consider the possibility of payment of special dividends, subject to the Company's liquidity position, capital expenditure requirements, free cash flow and leverage.

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

On 7 June 2017, the Board of Directors of the Company recommended that the Company's Annual General Shareholders' Meeting to be held on 30 June 2017 approve the payment of the dividends for the 2016 fiscal year in the total amount of RUB 20,062,843,800 (equivalent to US$354 million at the CBR official exchange rate of RUB 56.6747 per US$1.00 as of 7 June 2017) (see "*Dividend Policy*").

Contingent Liabilities

Capital commitments

The Group's contracted capital expenditure commitments as at 31 December 2016, amounted to US$257 million (US$30 million as at 31 December 2015). This increase is primarily due to the significant increase in contracted capital expenditure commitments for the Natalka project as the Group ramped up construction works at the Natalka deposit.

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is, in most cases, owned by the state. The Group leases this land through operating lease agreements, which expire in various years through 2065.

Future minimum lease payments due under non-cancellable operating lease agreements as at 31 December 2016 were as follows:

US$ million	*Year ended 31 December*
Due within one year	3
From one to five years	9
Thereafter	20
Total	**32**

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

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

(in millions of U.S. dollars, unless otherwise indicated)	*Year ended 31 December* *2015*	*2014*	*Change (%)*
Gold sales	2,159	2,197	(2)
Other sales	29	42	(31)
Total revenue	**2,188**	**2,239**	**(2)**
Cost of gold sales	(876)	(1,174)	25
Cost of other sales	(25)	(33)	24
Gross profit	**1,287**	**1,032**	**25**
Gross profit margin	59%	46%	13 ppts
Selling, general and administrative expenses	(143)	(174)	18
Other expenses, net	(2)	(22)	91
Reversal of impairment	22	17	29
Operating profit	**1,164**	**853**	**36**
Finance costs	(45)	(26)	73
Interest income	69	31	123
Loss derivative financial instruments and investments, net	(125)	(934)	87
Foreign exchange gain, net	149	123	21
Profit before income tax	**1,212**	**47**	**2,479**
Income tax expense	(191)	(222)	14
Profit / (loss)	**1,021**	**(175)**	**N.A.[1]**
Profit / (loss) for the year attributable to:			
Shareholders of the Company	987	(216)	N.A.[1]
Non-controlling interests	34	41	(17)
Earnings / (loss) per share (U.S. Cents), basic and diluted[1]	5	(1)	N.A.[1]

Notes:

1. Not applicable.
2. There are no instruments or any other instances which could cause a dilutive effect on the earnings / (loss) per share calculation.

Adjusted EBITDA

Adjusted EBITDA has been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*". The following table sets out a reconciliation of the Group's Adjusted EBITDA for the years ended 31 December 2015 and 2014:

	Year ended 31 December		
(in millions of U.S. dollars, unless otherwise indicated)	*2015*	*2014*	*Change (%)*
Profit / (loss) for the year	**1,021**	**(175)**	**N.A.**[1]
Income tax	191	222	(14)
Foreign exchange gain, net	(149)	(123)	21
Loss on derivative financial instruments and investments, net	125	934	(87)
Interest income	(69)	(31)	123
Finance costs	45	26	73
Depreciation and amortisation	128	182	(30)
Reversal of impairment	(22)	(17)	29
Long-term incentive plan	7	–	N.A.[1]
Loss on property, plant and equipment disposal	1	–	N.A.[1]
Adjusted EBITDA	**1,278**	**1,018**	**26**
Total revenue	2,188	2,239	(2)
Adjusted EBITDA margin (%)	**58**	**45**	**13 ppts**

Note:

1. Not applicable.

The Group's Adjusted EBITDA increased by 26 per cent to US$1,278 million in 2015 from US$1,018 million in 2014, with the Adjusted EBITDA margin improving 13 percentage points to 58 per cent. This increase was mainly due to strict cost control measures, the weaker rouble against the U.S. dollar, higher sales volumes and the positive effect from the SPPP amounting to US$116 million.

Total Cash Costs

The following table shows the Group's TCC and TCC per ounce sold for the years ended 31 December 2015 and 2014. TCC and TCC per ounce sold have been calculated by management based on information derived from the Financial Statements and other relevant information contained in "Selected Consolidated Financial and Operating Information".

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

Note:

1. Not applicable.
2. "Non-monetary changes in inventories" is a calculation of the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

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

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

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

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

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

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

All-In Sustaining Costs

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

	Year ended 31 December		
(in millions of U.S. dollars, unless otherwise indicated)	*2015*	*2014*	*Change (%)*
Total TCC	**749**	**989**	**(24)**
+ Selling, general and administrative expenses	143	174	(18)
Less: amortisation and depreciation	(3)	(4)	(25)
+ research expenses and other sustain expenses	1	–	N.A.[1]
+ stripping activity asset additions	104	109	(5)
+ sustaining capital expenditures	51	99	(48)
+ unwinding of discounts on decommissioning liabilities	4	4	–
adding back expenses excluded from cost of gold sales			
+ provision for annual vacation payment	1	(1)	N.A.[1]
+ employee benefit obligations cost	4	1	300
+ change in allowance for obsolescence of inventory	–	14	(100)
Total AISC	**1,054**	**1,385**	**(24)**
Gold sold ('000 ounces)	1,768	1,691	5
AISC (US$ per ounce sold)	**596**	**819**	**(27)**

Note:

1. Not applicable.

2. Sustaining capital expenditures represents capital expenditures at existing operations comprising mine development costs and on-going replacement of mine equipment and other capital facilities, and does not include capital expenditures for major growth projects or enhancement capital for significant infrastructure improvements at existing operations.

The Group's AISC per ounce decreased by 27 per cent to US$596 per ounce in 2015 from US$819 per ounce in 2014. The lower AISC was driven by the decrease in TCC, as well as lower selling, general and administrative expenses and sustaining capital expenditure. The latter declined by 48 per cent to US$51 million in 2015 from US$99 million in 2014.

Gold Sales

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

	Year ended 31 December		
Gold Sales	*2015*	*2014*	*Change (%)*
Gold sales (US$ millions)	2,159	2,197	(2)
Gold sales ('000 ounces)	1,768	1,691	5
Average realized refined gold price (excluding effect of SPPP) (US$ per ounce)	1,159	1,277	(9)
Average realized refined gold price (including effect of SPPP) (US$ per ounce)	1,225	1,302	(6)
Average London afternoon gold price fixing (US$ per ounce)[1]	1,160	1,266	(8)
Premium of average selling price (including effect of SPPP) over average London afternoon gold price fixing (US$ per ounce)	65	36	81

Note:

1. Source: London Bullion Market Association.

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

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

Notes:

1. Including refined gold produced from ore purchased from the third party-owned Veduga mine under an off-take agreement.
2. Not applicable.

The Group's revenue from gold sales decreased by 2 per cent to US$2,159 million in 2015 from US$2,197 million in 2014, as a result of a decrease in realized gold prices, notwithstanding higher sales volumes. In 2015, gold sales volumes increased by 5 per cent to 1,768 thousand ounces. However, the average realized refined gold price in 2015 amounted to US$1,225 per ounce, a 6 per cent decrease from 2014. The Group benefited from the SPPP, which was launched by the Group in March 2014 and set the price floor for a significant amount of gold sold. The positive effect of the SPPP on the 2015 average selling price amounted to US$66 per ounce, with the average London afternoon gold pricing fixing falling by eight per cent to US$1,160 per ounce in 2015. The Group's 2015 average selling price (including the effect of the SPPP) was US$1,225 per ounce, approximately 6 per cent higher than the average London afternoon gold pricing fixing for the period, compared to a US$1,302 per ounce premium in 2014. Mine-by-mine gold sales were broadly in line with the production performance of each asset, with no serious delays in sales volumes at the Group's operations in 2015.

Cost of gold sales

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

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

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

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

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

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

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

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

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

Cost of other sales

Cost of other sales includes, in addition to electricity costs, payroll costs, expenses on fuel and materials, depreciation and some other costs related to non-mining activities. Cost of other sales was US$29 million in 2015, as compared to US$42 million in 2014.

Selling, general and administrative expenses

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

	Year ended 31 December		
(in millions of U.S. dollars)	*2015*	*2014*	*Change (%)*
Salaries	100	121	(17)
Taxes other than mining and income taxes	12	22	(45)
Professional services	12	11	9
Amortisation and depreciation	3	4	(25)
Other	16	16	–
Total	**143**	**174**	**(18)**

The Group's selling, general and administrative expenses decreased by 18 per cent to US$143 million in 2015 from US$174 million in 2014, primarily due to expense optimization measures and the effects of a weaker rouble against the U.S. dollar. The major component of selling, general and administrative expenses continued to be salaries, which declined by 17 per cent to US$100 million in 2015.

Other expenses

Other expenses were US$2 million in 2015, as compared to US$22 million in 2014.

Reversal of impairment

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

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

An impairment test was performed as of 31 December 2015.

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

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

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

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

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

See note 8 to the 2015 Financial Statements.

Finance costs and interest income

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

	Year ended 31 December		
(in millions of U.S. dollars)	*2015*	*2014*	*Change (%)*
Interest on borrowings	132	100	32
Gain on exchange of interest payments under cross currency swap	(39)	(16)	144
Gain on exchange of interest payments under interest rate swaps	(13)	(4)	225
Unwinding of discounts on site restoration, decommissioning and environmental liabilities	4	4	–
Other	2	2	–
Sub-total finance cost	**86**	**86**	**–**
Interest capitalized in the cost of Mine under development and Capital construction-in progress	(41)	(60)	(32)
Total finance cost expensed	**45**	**26**	**73**

The Group's total finance costs were US$45 million in 2015, as compared to US$26 million in 2014. Capitalized interest related to the Natalka project fell by 32 per cent year-on-year, to US$41 million, as construction works at the mine were temporarily scaled down in 2015. Capitalized interest amounted to US$41 million in 2015, as compared to US$60 million in 2014. Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps) remained unchanged at US$80 million in 2015 and 2014.

Interest income was US$69 million in 2015, as compared to US$31 million in 2014, as a result of an increase of the average interest rate, as well as larger cash deposits.

Loss on derivative financial instruments and investments, net

Loss on derivative financial instruments and investments, net was US$125 million in 2015, as compared to a loss of US$934 million in 2014.

The following table sets forth the components of the loss on derivative financial instruments and investments, net for the years ended 31 December 2015 and 2014:

	Year ended 31 December	
(in millions of U.S. dollars)	*2015*	*2014*
Gain / (loss) on currency collars	2	(594)
Revaluation loss on cross currency swaps	(198)	(403)
Gain on initial exchange of cross currency swaps	–	34
Revaluation gain on ineffective part of the revenue stabilizer under Tranches 1 and 2	19	15
Revaluation gain on revenue stabilizer under Tranche 3	49	–
Revaluation gain on interest rate swap	4	9
Other	(1)	5
Total	**(125)**	**(934)**

Revenue stabilizer

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

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

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

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

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

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

The revenue stabilizer options are exercised quarterly in equal amounts.

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

During the year ended 31 December 2015, under Tranches 1 and 2, US$126 million was recognized in the cash flow hedge revaluation reserve within consolidated statement of changes in equity (US$132 million in the year ended 31 December 2014), and following the sale of the hedged volume of gold and the exercise of certain options, US$91 million was subsequently reclassified to gold sales within the consolidated statement of profit or loss (US$35 million in the year ended 31 December 2014).

Tranche 3 is accounted at fair value through profit and loss. Gains resulting from the change in its fair value totaled US$49 million in 2015.

Gold forward

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

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

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

The gold forward contract is designated as a cash flow hedge. Any change in the forward fair value is recognized in cash flow hedge revaluation reserve within the consolidated statement of changes in equity. During the year ended 31 December 2015, US$18 million was recognized in the cash flow hedge revaluation reserve within the consolidated statement of changes in equity (US$36 million in the year ended 31 December 2014) and following the sale of the hedged amount of gold, US$25 million was reclassified from the cash flow hedge revaluation reserve within the consolidated statement of changes in equity into gold sales within the consolidated statement of profit or loss (US$6 million in the year ended 31 December 2014).

Currency collars

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

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

During the year ended 31 December 2015, all remaining options matured and resulted in a gain of US$2 million (loss US$594 million in the year ended 31 December 2014). No currency collars options remained as of 31 December 2015.

Cross currency swaps

Rouble denominated credit facilities with fixed interest rate

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

Under one series of the cross currency swap agreements, the Group pays to the banks a quarterly LIBOR plus margin of 2.32 per cent in U.S. dollars and receives from the banks 10.35 per cent in roubles; and at maturity (9 April 2019), the Group will exchange the related principal amounts by paying US$1,023 million and receiving RUB 35,999 million.

Russian bonds

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

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

The Group accounted for these derivative financial instruments at fair value which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps for the year ended 31 December 2015 resulted in a revaluation loss of US$198 million (loss US$403 million in the year ended 31 December 2014). The gain on the exchange of interest payments in the amount of US$39 million is recognized within the finance cost (US$16 million in the year ended 31 December 2014).

Interest rate swaps

In the first half of 2014, the Group entered into an interest rate swap agreement with leading Russian banks, under which the Group pays semi-annually and until 29 April 2020 LIBOR plus 3.55 per cent in U.S. dollars and receives 5.625 per cent in U.S. dollars in respect of a US$750 million nominal amount. The purpose of this swap is to decrease the effective interest rate for the PGIL Eurobonds. According to IAS 39, the swaps were not eligible to be designated as either a cash flow or fair value hedge. The Group accounts for them at fair value, which was determined using a discounted cash flow valuation technique.

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

US$13 million is recognized within the finance cost (gain of US$4 million in the year ended 31 December 2014).

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

(in millions of U.S. dollars)	*Asset*	*Liability*	*Fair value recorded in balance sheet*	*Profit & loss (income) charge*	*Other comprehensive loss*
Revenue stabilizer	200	–	200	159	35
Gold forwards	20	–	20	25	(7)
Cross-currency collars	–	–	–	2	–
Cross-currency swaps	–	(509)	(509)	(159)	–
Interest rate swaps	11	–	11	17	–
Total	**231**	**(509)**	**(278)**	**44**	**28**

Foreign exchange gain

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

Income tax expense

The Group's income taxes amounted to US$191 million in 2015, as compared to US$222 million in 2014, representing a 14 per cent year-on-year decrease. The reason for the decrease was that the profit before tax in 2014 was substantially affected by losses on derivative financial instruments and investments.

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

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

(in millions of U.S. dollars, unless otherwise indicated)	Year ended 31 December 2015						
	Gold sales	Gold sold ('000 ounces)	Production ('000 ounces)	Adjusted EBITDA	TCC per ounce of gold sold (US$ per ounce)	AISC per ounce of gold sold (US$ per ounce)	Capital expenditures
Krasnoyarsk	1,611	1,293	1,289	1,007	399[1]	566[2]	58
Irkutsk alluvial	191	168	168	76	582	725	5
Irkutsk ore	189	161	161	115	417	535	21
Yakutia Kuranakh	165	144	145	70	598	748	10
Magadan	–	–	–	–	–	–	113
Exploration	3	2	–	3	694	815	7
Capital construction	–	–	–	1	–	–	53
Unallocated	–	–	–	6	–	–	1
Total	**2,159**	**1,768**	**1,763**	**1,278**	**424**	**596**	**268**

Notes:

1. Calculated as weighted average of the relevant TCC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$416 per ounce for Olimpiada, US$345 per ounce for Blagodatnoye, US$498 per ounce for Titimukhta.
2. Calculated as weighted average of the relevant AISC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$609 per ounce for Olimpiada, US$444 per ounce for Blagodatnoye, US$745 per ounce for Titimukhta.

(in millions of U.S. dollars, unless otherwise indicated)	Year ended 31 December 2014						
	Gold sales	Gold sold ('000 ounces)	Production ('000 ounces)	Adjusted EBITDA	TCC per ounce of gold sold (US$ per ounce)	AISC per ounce of gold sold (US$ per ounce)	Capital expenditures
Krasnoyarsk	1,602	1,219	1,213	822	541[1]	785[2]	84
Irkutsk alluvial	234	190	190	70	735	952	17
Irkutsk ore	186	146	146	89	594	728	38
Yakutia Kuranakh	175	136	137	50	868	992	6
Magadan	–	–	–	(5)	–	–	308
Exploration	–	–	–	(5)	–	–	6
Capital construction	–	–	–	(3)	–	–	54
Unallocated	–	–	–	–	–	–	12
Total	**2,197**	**1,691**	**1,686**	**1,018**	**585**	**819**	**525**

Notes:

1. Calculated as weighted average of the relevant TCC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$541 per ounce for Olimpiada, US$442 per ounce for Blagodatnoye, US$956 per ounce for Titimukhta.
2. Calculated as weighted average of the relevant AISC per ounce of gold sold for each of Olimpiada, Blagodatnoye and Titimukhta, which constituted, respectively, US$854 per ounce for Olimpiada, US$561 per ounce for Blagodatnoye, US$1,183 per ounce for Titimukhta.

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

Krasnoyarsk business unit (Olimpiada, Blagodatnoye and Titimukhta mines)

In 2015, the Krasnoyarsk business unit sold 1,293 thousand ounces of gold, as compared to 1,219 thousand ounces of gold sold in 2014. Sales volumes exclude gold produced from the Poputninskoye deposit, where trial mining was launched in 2015. Total gold production increased to 1,289 thousand ounces of gold, as compared to 1,213 thousand ounces of gold in 2014. Total gold produced represents refined gold output together with gold contained in concentrate.

Irkutsk alluvial operations (alluvial deposits)

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

Irkutsk ore business unit (Verninskoye mine)

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

Yakutia Kuranakh business unit (Kuranakh mine)

In 2015, the Yakutia Kuranakh business unit sold 144 thousand ounces of gold, as compared to 136 thousand ounces of gold sold in 2014. Gold production increased to 145 thousand ounces of gold produced in 2015, as compared to 137 thousand ounces of gold in 2014. The 6 per cent increase from 2014 was due to higher recoveries (up 1.6 per cent year-on-year) and increased processed ore volumes (up 2 per cent year-on-year).

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

Analysis of statement of financial position items

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

(in millions of U.S. dollars)	*31 December 2015*	*31 December 2014*
ASSETS		
Non-current assets		
Property, plant and equipment	2,023	2,351
Derivative financial instruments and investments	411	172
Inventories	184	227
Deferred tax assets	46	47
Other non-current assets	8	3
Total non-current assets	**2,672**	**2,800**
Current assets		
Inventories	296	440
Derivative financial instruments and investments	205	193
Deferred expenditures	13	13
Other receivables	23	10
Advances paid to suppliers and prepaid expenses	17	16
Taxes receivable	59	47
Bank deposits	–	269
Cash and cash equivalents	1,825	1,213
Total current assets	**2,438**	**2,201**
TOTAL ASSETS	**5,110**	**5,001**
EQUITY AND LIABILITIES		
Equity attributable to shareholders of the Company[1]	1,976	1,716
Non-controlling interests	71	83
TOTAL EQUITY	**2,047**	**1,799**
Non-current liabilities		
Site restoration, decommissioning and environmental obligations	32	49
Borrowings	2,151	1,728
Derivative financial instruments	509	423
Deferred tax liabilities	133	150
Other non-current liabilities	20	21
Total non-current liabilities	**2,845**	**2,371**
Current liabilities		
Borrowings	38	90
Derivative financial instruments	–	547
Trade, other payables and accrued expenses	151	158
Taxes payable	29	36
Total current liabilities	**218**	**831**
TOTAL LIABILITIES	**3,063**	**3,202**
TOTAL EQUITY AND LIABILITIES	**5,110**	**5,001**

Note:

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

Borrowings

As of 31 December 2015, the Group's total borrowings (excluding liabilities arising from derivative financial instruments) amounted to US$2,189 million from US$1,818 million at the end of 2014. Only 2 per cent of total borrowings (US$38 million) was short-term, with the balance long-term, thus reflecting the Group's comfortable liquidity position. The US$750 million U.S. dollar-denominated credit facilities with a fixed interest rate of 6.1 per cent and the RUB 10 billion (US$137 million) in Russian bonds accounted for a large proportion of the debt. Bank loans accounted for 58 per cent of the debt portfolio, dominated by the credit facility from Sberbank for RUB36 billion, which was obtained in April 2014 and due in 2019.

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

		31 December	
	Nominal rate %	*2015*	*2014*
Credit facilities with financial institutions nominated in US$ with variable interest rates	US$ LIBOR + margins ranging from 0.55% to 4.95%	785	365
PGIL US$ credit facilities with fixed interest rates	6.1%	750	750
Credit facilities with financial institutions nominated in RUB with fixed interest rates	10.35%	461	596
Notes due in 2025 (Russian bonds) with noteholders' early repayment option in 2021	12.1%	137	–
Letters of credit with deferred payments terms with variable rates	Cost of fund (COF) + 2.7%, Euribor + 1.8%, US$ LIBOR + 2.35%	38	107
Credit facilities with financial institutions nominated in RUB with variable interest rates	Central bank rate + 2.3%	18	–
Sub-total		**2,189**	**1,818**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(38)	(90)
Long-term borrowings		**2,151**	**1,728**

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

Unused credit facilities

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

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

Other matters

JSC Polyus has guaranteed liabilities of all the companies in the Group for all outstanding borrowings.

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

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

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

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

(in millions of U.S. dollars)	*2015*	*2014*
EUR	13	69
RUB	616	596
US$	1,560	1,153
Total	**2,189**	**1,818**

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

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

Note:

1. The debt maturity breakdown is based on actual maturities and excludes US$9 million of bank commissions included in borrowings, in accordance with IFRS.

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

Due in	*(in millions of U.S. dollars)*[1]
2015	90
2016	38
2017	87
2018	886
2019	710
2020+	14

Note:

1. The debt maturity breakdown is based on actual maturities and excludes US$7 million of bank commissions included in borrowings, in accordance with IFRS.

Cash and cash equivalents and bank deposits

As of 31 December 2015, the Group's cash and cash equivalents amounted to US$1,825 million, an increase of 50 per cent from US$1,213 million as of 31 December 2014. Bank deposits within cash and cash equivalents include deposits with original maturity of less than three months or repayable on demand without loss on principal amounts denominated in RUB and US$. During the year ended 31 December 2015, the Group modified certain bank deposit agreements so that as of 31 December 2015, all of the deposits were available on demand and presented under cash and cash equivalents. Thus, the overall total cash position was at US$1,825 million as of 31 December 2015, as compared to US$1,482 million as of 31 December 2014, representing a 23 per cent increase.

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

	As at 31 December	
(in millions of U.S. dollars)	*2015*	*2014*
RUB	104	63
US$	1,721	1,402
EUR	–	17
Total	**1,825**	**1,482**

Cash flow analysis

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

	Year ended 31 December	
(in millions of U.S. dollars)	*2015*	*2014*
Consolidated cash flow information		
Net cash generated from operating activities	1,103	871
Net cash utilized in investing activities	(676)	(1,727)
Net cash generated from financing activities	220	1,353
Net increase in cash and cash equivalents	**647**	**497**
Cash and cash equivalents at beginning of the year	1,213	792
Effect of foreign exchange rates on cash and cash equivalents	(35)	(76)
Cash and cash equivalents at end of the year	**1,825**	**1,213**

Operating activities

Net cash generated from operating activities increased to US$1,103 million in 2015 from US$871 million in 2014. The increase was in line with the strong EBITDA, driven by lower costs, higher sales volumes, a positive contribution from the SPPP and the weaker rouble against the U.S. dollar. Strict control over working capital resulted in a further release of US$45 million in 2015, after a US$28 million release during 2014.

Investing activities

The Group used US$676 million in investing activities in 2015, as compared to US$1,727 million in 2014. The decline in cash used in investing activities was principally the result of the following:

- a decrease in purchases of property, plant and equipment from US$570 million in 2014 to US$326 million in 2015;
- a significant increase in cash outflow, due to the settlement of derivatives amounting to US$494 million in 2015, as compared to US$55 million in 2014;

- an increase in proceeds from the redemption of bank deposits to US$340 million, as compared to US$248 million in 2014;
- an increase in bank deposits of US$74 million, as compared to US$475 million in 2014;
- partially offset by a decrease of loans issued and repayment of previously issued loans of US$190 million in 2015, as compared to US$954 million (net amount) in 2014; and
- partially offset by an increase in interest received from US$30 million in 2014 to US$62 million in 2015, due to an increase in deposits.

There was a decrease in capital expenditures from US$525 million in 2014 to US$268 million in 2015 as a result of a decline in capital expenditure on the Natalka project, the devaluation of the rouble and strict capital control over development and maintenance spending.

Natalka, the main development project of the Group, saw a 63 per cent decline in capital expenditures in 2015, to US$113 million, due to the rouble depreciation and a decision to slow down the development of Natalka after a reassessment of the deposit's reserves in the second half of 2014. In March 2015, the Group partially resumed construction work at Natalka, which mainly related to works inside the production units and buildings and on the pilot plant. In December 2015, the construction of the main crushed ore conveyor was completed. Other areas of construction during 2015 included the tailings thickener, the ore crushing and conveyor complex, a 110 kV power line, the main stepdown substation, as well as circulating pump and slurry pump stations.

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

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

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

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

Financing activities

Cash flow generated from financing activities totaled US$220 million in 2015, an 84 per cent decrease from 2014. The substantial decrease in cash generated from financing activities was principally a result of the following:

- a decrease in net proceeds from borrowings to US$532 million, as compared to US$1,022 million in 2014;
- US$230 million used in 2015 for the increase of ownership in certain subsidiaries of the Group, as compared to US$301 million proceeds received in 2014; and
- an increase in the interest paid due to increased debt amounts, amounting to US$124 million in 2015, as compared to US$75 million in 2014, which was partially offset by cash inflow from interest and currency rate swaps amounting to US$52 million, as compared to US$20 million in 2014.

Capital expenditures, acquisitions of subsidiaries and stripping activity asset

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

(in millions of U.S. dollars)	*Year ended 31 December* *2015*	*2014*	*Change (%)*
Natalka	113	308	(63)
Olimpiada	39	56	(30)
Blagodatnoye	13	17	(24)
Verninskoye	21	38	(45)
Alluvials	5	17	(71)
Titimukhta	1	6	(83)
Kuranakh	10	6	67
Exploration	7	6	17
Other (including power projects)	59	71	(17)
Total	**268**	**525**	**(49)**

Other areas of investing activities included interest received, bank deposit movements and movements from derivatives, which together amounted to a US$166 million outflow in 2015, as compared to a US$209 million outflow in 2014. The Peleduy-Mamakan grid was completed at the end of 2015 with total actual capital expenditure of RUB 3.5 billion.

Contingent Liabilities

Capital commitments

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

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is, in most cases, owned by the state. The Group leases this land through operating lease agreements, which expire in various years through 2060.

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

(in US$ million)	*As at 31 December* *2015*	*2014*
Due within one year	4	3
From one to five years	18	8
Thereafter	17	20
Total	**39**	**31**

Critical accounting judgments and key sources of estimation uncertainty

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates. The following sets forth a discussion of critical accounting judgments and key sources of estimation uncertainty arising in connection with the preparation of the Group's consolidated financial statements as of and for the year ended 31 December 2016 and condensed consolidated interim financial statements as of and for the three months ended 31 March 2017.

Critical judgments in applying accounting policies

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

- justification of the economic useful lives of property, plant and equipment;
- depreciation method for property, plant and equipment;
- borrowing costs capitalization;
- determination of functional currency; and
- cash flow hedge designation.

Economic useful lives of property, plant and equipment

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

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

- change of mineral reserve estimates;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation of mineral reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of mineral reserves.

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

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

Depreciation method for property, plant and equipment

Fixed assets are amortized on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of the mines in accordance with the mine operating plans, which call for production from estimated mineral reserves under the Russian Resource Reporting Code, whichever is shorter.

Amortisation is charged from the date a new mine reaches commercial production quantities and is included in the cost of production. Determination of this date requires judgment.

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

Borrowing costs capitalization

The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset.

Such borrowing costs are capitalized whilst projects are in progress. Natalka mine construction has been restarted in the second half of the 2015 year, and the Group commenced the capitalization of the related borrowing costs starting from 1 July 2015.

Capitalization of interest ceases once the asset is complete and available for use. Interest is then charged to the income statement as a depreciation expense over the life of the relevant asset.

Determination of functional currency

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

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

Cash flow hedge designation

The Group applies its judgment in identification of the forecast selling price of the expected gold sale for the purpose of calculation of the intrinsic value of the options designated as a cash flow hedge and for hedge effectiveness testing.

Key sources of estimation uncertainty

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

- recoverability of the exploration and evaluation assets;
- impairment of the tangible assets;
- determination and valuation of the stripping activity asset;
- carrying value of stockpiles, gold in process and product inventories;
- estimation of the site restoration, decommissioning and environmental obligations; and
- interpretation of the tax legislation in accounting for income taxes.

Exploration and evaluation assets

Management's judgment is involved in the determination of whether the expenditures which are capitalized as exploration and evaluation assets may be recouped by future exploitation or sale or should be impaired.

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

Impairment of tangible assets

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

Factors which could impact the underlying cash flows include:

- commodity prices and exchange rates;
- timelines of granting of licenses and permits;
- capital and operating expenditure; and
- available reserves and resources and future production profile.

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

There are certain key differences between Russian Resource Reporting Code and JORC estimates. The Russian Resource Reporting Code estimates are constant at the time of the submission to the Russian authorities as part of an agreed mining approach and are generally not (though there are certain exceptions) changed subsequently, whereas the JORC estimates are updated annually. Reflecting the longer time between the estimates there is a greater likelihood of differences in input parameters.

The Russian Resource Reporting Code estimates allocate the "geological" amount of ore and do not incorporate certain other mining parameters including dilution and losses while JORC estimates are based on modifying factors developed at pre-feasibility or feasibility stages. These estimates identify the value of the part of the resources which could be mined with profit. Further, the Russian Resource Reporting Code estimates are limited by wireframes and in some cases this excludes the haloes of lower grade mineralization that is likely to be mined by open pit means.

As a first approximation only the Russian Resource Reporting Code reserves are reconciled with JORC resources. The effect on the 2016 Financial Statements of the application of a unit of production depreciation methodology based on Russian Resource Reporting Code instead of JORC is also considered to be immaterial by the Group.

Stripping activity asset

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

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

Each discrete stage of mining, identified in the mine plans, is considered as a unit of account. If the mine plan initially identifies several discrete stages of mining which will take place consecutively (one after the other), these stages would be identified as components. These assessments are undertaken for each individual mine.

Stripping costs incurred during the production phase should be allocated between inventory produced and the stripping activity asset by using the allocation basis. The Group considers that an allocation basis that compares the expected average life-of-mine stripping ratio with the actual stripping ratio in the period for the identified component of the ore body to determine if further stripping costs are to be allocated to stripping activity asset or the cost of inventory, to be the most suitable allocation basis.

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

Costs that are incurred in the production process are accumulated as stockpiles, gold-in-process and gold doré. Stockpiles are measured based on each stockpile's average cost per tonne; gold-in-process and gold doré are measured based on recoverable ounces of gold.

Stockpile quantities are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces based on assay data and the estimated recovery percentage based on the expected processing method. Stockpile tonnages are verified by periodic surveys.

Although the quantities of recoverable gold are reconciled by comparing the grades of ore to the quantities of gold actually recovered (metallurgical balancing), the nature of the process inherently limits the ability to monitor precisely recoverability levels. As a result, the metallurgical balancing process is constantly monitored and engineering estimates are refined based on actual results over time. Variations between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realizable value are accounted for on a prospective basis.

The split of stockpiles and gold-in-process between current (expected to be recovered within 12 months) and non-current (inventories expected to be recovered after 12 months) is based on approved mine operating plans.

The following table sets out the ore stockpile position of the Group's assets as at 31 December 2016.

	As at 31 December 2016	
Asset	*US$ (millions)*	*Kt*
Olimpiada and Titimukhta	121	11,867
Blagodatnoye	21	4,400
Kuranakh	8	658
Verninskoye	72	11,222
Natalka	80	10,090
Other	2	167

The Group anticipates that additional stockpiles of ore set forth in the AMC Report will be included in the Group's balance sheet prepared after 31 December 2017 (see "*AMC Competent Person's Report*"). For the purpose of the Group's calculation of estimated TCC for the Group for 2017, 2018 and 2019 (see "*Operating and Financial Overview—Projections of the Group's TCC*"), the Group assumed the cost of one tonne of ore in additional stockpiles equal to the cost of one tonne of ore in stockpiles as at 31 December 2016 for each relevant asset.

Site restoration, decommissioning and environmental obligations

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

Income taxes

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

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

The Group's new accounting policies

The management of the Group has implemented new accounting policies for "Sales and leaseback transactions" and "Government grants".

Sale and leaseback transactions

Starting from 1 January 2016, the Group engages in certain transactions which meet the criteria as sale and leaseback transactions. Where a transaction results in a finance lease, the excess of the sale proceeds over the carrying value is deferred and recognized in profit or loss over the term of a lease transaction.

Government grants

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

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

Initial recognition of share options

On 16 December 2016, JSC Polyus 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. Under these option agreements, the Group expects to increase its ownership interest in SL Gold, a 54.6 per cent (initially, 51 per cent) subsidiary of the Group with the remaining 45.4 per cent (initially, 49 per cent) interest held by RT, by 20.3 per cent (initially, 23.9 per cent) within the next five years (with the right to accelerate). On 25 May 2017, JSC Polyus exercised the first option to acquire an additional 3.6 per cent participation interest in SL Gold, and the transfer of the stake was registered on 9 June 2017.

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

However, the Group's management believes that, in substance, the option agreements for the 23.9 per cent (currently, 20.3 per cent following the exercise of the first option) interest in SL Gold are linked to the acquisition of the license for mineral rights of Sukhoi Log, representing a single transaction designed to achieve an overall commercial effect due to the following reasons:

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

As a result, upon entering into the put options, the Group assessed their fair value at US$121 million, and recognized them as a 'deferred consideration' with a corresponding increase in 'exploration and evaluation assets' within the 'mineral rights' group.

Quantitative and Qualitative Disclosures about Market Risk

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

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

Gold price risk

The Group is exposed to changes in the gold price due to its significant volatility. Under the current hedge position, the Group protected roughly one half of projected output in 2015. During 2014, the Group entered into a number of derivative transactions (revenue stabilizer and gold forward agreements) under the SPPP to limit its exposure to future possible fluctuations of gold price.

Under the terms of the revenue stabilizer the Group ensures a minimum selling gold price in the case of declines in the gold price and at the same time may benefit from increases in the gold price until certain barrier prices are reached on the call options, at which point the sale price is capped.

If the gold price was 10 per cent higher/lower during the year ended 31 December 2016, gold sales for the year would have increased/decreased by US$111 million/US$107 million, respectively (the year ended 31 December 2015: US$132 million/US$132 million), while other comprehensive income would have increased/decreased by US$2 million/US$5 million, respectively (the year ended 31 December 2015: US$2 million/US$6 million).

In February 2016, the Group continued to economically hedge its gold sales by entering into the new revenue stabilizer agreements for an annual amount of 100,000 ounces during the first three years and 300,000 ounces during the fourth year.

Interest rate risk

The Group is exposed to interest rate risk as it borrows funds. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's current policy considering the relatively low LIBOR rates is to borrow funds in US$ with floating interest rates. During the years ended 31 of December 2014 and 2015, the Group, in order to align its borrowings with the policy, entered into a number of derivative transactions:

- to swap cash flows under a 36 billion rouble denominated credit facility with a fixed interest rate of 10.35 per cent into U.S. dollar-denominated cash flows with a floating interest rate of LIBOR plus 2.47 per cent. The credit facility was initially arranged in RUB with the view to swapping it into a US$ denominated cash flow, because this was more cost effective than obtaining funding directly in U.S. dollars. In 2016, the Group amended these cross currency contracts and entered into a new fixed rate swap, offsetting the floating swap under the following terms:
    - the Group pays quarterly to the banks 3.94 per cent in U.S. dollars and receives from the banks 10.35 per cent in roubles; and at maturity (9 April 2019) the Group exchanges principal amounts by paying US$808 million and receiving RUB 28,443 million (amended terms of cross currency swap agreements with the same banks dated to 2014);
    - the Group pays quarterly to the banks 3.98 per cent in U.S. dollars and receives from the banks 10.35 per cent in roubles; and at maturity (9 April 2019) the Group exchanges principal amounts by paying US$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;
- to swap interest payments under the US$750 million notes issued by PGIL from a fixed rate of 5.625 per cent into a floating rate of LIBOR plus 3.55 per cent. In 2016, the Group amended these interest rate swaps and entered into a new fixed rate swap, offsetting the floating swap when the Group semi-annually pays to the banks 5.342 per cent and receives from the banks 5.625 per cent; and
- to swap cash flows under a 15 billion rouble denominated bonds with a fixed coupon of 12.1 per cent into U.S. dollar-denominated cash flows with a floating interest rate of six-month LIBOR plus 4.45 per cent for RUB 10,000 million and 5.9 per cent fixed rate for RUB 5,000 million. The bond was initially arranged in RUB with the view to swapping it into a U.S. dollar-denominated cash flow, because this was more cost effective than obtaining funding directly in U.S. dollars.

See note 25 to the 2016 Financial Statements.

If the interest rate was 0.5 per cent higher/lower during the year ended 31 December 2016 interest expense excluding effect of change in fair value of interest rate and cross currency swaps for the year ended 31 December 2016 would have increased/decreased by US$17 million (the year ended 31 December 2015: US$8 million; the year ended 31 December 2014: US$5 million).

If interest rates used in calculations of fair values of interest rate and cross currency swaps as at 31 December 2016 would be 0.5 per cent higher/lower, the gain on revaluation would be US$4 million lower/higher, respectively (the year ended 31 December 2015: US$39 million, the year ended 31 December 2014: US$44 million).

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

Foreign currency exchange rate risk

Currency risk is the risk that the financial results of the Group will be adversely affected by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. Prices for gold are quoted in U.S. dollars based on international quoted market prices.

The majority of the Group's expenditures are denominated in roubles, and accordingly, operating profits are adversely impacted by appreciation of the roubles against the U.S. dollar. In assessing this risk, management takes into consideration changes in the gold price.

During 2014, the Group entered into a number of derivative agreements, in the form of currency collars, in order to economically hedge its rouble denominated expenses. From 1 January 2016, the Group is fully unhedged and no currency collars remain outstanding. See note 13 to the 2016 Financial Statements.

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

	As at 31 December		
(in millions of U.S. dollars)	*2016*	*2015*	*2014*
Assets			
US$	1,585	2,134	1,770
EUR (presented in US$ at closing exchange rate)	–	1	17
Total	**1,585**	**2,135**	**1,787**
Liabilities			
US$	4,642	2,084	2,144
EUR (presented in US$ at closing exchange rate)	9	14	71
Total	**4,651**	**2,098**	**2,215**

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

The table below details the Group's sensitivity to changes in exchange rates by 25 per cent which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in the respective currencies.

If the U.S. dollar or EUR exchange rate had increased by 25 per cent for the years ended 31 December 2016, 2015 and 2014 compared to the rouble as of the end of the respective year, the Group would have incurred the following losses / (gains):

	Year ended 31 December		
(in millions of U.S. dollars)	*2016*	*2015*	*2014*
Loss / (gain) (U.S. dollar exchange rate compared to RUB)	764	(13)	94
Loss (EUR exchange rate increased compared to RUB)	2	3	14

Credit risk

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

In order to mitigate credit risk, the Group conducts its business with creditworthy and reliable counterparties, and minimizes advance payments to suppliers.

The Group employs a methodology for in-house financial analysis of banks and non-banking counterparties, which enables management to estimate an acceptable level of credit risk with regard to particular counterparties and to set appropriate individual risk limitations. Within the Group's core companies the procedures for preparing new agreements include analysis and contemplation of credit risk, estimation of the aggregate risk associated with a counterparty (arising both from an agreement under consideration and from previously existing contracts, if any) and verifying compliance with individual credit limits.

Credit risk inherent to the contract is incorporated in the fair value of derivative financial instruments at the reporting date. Credit risk incorporated into valuations is based on the quoted counterparty credit default swaps for the counterparty risk.

The Group's credit risk profile is regularly monitored by management in order to avoid undesirable increases in risk, to limit concentration of credit, and to ensure compliance with the above mentioned policies and procedures.

Deposits, current bank accounts and derivative financial instruments are held with major Russian and international banks, with reasonable and appropriate diversification, which decreases concentration risk by spreading the credit risk exposure across several top rated banks.

Although the Group sells more than 90 per cent of the total gold sales to four major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore the credit risk related to trade receivables is minimal. As at 31 December 2016, trade receivables for gold sales were US$36 million. There were no outstanding receivables for gold sales as of 31 December 2015 and 2014.

Gold sales to the Group's major customers are as follows:

	Year ended 31 December		
(In millions of U.S. dollars)	*2016*	*2015*	*2014*
VTB Bank	906	493	841
Sberbank	647	651	220
Otkritie Bank	561	668	704
MDM Bank	72	166	298
Bank of Moscow	–	–	85
Other	243	181	49
Gold sales	**2,429**	**2,159**	**2,197**

Liquidity risk

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

For assessing its own credit risk, a proxy credit default swap for the industry is used since the Group does not have quoted credit default swaps.

The Group's cash management procedures include medium-term forecasting (a budget approved each financial year and updated on a quarterly basis), short-term forecasting (monthly cash-flow budgets are established for each business unit and a review of each entity's daily cash position is performed using a two-week rolling basis).

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

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

LICENSES AND MATERIAL CONTRACTS

Licenses

The tables below show the periods and main terms of the principal licenses held by the Group. Except as indicated below, the Group believes it has complied with all of the material terms of the licenses. The Company updated the terms of most of its principal licenses in 2016 and in the first half of 2017. The Company updated the terms of most of its principal licenses in 2016. For a more detailed description of the updating of license terms, see "*Regulatory Matters – Subsoil Use and Mining – Subsoil licenses*". According to the mining development plans adopted by the Group, works at certain deposits explored under the principal licenses held by the Group may be suspended and such deposits may be subject to conservation from time to time in the ordinary course of the Group's business.

Exploration and Production Licenses

Facility	*Term of License Registration/ re-registration*	*Expiry*	*Periods and main terms*
Krasnoyarsk region			
Blagodatnoye deposit[1]	5.7.2016	1.2.2022	– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects.
Panimbinskaya block	1.2.2007	1.11.2029	– By 6 December 2010: complete geological study and file report with calculation of reserves. – Commissioning of production capacity for ore mining and processing upon confirmation of reserves. – Prepare project documentation for the development of the license area upon discovery of mineable reserves. – Design capacity is preliminarily set as 300 kg of gold per annum and may be amended upon the results of the geological study during the preparation of technical design.
Razdolinskaya block[2]	4.7.2007	1.11.2025	– By 31 March 2018: file geological study report with calculation of reserves. – By 30 September 2019: prepare technical design. – Achieve full design capacity and production capacity in accordance with the technical design.

1 Initial terms of the license have been fulfilled. Updated (actualized) license terms as of 5 August 2016 do not imply any obligations other than obligations described above.

2 Initial terms of the license have been fulfilled. Updated (actualized) license terms as of 22 December 2016 do not imply any obligations other than obligations described above.

Facility	*Term of License Registration/ re-registration*	*Expiry*	*Periods and main terms*
			– Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects.
Amur region			
Bamskoye gold ore site[3]	4.2.2008	15.4.2030	– By 31 December 2017: file report with calculation of reserves upon completion of geological study. – By 30 June 2019: prepare and agree technical design. – By 30 June 2021: commission mine. – Production level and full design capacity term are determined in accordance with the technical design.
Irkutsk region			
Chertovo Koryto deposit[4]	29.4.2016	1.1.2020	– By 1 January 2018: commission mine. – Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects.
Pervenets deposit[5]	16.1.2017	1.6.2020	– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study project. – Conduct exploration in accordance with exploration project.
Verninskoye deposit[5]	16.1.2017	31.12.2025	– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study project. – Conduct exploration in accordance with exploration project.

3 Initial terms of the license have been fulfilled. Updated (actualized) license terms as of 7 November 2016 do not imply any obligations other than obligations described above.

4 Initial terms of the license have been fulfilled. Updated (actualized) license terms as of 6 July 2016 do not imply any obligations other than obligations described above. One of the open pits of this deposit is currently subject to conservation until 1 December 2017.

5 The license was re-issued on 16 January 2017 and license terms were updated (actualized) on 31 May 2017. Initial terms of the license have been fulfilled. Updated (actualized) license terms do not imply any obligations other than the obligations described above.

Facility	*Term of License Registration/ re-registration*	*Expiry*	*Periods and main terms*
Smezhny area[6]	16.1.2017	10.10.2035	– By 10 October 2018: file geological report with calculation of reserves. – By 10 October 2019: prepare technical design. – By 10 April 2021: commission mine. – Production level and full design capacity term are determined in accordance with the technical design.
Medvezhy Zapadny[6]	16.1.2017	25.2.2033	– By 25 February 2017: commission mine. – Production level and full design capacity term are determined in accordance with the technical design.
Sukhoi Log	21.2.2017	23.2.2037	– By 22 February 2018: prepare exploration project. – Not later than 12 months after the completion of exploration: file exploration report. – Not later than 36 months after the state expert review of the reserves: prepare and agree technical design. – Mine commissioning, production level and full design capacity terms are determined in accordance with the technical design.
Republic of Sakha (Yakutia) region			
Nezhdaninskoye[7]	21.7.2016	27.9.2021	– By 31 December 2008: file geological study report with calculation of reserves. – By 31 December 2012: prepare technical design. – By 31 December 2020: commission mine. – Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works and exploration in accordance with geological study projects and/or exploration projects.

6 The license was re-issued on 16 January 2017 and license terms were updated (actualized) on 31 May 2017. Initial terms of the license have been fulfilled. Updated (actualized) license terms do not imply any obligations other than the obligations described above.

7 Initial terms of the license have been fulfilled. Updated (actualized) license terms as of 25 August 2016 do not imply any obligations other than obligations described above.

Facility	*Term of License Registration/ re-registration*	*Expiry*	*Periods and main terms*
Chukotka autonomous region			
East Burgakhchanskaya area[8]	11.1.2011	11.1.2036	– Not later than 84 months after the registration of the license: complete geological study and file geological study report for state expert review of reserves. – Not later than 9 months after the state expert review of the reserves: prepare exploration project. – Not later than 6 months after the approval of the exploration project: commence exploration. – Not later than 12 months after the completion of exploration: file exploration report for state expert review of reserves. – Not later than 15 months after the state expert review of the reserves following the exploration: prepare technical design. – Not later than 36 months after the approval of the technical design: commission mine. – Production level and full design capacity terms are determined in accordance with the technical design.
West Burgakhchanskaya area[8]	11.1.2011	11.1.2036	– Not later than 84 months after the registration of the license: complete geological study and file geological study report for state expert review of reserves. – Not later than 9 months after the state expert review of the reserves: prepare exploration project. – Not later than 6 months after the approval of the exploration project: commence exploration. – Not later than 12 months after the completion of exploration: file exploration report for state expert review of reserves. – Not later than 15 months after the state expert review of the reserves following the exploration: prepare technical design. – Not later than 36 months after the approval of the technical design: commission mine. – Production level and full design capacity terms are determined in accordance with the technical design.

8 The license terms were updated (actualized) on 13 March 2017.

Facility	*Term of License Registration/ re-registration*	*Expiry*	*Periods and main terms*
Central Burgakhchanskaya area[9]	11.1.2011	11.1.2036	– Not later than 84 months after the registration of the license: complete geological study and file geological study report for state expert review of reserves. – Not later than 9 months after the state expert review of the reserves: prepare exploration project. – Not later than 6 months after the approval of the exploration project: commence exploration. – Not later than 12 months after the completion of exploration: file exploration report for state expert review of reserves. – Not later than 15 months after the state expert review of the reserves following the exploration: prepare technical design. – Not later than 36 months after the approval of the technical design: commission mine. – Production level and full design capacity terms are determined in accordance with the technical design.
Production Licenses			
Krasnoyarsk region			
Titimukhta deposit[10]	5.7.2016	31.12.2023	– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects.
Olimpiada deposit (including Vostochny pit and Zapadny pit)[10]	5.7.2016	31.12.2027	– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects.
Magadan region			
Natalka deposit[11]	21.6.2016	31.12.2036	– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study projects.

9 The license terms were updated (actualized) on 13 March 2017.

10 Initial terms of the license have been fulfilled. Updated (actualized) license terms as of 5 August 2016 do not imply any obligations other than the obligations described above.

11 Initial terms of the license have been fulfilled. Updated (actualized) license terms as of 21 June 2016 do not imply any obligations other than the obligations described above.

Facility	*Term of License Registration/ re-registration*	*Expiry*	*Periods and main terms*
			– Conduct exploration in accordance with exploration projects.
Republic of Sakha (Yakutia) region Yuzhnoye deposit of the Kuranakh ore field[12]	21.03.2016	31.12.2040	– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects.
Each of Delbe,Kanavnoye, Dorozhnoye, Bokovoye, Porfirovoye, Severnoye, Yakokutskoye, Tsentralnoye and Novoye deposits of the Kuranakh ore field[13]	28.11.2016	31.12.2038 (Bokovoye, Severnoye, Tsentralnoye), 31.12.2034 (Porfirovoye, Yakokutskoye), 31.12.2022 (Dorozhnoye), 31.12.2040 (Kanavnoye, Novoye), 31.12.2028 (Delbe)	– Achieve full design capacity and production capacity in accordance with technical designs. – Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects.
Stockpile waste of Kuranakh field[14]	20.6.2016	30.6.2024	– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works in accordance with geological study projects. – Conduct exploration in accordance with exploration projects.
Nezhdanins koye (additional vein areas)[15]	26.1.2016	31.12.2031	– By 31 December 2008: file exploration report. – By 30 December 2012: prepare and agree technical design. – By 31 December 2020: commission mine.

12 Initial terms of the license have been fulfilled. Updated (actualized) license terms as of 18 April 2016 do not imply any obligations other than the obligations described above. The deposit is currently subject to conservation until 2023.

13 Licenses were re-issued on 28 November 2016 and terms of the licenses have been updated (actualized) on 19 January 2017. The Porfirovoye, Tsentralnoye, Severnoye, Yakokutskoye and Novoye deposits are currently subject to conservation until 2023.

14 Initial terms of the license have been fulfilled. Updated (actualized) license terms as of 29 July 2016 do not imply any obligations other than the obligations described above.

15 Initial terms of the license have been fulfilled. Updated (actualized) license terms as of 25 August 2016 do not imply any obligations other than the obligations described above.

Facility	*Term of License Registration/ re-registration*	*Expiry*	*Periods and main terms*
			– Achieve full design capacity and production capacity in accordance with the technical design. – Conduct prospecting works and exploration in accordance with geological study projects and/or exploration projects.

Material Contracts

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) which has been entered into by any member of the Group: (i) within the two years immediately preceding the date of this Prospectus and which is, or may be, material; or (ii) which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Company as of the date hereof:

Material Financings

For details of the Company's material financings that are outstanding as of the date of this Prospectus, see "*Operating and Financial Review—Borrowings*".

Agreements Relating to the Offering

Underwriting Agreements

On 30 June 2017, Polyus Gold, PGIL and the Joint Bookrunners entered into a GDS underwriting agreement (the "**GDS Underwriting Agreement**") providing for, inter alia, the underwriting of the Offering of GDSs. See "*Plan of Distribution—Underwriting Arrangements*".

On 30 June 2017, Polyus Gold, PGIL and the Joint Bookrunners entered into a Share underwriting agreement (the "**Share Underwriting Agreement**" and together with the GDS Underwriting Agreement, the "**Underwriting Agreements**") providing for, inter alia, the underwriting of the Offering of Shares. See "*Plan of Distribution—Underwriting Arrangements*".

On 30 June 2017, the Company and the Joint Bookrunners entered into a listing agreement (the "**Listing Agreement**") providing for, inter alia, certain undertakings of the Company in respect of Admission. See "*Plan of Distribution—Underwriting Arrangements*".

Deposit Agreements

On 30 June 2017, the Company and the Depositary entered into the Deposit Agreements for the establishment and maintenance of (i) the Regulation S Facility and the Regulation S GDSs issued pursuant thereto and (ii) the Rule 144A Facility and the Rule 144A GDSs issued pursuant thereto, pursuant to which the Company also executed a deed poll in favour of the holders of the GDSs in the form attached to the Deposit Agreements. See "*Terms and Conditions of the Regulation S GDSs and Rule 144A GDSs*".

Securities Lending Agreement

On 30 June 2017, PGIL and Polyus Gold entered into the Securities Lending Agreement, pursuant to which PGIL is expected to loan to Polyus Gold 5,915,979 Shares of the Company in order to allow Polyus Gold to sell Shares and GDSs in the Offering.

MANAGEMENT AND CORPORATE GOVERNANCE

The Company's management structure consists of the General Meeting of Shareholders, the Board of Directors, the senior management of the Group and the General Director (the sole executive body).

General Shareholders' Meeting

The General Shareholders' Meeting is the supreme governing body of the Company. The powers of the General Shareholders' Meeting are set forth in the Joint Stock Companies Law and in the Company's charter and internal regulations. See "*Description of Share Capital and Certain Requirements of Russian Legislation – General shareholders' meetings*".

Board of Directors

The Board of Directors directs the Company's strategy and policy between General Shareholders' Meetings and is responsible for general management matters, with the exception of those matters designated by law and the Company's charter as being the exclusive responsibility of the General Shareholders' Meetings.

The Board of Directors currently consists of nine members, each of whom was elected at the Annual General Shareholders' Meeting on 5 April 2016. The current terms of appointment of the members of the Board of Directors expire on the date of the next annual general shareholders meeting of the Company, which is required to be held by 30 June 2017.

The Company considers three of the current nine directors, Messrs. Dowling, Potter and Champion to be independent under the Moscow Exchange Listing Rules. The business address of the members of the Company's Board of Directors is 15/1 Tverskoy Boulevard, Moscow 123104, Russian Federation.

As of the date of this document, the members of the Company's Board of Directors are as follows:

Name	*Year of Birth*	*Position*
Mr. Edward Dowling	1955	Chairman
Mr. Kent Potter	1946	Independent Director
Mr. William Champion	1952	Independent Director
Ms. Anastasia Galochkina	1977	Director
Mr. Said Kerimov	1995	Director
Ms. Gulnara Kerimova	1990	Director
Mr. Pavel Grachev	1973	General Director
Mr. Vladimir Polin	1962	Senior Vice President, Operations
Mr. Mikhail Stiskin	1983	Senior Vice President, Finance and Strategy

Edward Dowling, *Chairman*

Mr. Edward Dowling is the Chairman of the Board of Directors of Alacer Gold, where he served as President and CEO between 1998 and 2012. In addition, he is also a Board member at Teck Resources Limited, Canada's largest diversified mining company and Detour Gold Corporation, a Canadian intermediate gold mining company. His mining experience spans 30 years and includes holding the positions of Executive Director for Mining and Exploration at De Beers, President and CEO of Meridian Gold Inc., and Executive Vice President for Operations at Cliffs Natural Resources Inc. Mr. Dowling is a former Board member of De Beers Société Anonyme, Victoria Gold Corp, PGIL and Zinco de Brasil Inc. Mr. Dowling graduated from the Pennsylvania State University in 1982 with degrees in mining engineering and mining processing. He obtained his Master's degree and PhD in mineral processing from the same university in 1987 and 1998, respectively.

Kent Potter, *Independent Director*

Mr. Kent Potter sits on the Board of Eurochem Group AG, the leading mineral fertilizer producer in Russia. From 2013 to 2016 he was also a Board member of SUEK plc, Russia's largest coal producer and exporting company. Prior to these appointments, Mr. Potter spent 27 years with Chevron, during which he held a number of senior management positions. In 2003, Mr. Potter was appointed CFO of TNK-BP. Following TNK-BP, he was appointed Vice President and CFO of LyondellBasell Industries. Mr. Potter was awarded a Bachelor's degree in Engineering and an MBA from the University of California, Berkeley.

William Champion, *Independent Director*

Mr. William Champion serves on the Board of Compañía de Minas Buenaventura S.A.A., the largest publicly traded precious metals company in Peru. Mr. Champion has over 30 years of experience in mining. From 2002 to 2014, he was at Rio Tinto where he held a number of senior management positions. These included Managing Director of Rio Tinto's Diamonds Business Unit and Managing Director of Rio Tinto Coal Australia. Mr. Champion was awarded a Bachelor of Science in Chemical Engineering from the University of Arizona.

Anastasia Galochkina, *Member of the Nomination & Remuneration Committee*

Ms. Anastasia Galochkina is Managing Director of Nafta Moskva. Prior to joining Nafta Moskva, from 2004 to 2011, she worked for Vostok Nafta Investment Ltd, a Swedish investment company. From 2006 to 2008, she also served on the board of Kontakt East Holding AB. Prior to joining Vostok Nafta, Ms. Galochkina worked at Ernst&Young's consultancy group in Moscow. Ms. Anastasia Galochkina is a qualified chartered Financial Analyst. She graduated from the National Research University of Electronic Technology in Moscow with a degree in economics.

Said Kerimov, *Member of the Strategy Committee*

Mr. Said Kerimov is currently studying at the Moscow State Institute of International Relations (University) of the Ministry of Foreign Affairs of the Russian Federation. The Group is beneficially controlled by Mr. Kerimov.

Gulnara Kerimova, *Member of the Board of Directors*

Ms. Gulnara Kerimova currently works at the representative office of JSC MG International AG. Prior to this, she was employed by Credit Suisse Group's representative office in Russia. Ms. Kerimova graduated from the Moscow State Institute of International Relations (University) of the Ministry of Foreign Affairs of the Russian Federation, International Business and Business Administration Faculty. Ms. Kerimova is the sister of Mr. Kerimov.

Pavel Grachev, *General Director*

Mr. Pavel Grachev joined the Group in 2013. Prior to that, from 2010 to 2013, Mr. Grachev served as Chief Executive Office of the leading potash producer Uralkali and then of the Far East and Baikal Region Development Fund. From 2006 to 2011, he worked as chief counsel and then managing director of the investment company Nafta Moskva. From 1997 to 2005 he was the head of the Moscow office of the law firm Pavia e Ansaldo (Italy). Mr. Grachev also serves on the boards of the Federal Grid Company, Rushydro and the Company and has served on the boards of Uralkali, PIK Group (as Chairman) and Polymetal. Mr. Grachev graduated from the Saint Petersburg State University and the University of Trieste (Italy) with degrees in law. Since 2014, Mr. Grachev has been a General Director for PJSC Polyus. Since 2016, Mr. Grachev has been a General Director of Management Company Polyus Limited Liability Company ("**MC Polyus LLC**"), a management company for the Company and certain other of its subsidiaries.

Vladimir Polin, *Senior Vice President, Operations*

Mr. Vladimir Polin joined the Group in August 2014. He has extensive managerial experience in the metals and mining sector. Prior to joining Polyus, Mr. Polin was Chief Operating Officer at En+, a leading Russian industrial group with assets in the metals, mining and energy sectors. Before that, for three years, he headed the East aluminium division at Rusal, the world's leading aluminium producer. Prior to joining Rusal, Mr. Polin spent almost 10 years at Mechel, a major coal and steel producer in Russia, in a variety of senior posts including Chief Executive Officer and Senior Vice President at Mechel Management. Mr. Polin graduated from Chelyabinsk Polytechnic Institute with a degree in metallurgy.

Mikhail Stiskin, *Senior Vice President, Finance and Strategy*

Mr. Mikhail Stiskin joined the Group in 2013 following a highly successful career in investment banking. Prior to joining the Group, Mr. Stiskin was Managing director at SIB (Cyprus) Limited (until 2011 known as Troika Dialog where he was also a partner), a corporate and investment banking arm of Sberbank, Russia's largest financial institution, where he was in charge of research coverage of the metals and mining/fertilizer sectors. For many years Mr. Stiskin's team was rated as best in the sector within both the CIS and EMEA regions, according to annual institutional investor surveys. He has also been actively involved in a number of landmark transactions in the sector. Mr. Stiskin graduated with honors from the Moscow State Institute of International Relations with a degree in economics and holds a master's degree in economics from the University of Michigan (Ann Arbor).

Senior Management Team

The table below shows the members of the senior management of the Group, who are employed by MC Polyus LLC, a management company for the Company and certain other of its subsidiaries. The business address for each member of the senior management is 15/1 Tverskoy Boulevard, Moscow 123104, Russian Federation.

Name	*Year of Birth*	*Position*
Mr. Pavel Grachev	1973	General Director
Mr. Mikhail Stiskin	1983	Senior Vice President, Finance and Strategy
Mr. Vladimir Polin	1962	Senior Vice President, Operations
Mr. Andrey Krylov	1975	Vice President, Operations & Technical Development
Mr. Sergey Lobov	1958	Vice President, Mineral Resources
Mr. Sergey Zhuravlev	1970	Vice President, Government Relations
Mr. Vyacheslav Dzyubenko	1970	Vice President, Internal Audit
Mr. Michael Kamenev	1972	Vice President, Engineering (acting)
Mr. Alexander Shitov	1979	Vice President, Control & Compliance
Ms. Elena Zhavoronkova	1970	Vice President, Legal Affairs
Mr. Stefan Gueorguiev	1966	Vice President, Project Management & Capital Construction
Mr. Felix Itskov	1978	Vice President, Commerce & Logistics
Mr. Oleg Solin	1960	Vice President, Security & Asset Protection
Mr. Lev Bondarenko	1979	Vice President, Business Transformation
Mrs. Tamara Solntseva	1985	Vice President, Human Resources and Organizational Development

Pavel Grachev, *General Director*

See "*—Board of Directors*".

Mikhail Stiskin, *Senior Vice President, Finance and Strategy*

See "*—Board of Directors*".

Vladimir Polin, *Senior Vice President, Operations*

See "*—Board of Directors*".

Andrey Krylov, *Vice President, Operations & Technical Development*

Mr. Krylov joined the Group in October 2014. Prior to this, from 1997 he worked at OJSC Karelisky Okatysh, the leading iron ore producer in Russia, which is part of Severstal Group. He was employed as a foreman before making the transition to Production Director. Mr. Krylov graduated from Saint-Petersburg Mining University.

Sergey Lobov, *Vice President, Mineral Resources*

Mr. Lobov joined the Group in August 2013 as Director for Geology and Development Projects. In March 2016, he was appointed Vice President for Mineral Resources. Prior to joining Polyus, Mr. Lobov worked for the Canadian gold mining company Barrick Gold, at their office in Russia, where he held a number of management positions. From 2000 to 2004, Mr. Lobov served as Deputy Head of the Russian office of Bateman Engineering Company. From 1993 to 2000, Mr. Lobov was a Regional Director at Metso Minerals, a specialist in mining equipment manufacturing and ore processing and technologies.

Sergey Zhuravlev, *Vice President, Government Relations*

Mr. Zhuravlev joined the Group in 2014. Prior to that, from 2009 to 2014, he held the position of Director Government Relations at Sibur, Russia's largest petrochemicals producer. From 2004 to 2008, he worked at the Federal Agency for State Property Management of the Russian Federation. Mr. Zhuravlev graduated with honors from the Cherepovets Military Engineering Institute of Radio Electronics and the Academy of National Economy in Moscow with a degree in management. He also holds an MBA in finance from California State University, Hayward.

Vyacheslav Dzyubenko, *Vice President, Internal Audit*

Mr. Dzyubenko joined the Group in 2013. Prior to joining the Group, he was Managing Director of the Moscow representative office of Nafta Moskva Cyprus Ltd. Vyacheslav began his career in 1995 as risk assessment specialist at International Moscow Bank. From 2001 to 2004, he worked at the debt financing department of Sovlink, an independent investment boutique. From 2005 to 2013, his career was associated with real estate, including such positions as head of real estate financing at International Moscow Bank (2005-2008), deputy finance director at PIK Group (2008-2010), first deputy CEO on economics and finance at SU-155 (2010-2011) and head of private equity and real estate investments at Uralsib Financial Corporation, a leading financial company in Russia (2012-2013). Mr. Dzyubenko graduated from the Moscow State Institute of International Relations with a degree in economics.

Michael Kamenev, *Vice President, Engineering (acting)*

Mr. Kamenev joined the Group in 2015. Mr. Kamenev has extensive managerial experience in engineering and design for the mining industry. He has worked in the largest international engineering companies, including Worley Parsons, Jacobs Engineering Group and Production Services Network PSN, where he headed various engineering, design and construction projects for the world's biggest mining companies, such as BHP Billiton and Vale. Mr. Kamenev's experience in engineering comes from a wide geography of projects in Australia, South Korea, Russia, Kazakhstan, Canada, Ukraine, Japan and Indonesia, where he focused on deposits of base and precious metals, iron ore and hydrocarbons, as well as on infrastructure development projects for industrial sites and marine facilities, mineral processing, commissioning of smelters, sulphuric acid plants, and refineries. Prior to joining Polyus, Mr. Kamenev worked in large international metals and mining companies Unimin, BlueScope Steel, Pasminco Zinc and Sun Metals, where he held various positions from Process Engineer to Chief Engineer and Project Manager. Mr. Kamenev graduated with honors from the Royal Melbourne Institute of Technology specializing in Metallurgy. He also holds a degree in Management from Chifley Business School.

Alexander Shitov, *Vice President, Control & Compliance*

Mr. Shitov joined the Group in October 2015 as Director for Internal Audit. In May 2016, he was appointed Vice President for Control and Compliance. Mr. Shitov has extensive managerial experience and expertise in internal control, risk management, internal audit and compliance. He has successfully implemented a number of projects for the largest national and international companies in the area of developing risk management and internal control system, including control procedures' optimization, development of strategy, methodology and trainings and the automated management of internal control systems, as well as internal audit projects.

Elena Zhavoronkova, *Vice President, Legal Affairs*

Ms. Zhavoronkova joined the Group in October 2014. She brings with her a wealth of experience in managing legal affairs at Russia's largest companies in metals and mining and industrials sectors. Prior to joining the Group, from 2010, she was Vice President Legal Affairs at Evraz, one of the largest integrated steel and mining businesses in Russia. Since 2008, she headed the legal department at United Industrial Corporation, a diversified holding company in Russia with assets in coal mining, banking, retail and other sectors. Prior to that, from 2000 to 2008, she worked at TMK, one of the largest pipe manufacturers in the world, initially as legal advisor and later as head of its legal department. Ms. Zhavoronkova graduated from Moscow State Law Academy.

Stefan Gueorguiev, *Vice President, Project Management & Capital Construction*

Mr. Gueorguiev has over 20 years of experience in the Engineering, Procurement, and Construction Management (EPCM) industry, including project management, design, construction, and ramp-up of projects for mining, energy and oil and gas companies in North and South America, Europe, Africa, and the Middle East.

Prior to joining Polyus, Mr. Gueorguiev served as a Vice President of Projects at the Canadian subsidiary of Lycopodium Minerals, one of the leading providers of engineering and project management services for the mining industry. During his three years at Lycopodium, in addition to his role as Vice President, he managed several large-scale projects designing and constructing gold-processing plants in Colombia, Brazil, and Guinea.

Prior to this, for over 10 years, Mr. Gueorguiev worked for Amec in Canada, where he held a number of positions from a lead engineer to a project manager. At Amec, he successfully executed a number of projects in a variety of fields, including mining, energy, and oil and gas across the globe.

He holds a Master's Degree in Civil and Structural Engineering from the University of Architecture, Civil Engineering and Geodesy (UACEG) in Sofia (Bulgaria), as well as a Master's Degree in Project Management from Penn State University (USA).

Felix Itskov, *Vice President, Commerce & Logistics*

Mr. Itskov has been with the Group since July 2015. Mr. Itskov has a wealth of experience in managing supply chains, transportation and warehousing logistics. Prior to joining MC Polyus LLC, he spent two years at OJSC ANK Bashneft, where he was responsible for procurement and supply functions. Whilst there, he centralized the processes of materials and consumables procurement and supply for all the production, processing and sales companies and implemented the company's strategy for improving logistics efficiency and performance. Prior to joining Bashneft, Mr. Itskov was Vice President, Supply Chain Management and Infrastructure at TNK-BP. In 2012, he was recognized as the most effective young top manager in the company. At TNK-BP, he was in charge of materials and services procurement and supply to the processing and trading companies within the group. He was also responsible for the transportation, power efficiency and outsourcing functions of those companies. Mr. Itskov graduated with honors from the STANKIN Moscow State Technological University with a degree in economics and company management and has a Ph.D. in economics.

Oleg Solin, *Vice President, Security & Asset Protection*

Mr. Solin joined the Group in February 2013 as Director for Economic Security. In June 2016, he was appointed Vice President for Security & Asset Protection. Prior to joining the Group, Mr. Solin held different managerial positions in the field of economic security and asset protection with major private and state-owned companies, including Rosneft and Mechel. Mr. Solin graduated from Moscow Higher Military School under the Federal Security Service of the Russian Federation.

Lev Bondarenko, *Vice President, Business Transformation*

Mr. Bondarenko joined Group in November 2016.

From 2010 until November 2016, Mr. Bondarenko was Director of Comprehensive Integration of Information Systems in Sibur, a major petrochemical holding in Russia and implemented a number of projects successfully in Sibur, including an extensive transformation program based on MES (Manufacturing Execution System) and SAP ERP (Enterprise Resource Planning), which received the highest honors among all SAP projects in the region (CIS).

From 2005 to 2010, Mr. Bondarenko worked in TNK-BP, a major Russian oil company, where he was Director of Optimization and Control of Business Processes and Head of Optimization Programs Portfolio in the downstream division. He was in charge of managing complicated projects, such as optimization of routine maintenance and overhauls of equipment, supplies and storage facilities, working capital, implementation of LEAN tools, calculation of material and energy balances and efficiency improvement of process hydrocarbon losses management. Mr. Bondarenko graduated from Lomonosov Moscow State University with a degree in Economics and IT/Business process Management. He also holds a PhD in Economics.

Tamara Solntseva, *Vice President, Human Resources & Organizational Development*

Mrs. Solntseva joined the Group in August 2015 and has held the office of Vice President of Human Resources & Organizational Development since May 2017.

Prior to joining the Group, Mrs. Solntseva worked for Inter RAO UES, one of the leading power suppliers in Russia, where she headed the Remuneration and Organizational Design department and later became the business partner for foreign assets. She managed large projects aimed at development and oversaw the introduction of a new remuneration system and an improvement in the organizational structure and headcount. Mrs. Solntseva also has experience in HR management in the banking sector and oil and pharmaceutical industries.

Mrs. Solntseva graduated from the Moscow State Industrial University, where she studied Industrial Economics and Management, and has a degree in Global Professional in Human Resources.

General Director

The General Director is the sole executive body and the Company's chief executive officer. See "Description of Share Capital and Certain Requirements of Russian Legislation – General Director". The Board of Directors appoints the Company's General Director for a term of three years. The General Director may be re-elected for an unlimited number of terms. The current General Director, Mr. Pavel Grachev, has served in this position since 2014.

Remuneration and Terms of Employment of Directors and Management

Compensation of key management personnel consists of remuneration paid to independent non-executive members of the Board of Directors and members of senior management for their services in full or part time positions. Compensation is comprised of annual remuneration plus a performance bonus depending on operating results. Total compensation of key management personnel in the form of long-term employee incentives amounted to US$19 million for the year ended 31 December 2016.

Members of the Board of Directors do not serve pursuant to a contract. The employment contract with the General Director has a term of three years and does not provide benefits upon termination of employment except for situations specified by the Russian Labor Code. The employment contracts with the General Director of the Company and the General Director of MC Polyus LLC, in each case Mr. Grachev, require the Company and MC Polyus LLC, as applicable, to pay compensation upon termination of Mr. Grachev's employment in accordance with Article 278.2 of the Russian Labor Code (termination of employment by the relevant governing body of the Company or MC Polyus LLC, as applicable) in the absence of willful misconduct. The employment contracts with Mr. Grachev provide that such compensation must not be less than three times Mr. Grachev's monthly salary. The Company and MC Polyus LLC enter into employment contracts for indefinite periods with the other members of the Group's senior management, and these contracts do not include termination benefits.

Shares held by Directors and Management

The Group approved a Long Term Incentive Plan (LTIP) in December 2016. Under the LTIP, the members of senior management of the Group are entitled to a conditional award in the form of Shares if certain financial and non-financial performance indicators are met. The total number of Shares that may be distributed under the LTIP is 1,913,200, and can be from newly issued ordinary shares, treasury shares, or otherwise.

As at the date of this Prospectus, the Company's Board of Directors and members of senior management do not hold any Shares, but hold options over up to 1,913,200 Shares under the LTIP.

Litigation statement about Directors and Management

At the date of this document, for at least the previous five years, none of the members of the Board of Directors or members of senior management have:

(i) had any convictions in relation to fraudulent offences;

(ii) have been adjudged bankrupt or have been a member of the administrative, management or supervisory board or a senior manager of a company which has been bankrupt, placed in receivership or liquidation;

(iii) been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies); or

(iv) been disqualified by a court from acting as a member of the administrative, management or supervisory board of an issuer or from acting in the management or conduct of the affairs of any issuer.

There are no potential conflicts of interest between any duties owed to the Company by the members of the Board of Directors or the senior management and their private interests and/or other duties.

Corporate governance

As the Shares are included on the First Level quotation list on MOEX, the Company is required to comply with a number of corporate governance requirements, primarily deriving from Russian law and regulations. Such requirements include, among others, having at least three, and not less than 1/5 of the board of directors comprised of, independent directors, with the independence criteria determined pursuant to the Listing Rules of the Moscow Exchange (the "**MLRs**"); having the following committees of the Board of Directors: (i) an Audit Committee, to be chaired by an independent director and comprised of independent directors or, if this is not possible, of directors who do not include the chief executive officer or members of the management board (if applicable), provided, however, that the majority of the committee is comprised of independent directors; (ii) a Nominations Committee comprised of independent directors or, if this is not possible, of directors who do not include the chief executive officer or members of the management board (if applicable), provided, however, that the majority of the committee is comprised of independent directors; and (iii) a Remuneration Committee comprised of independent directors or, if this is not possible, of directors who do not include the chief executive officer or members of the management board, provided, however, that the majority of the committee is comprised of independent directors, one committee may act as the joint remunerations, nominations and hiring committee; the appointment of a corporate secretary and the adoption by the Board of Directors of Regulations of the Corporate Secretary; and compliance with the disclosure and notification requirements set out in the applicable Russian laws.

Corporate governance requirements in Russia are not as developed as in Western European countries or the United States and, in general, do not offer the same level of protection to investors. The Company does not currently observe the corporate governance recommendations set out in the UK Corporate Governance Code, although, as described above, the Company considers three of its current nine directors, Messrs. Dowling, Potter and Champion, to be independent according to the criteria set out in the MLRs.

Board of Directors committees

The Audit, Nomination & Remuneration, Strategy and Operations Committees of the Board of Directors of the Company were formed on 29 April 2016. The committees are headed by independent directors. As of the date of this document, the compositions of the committees are as follows:

Audit Committee

The Audit Committee, chaired by Kent Potter, is fully comprised of independent directors in line with the Moscow Exchange Listing Rules and recommendations.

Name	*Year of Birth*	*Position*
Mr. Kent Potter	1946	Chairman
Mr. Edward Dowling	1955	Member
Mr. William Champion	1952	Member

Nomination & Remuneration Committee

The Nomination & Remuneration Committee is chaired by Edward Dowling, who is also the chairman of the Board of Directors of the Company.

Name	*Year of Birth*	*Position*
Mr. Edward Dowling	1955	Chairman
Mr. William Champion	1952	Member
Mr. Kent Potter	1946	Member
Ms. Anastasia Galochkina	1977	Member

Strategy Committee

The Strategy Committee is also chaired by Edward Dowling.

Name	*Year of Birth*	*Position*
Mr. Edward Dowling	1955	Chairman
Mr. Kent Potter	1946	Member
Mr. Pavel Grachev	1973	Member
Mr. Mikhail Stiskin	1983	Member
Mr. Said Kerimov	1995	Member

Operations Committee

The Operations Committee is chaired by William Champion.

Name	*Year of Birth*	*Position*
Mr. William Champion	1952	Chairman
Mr. Edward Dowling	1955	Member
Mr. Vladimir Polin	1962	Member
Mr. Pavel Grachev	1973	Member

DIVIDEND POLICY

Russian law governs the procedure for payment of dividends that a company may distribute to its shareholders. Dividends may be paid on a quarterly, semi-annual or annual basis. Under the Joint Stock Companies Law and the Company's charter, dividends may only be paid out of the Company's net income, calculated according to Russian Accounting Standards. The Company may declare a dividend distribution only if: (1) the charter capital has been paid in full; (2) the net assets value is not less than the Company's charter capital and reserve fund or would not become less than the amount thereof as a result of adoption of such decision; (3) the Company has repurchased all shares that particular shareholders had the right to require the Company to repurchase; and (4) the Company is not, and will not become, insolvent (as defined under Russian law) as a result of the payment of dividends. According to the Joint Stock Companies Law and the Company's charter, it is in the competence of the Board of Directors to recommend to the shareholders the amount of dividends for approval by a majority vote at the general shareholders' meeting. The dividend approved at the shareholders' meeting may not exceed that recommended by the Board of Directors.

Dividends, if declared, are payable to shareholders pursuant to the Joint Stock Companies Law. For a further description, see "*Description of Share Capital and Certain Requirements of Russian Legislation – Description of Share Capital – Dividends*".

On 7 October 2016, the Board of Directors of the Company approved a new dividend policy, pursuant to which the Company will, subject to applicable requirements of Russian law for dividends to be paid out of net profit determined in accordance with Russian Accounting Standards, pay dividends on a semi-annual basis in an amount of 30 per cent of the EBITDA for the applicable reporting period. Payment will be calculated on the basis of the consolidated financial statements of the Group prepared in accordance with IFRS requirements, provided that the net debt/adjusted EBITDA ratio for the previous 12 months based on the consolidated financial statements of the Group is lower than 2.5x.

Should the net debt/adjusted EBITDA ratio for the previous 12 months be higher than 2.5x, the Board of Directors of the Company will exercise discretion on dividends, taking into account the Group's financial position, free cash flow, outlook and macro-economic environment.

The Board of Directors of the Company may consider the possibility of payment of special dividends, subject to the Group's liquidity position, capital expenditure requirements, free cash flow and leverage.

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

The Company anticipates that any dividends that it may pay in the future pursuant to the new dividend policy in respect of the Shares (including the DSs) will be declared and paid to the Depositary in roubles and will be converted into U.S. dollars by the Depositary and distributed to holders of the DSs, net of the Depositary's fees and expenses, as set forth in Article 4 of the Deposit Agreements. Accordingly, the value of dividends received by holders of the DSs will be subject to fluctuations in the exchange rate between the rouble and the U.S. dollar.

The Company did not declare dividends in the years ended 31 December 2016, 2015 and 2014 or in the three months ended 31 March 2017.

On 7 June 2017, the Board of Directors of the Company recommended that the Company's Annual General Shareholders' Meeting to be held on 30 June 2017 approve the payment of the dividends for the 2016 fiscal year in the total amount of RUB 20,062,843,800. In aggregate these dividends are the rouble equivalent of

US$354 million at the CBR official exchange rate of RUB 56.6747 per US$1.00 as of 7 June 2017, including:

- a regular dividend in respect of the financial year ended 31 December 2016 totaling US$254 million, representing 30 per cent of the Company's EBITDA for the second half of 2016 in line with the dividend policy whereby the dividends are paid on a semi-annual basis; and
- a special dividend totaling US$100 million in connection with the successful sale by the group of its stake in the Nezhdaninskoye deposit. The asset was in exploration stage via a joint venture with Polymetal and non-cash producing.

The Company's Board of Directors recommended the dividend for approval by the Company's shareholders at the Annual General Shareholder's Meeting that is to be held on 30 June 2017. Such dividend is subject to formal approval by the Company's shareholders. The dividend record date is set for 17 July 2017.

On 31 May 2017, PGIL entered into an agreement with a consortium led by Fosun International Limited (the "**Consortium**") for the sale of 12,561,868 Shares of the Company (the "**Initial Stake**"), representing 10 per cent of the Company's share capital, excluding treasury shares, to the Consortium, together with an option to acquire, subject to completion of the acquisition of the Initial Stake, an additional number of shares to bring its stake in the share capital of the Company up to 15 per cent (including the new shares issued in the Open Subscription) of the Company's share capital. The agreement provides for, among other things, minimum annual dividend payments for the years ended 31 December 2017 to 2021, subject to certain conditions. See "*Principal and Selling Shareholders–PGIL Agreement to Sell Shares in the Company*".

PRINCIPAL AND SELLING SHAREHOLDERS

As of the date of this Prospectus, the Company's share capital was RUB127,545,429 consisting of 127,545,429 Shares, all of which have been issued on a fully paid-up basis.

The table below sets forth certain information regarding the ownership of Shares of the Company (i) immediately prior to the Offering and (ii) upon closing of the Offering and the Open Subscription (as adjusted to give effect to the sale of 12,020,442 Shares in connection with the Offering and the Russian Offering) and after the transfer of the Committed Shares by Polyus Gold to PGIL following the Open Subscription in July 2017 pursuant to the Securities Lending Agreement, assuming that Polyus Gold is the only shareholder that subscribes for New Shares in the Open Subscription other than through the Russian Offering. Although this table assumes that Polyus Gold will participate in the Open Subscription, all existing shareholders of record as of the Record Date are entitled to subscribe for the Pre-emption Shares in the Open Subscription on a *pro rata* basis. The information in the table below may be significantly different if any existing shareholders other than Polyus Gold decide to participate in the Open Subscription.

	Before Offering and Open Subscription		*After Offering and Open Subscription*		
Shareholders	*Number of Shares*	*% of share capital*[(1)]	*Number of Shares in the form of GDSs*	*Number of Shares*	*% of share capital*
Polyus Gold plc[(1)]	5,915,979	4.64	0	0	0.00
Polyus Gold International Limited[(2)]	116,999,862	91.73	0	110,994,458	83.10
Other[(3)]	8,618,811	6.76	8,284,648	20,640,299	15.45
Treasury Shares[(4)]	1,926,756	1.51	0	1,926,756	1.44
Total	**127,545,429**	**100.00**	**8,284,648**	**133,561,513**	**100.00**

(1) Pursuant to a securities lending agreement between PGIL and Polyus Gold dated 30 June 2017, PGIL will transfer 5,915,979 Shares, or 4.64 per cent of the Shares, to Polyus Gold. Under the agreement, Polyus Gold has agreed to transfer back to PGIL the equivalent number of Shares after the completion of the Open Subscription in July 2017. Polyus Gold is a public limited company incorporated in England and Wales, with its registered office located at 5th Floor, 6 St. Andrew Street, London, EC4A 3AE, United Kingdom. The Shares held by Polyus Gold are beneficially owned by PGIL, as PGIL owns 100 per cent of the issued and outstanding share capital of Polyus Gold.

(2) Includes Shares directly held by Polyus Gold (see note 1). Does not reflect PGIL's agreement to sell 12,561,868 Shares, representing 10 per cent of the Company's share capital, excluding treasury shares, to a consortium led by Fosun International Limited, and an option to acquire an additional number of shares to bring its stake in the share capital of the Company up to 15 per cent (including the new shares issued in the Open Subscription) granted to the consortium, and PGIL's agreement to sell 354,095 Shares to a subsidiary of the Russian Direct Investment Fund. See "*—PGIL Agreement to Sell Shares in the Company*" below.

(3) Includes Shares held by The Bank of New York Mellon as depositary under the Company's Level I ADS program.

(4) On 22 December 2016, the Company's Extraordinary General Meeting approved the reorganization of the Company in the form of a merger of LLC Polyus-Invest, a then subsidiary of the Company, into the Company and the decrease of the Company's charter capital by way of cancellation of 63,082,318 Shares then held by LLC Polyus-Invest following completion of the merger. The merger and subsequent cancellation of the Company's Shares were completed on 7 April 2017 and 10 April 2017, respectively. Prior to the completion of the merger, the Company's share capital consisted of 190,627,747 Shares. Following the completion of the merger and cancellation of 63,082,318 Shares held by LLC Polyus-Invest, the share capital of the Company was decreased by 63,082,318 Shares. The Company has not cancelled the 1,913,200 Shares that it received from LLC Polyus-Invest in the merger. These Shares are being held by the Company as treasury shares primarily for general corporate purposes, including possible sale and the LTIP. Such treasury shares will not have voting rights or be taken into account for the purposes of quorum requirements at General Shareholders' Meetings and will not be entitled to dividends. The Company will be required to either dispose of such treasury shares within one year following completion of the merger or, if such shares are not disposed of, cancel the treasury shares and decrease its charter capital accordingly. On 3 March 2017, the Company repurchased 13,556 Shares from eligible shareholders who tendered their Shares as a result of their statutory right related to their (i) non-participation in the general shareholders' meeting approving the merger or (ii) voting against the merger, which are now also held as treasury shares and are subject to the same limitations as described above.

In certain circumstances, the Open Subscription may not be completed after the Offering. See "*Risk Factors—If the Open Subscription is not completed, the Company may not receive the proceeds from the Open Subscription and the Company's shareholding structure may differ from what is currently contemplated*". If the Open Subscription is not completed for any reason after the Offering, PGIL will receive the net proceeds from the sale of Shares and GDSs by Polyus Gold in the Offering instead of the Committed Shares and PGIL will own 82.32 per cent of the Company's Shares.

The Group is beneficially controlled by the Principal Shareholder, Mr. Said Kerimov, who controls indirectly 100 per cent of the share capital of PGIL, which, as of the date of this Prospectus, directly owns 91.73 per cent of the Company's shares.

Mr. Suleyman Kerimov does not own or in any way control or influence the shares in the Company held by his son, Said Kerimov. Mr. Suleyman Kerimov has no current involvement in the Company and has no intention to be involved in the future with the Company or in relation to the shares held by his son.

None of the Company's shareholders has voting rights different from any other holder of its Shares. To the Company's knowledge, there are no arrangements in place, the operation of which may at a subsequent date result in a change in control of the Company. The Principal Shareholder, as beneficial controller of the Group, has the ability to exert significant influence over certain actions in respect of the Company. While transactions with the Principal Shareholder and affiliates of the Principal Shareholder can benefit the Group and the Company believes that such transactions have been conducted on an arm's-length basis, there can be no assurance that the Group could not have achieved more favorable terms had such transaction not been entered into with related parties. The interests of the Principal Shareholder could conflict with those of other holders of the Company's Shares or GDSs. See "*Risk Factors—The Group is beneficially controlled by a single shareholder*".

PGIL Agreement to Sell Shares in the Company

On 31 May 2017, PGIL entered into an agreement to sell 12,561,868 of the ordinary shares in the Company that it currently owns, representing 10 per cent of the Company's share capital excluding treasury shares (the "**Initial Stake**") at US$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, an additional number of shares to bring its stake in the share capital of the Company up to 15 per cent (including new shares issued in the Open Subscription) of the Company's share capital at US$77.6628 per share (the "**Option Exercise Price**"), exercisable not later than 31 May 2018.

The consideration for the Initial Stake acquisition values the Company's equity at approximately US$9,005 million on a 100 per cent fully-diluted basis (the "**Entry Valuation**"). The Option Exercise Price represents a 10 per cent. premium to the Entry Valuation valuing the Company's equity at approximately US$9,906 million on a fully-diluted basis.

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. There is no assurance that the transaction will be completed.

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 per cent of the full-year EBITDA calculated based on IFRS accounts and (ii) US$550 million for each of 2017, 2018 and 2019 and

US$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 per cent of adjusted EBITDA, subject to the Company's net debt/adjusted EBITDA ratio being lower than 2.5x (see "*Dividend Policy*").

As part of the agreement, PGIL and the Consortium agreed to vote in favor of amending the Company's charter to increase the number of members on the Board of Directors from the current 9 to 11, and to maintain at least 3 independent non-executive directors. Unless there are representatives of other third party shareholders elected to the Board and subject to certain other conditions, the Consortium will be entitled under the agreement to elect two nominees to the Board of Directors, for so long as the Consortium holds at least 10 per cent of the share capital, and one nominee if the Consortium's holding is between 5 per cent and 10 per cent.

The agreement provides the Consortium with customary corporate governance and anti-dilution protections, including veto rights over reorganizations, liquidations, reduction of the dividends payable under the Company's dividend policy, related-party transactions and buybacks. There are additional veto rights if dividends are not paid in accordance with the agreement.

The agreement provides for certain restrictions with respect to disposals by the Consortium members of their interest in the Consortium, as well as restrictions with respect to conversions into depositary receipts. In addition, the Consortium agreed to certain voting undertakings and certain restrictions with regard to acquisitions and disposals of Polyus' shares (including in the event of any potential future offering) after completion of the transaction.

PGIL and the Consortium committed to cooperate to ensure the Company complies with the requirements of the Moscow Exchange where its ordinary shares are listed, as well as the requirements of foreign exchanges where the Company's equity securities may be listed in the future.

PGIL has also entered into an agreement to sell 354,095 Shares of the Company to a subsidiary of the Russian Direct Investment Fund ("**RDIF**"). The purchase price per Share will be the same as payable by the Consortium for the Initial Stake, as described above. The sale is expected to be completed before the end of 2017, subject to certain conditions, including the completion of the sale of the Initial Stake to the Consortium.

The table below sets forth certain information regarding the ownership of Shares of the Company (i) upon closing of the Offering and the Open Subscription (as adjusted to give effect to the sale of 12,020,442 Shares in connection with the Offering and the Russian Offering) and after the transfer of the Committed Shares by Polyus Gold to PGIL following the Open Subscription in July 2017 pursuant to the Securities Lending Agreement, assuming that Polyus Gold is the only shareholder that subscribes for New Shares in the Open Subscription other than through the Russian Offering, (ii) assuming completion of the sale of the Initial Stake and the sale of shares to a subsidiary of RDIF and (iii) assuming the exercise of the option in full by the Consortium. Although this table assumes that Polyus Gold will participate in the Open Subscription, all existing shareholders of record as of the Record Date are entitled to subscribe for the Pre-emption Shares in the Open Subscription on a *pro rata* basis. The information in the table below may be significantly different if any existing shareholders other than Polyus Gold decide to participate in the Open Subscription.

Shareholders	After Offering and Open Subscription			After Sale of Initial Stake	After Exercise of Option
	Number of Shares in the form of GDSs	*Number of Shares*	*% of share capital*	*% of share capital*	*% of share capital*
Polyus Gold plc	0	0	0.00	0.00	0.00
Polyus Gold International Limited	0	110,994,458	83.10	73.43	67.84
Fosun-led Consortium	0	0	0.00	9.41	15.00
RDIF	0	0	0.00	0.27	0.27
Other	8,284,648	20,640,299	15.45	15.45	15.45
Treasury Shares	0	1,926,756	1.44	1.44	1.44
Total	**8,284,648**	**133,561,513**	**100.00**	**100.00**	**100.00**

RELATED PARTY TRANSACTIONS

The following is a summary of the Group's transactions with related parties (as determined under IFRS) for the years ended 31 December 2016, 2015 and 2014, and 2017 to the date of this Prospectus. For further details, see note 23 to the 2016 Financial Statements, note 23 to the 2015 Financial Statements and note 17 to the Interim Financial Statements.

On 5 December 2014, PGIL acquired 8,995,860 ADRs representing 4,497,930 Shares of the Company from Jenington for US$95 million.

On 23 July 2015, JSC Polyus entered into a loan agreement with PGIL, pursuant to which PGIL used the proceeds from its US$750 million 5.625 per cent guaranteed notes due 2020 to give a loan to JSC Polyus in the amount of US$750 million with an interest rate of 6.1 per cent (in December 2016, the interest rate was amended to 5.725 per cent). Under the loan agreement, JSC Polyus must repay the loan by 21 April 2020. The loan was subsequently assigned by PGIL to Polyus Finance plc.

On 4 March 2016, PGIL repaid in advance of the maturity date US$124 million of loans previously obtained from JSC Polyus.

On 11 March 2016, PGIL entered into a securities purchase agreement and completed the sale of 60,211,461 shares of the Company, representing approximately 31.59 per cent of the Company's share capital, to LLC Polyus-Invest for the total purchase price of RUB 243,364 million, which is equivalent to approximately US$3.42 billion. The securities purchase agreement was entered into pursuant to, and on the terms and conditions of, the Information Memorandum.

On 30 September 2016, JSC Polyus obtained from PGIL 4,476,853 Shares of the Company. The proceeds were used by PGIL to settle the loans issued to PGIL by JSC Polyus and interest accrued thereon in the total amount of US$269 million.

On 26 October 2016, JSC Polyus entered into a trust deed with PGIL and BNY Mellon Corporate Trustee Services Limited, under which JSC Polyus guaranteed PGIL's obligations under the 2022 Notes. Also on 26 October 2016, JSC Polyus entered into a paying agency agreement relating to the 2022 Notes with PGIL, The Bank of New York Mellon, BNY Mellon Corporate Trustee Services Limited and other parties named therein.

On 2 November 2016, JSC Polyus entered into a further loan agreement with PGIL, pursuant to which PGIL used the proceeds from its US$500 million 4.699 per cent guaranteed notes due 2022 to give a loan to JSC Polyus in the amount of US$500 million with an interest rate of 4.799 per cent. Under the loan agreement, JSC Polyus must repay the loan by 23 March 2022. The loan was subsequently assigned by PGIL to Polyus Finance plc.

On 7 February 2017, JSC Polyus entered into a trust deed with PGIL and BNY Mellon Corporate Trustee Services Limited, under which JSC Polyus guaranteed PGIL's obligations under the 2023 Notes. Also on 7 February 2017, JSC Polyus entered into a paying agency agreement relating to the 2023 Notes with PGIL, The Bank of New York Mellon, BNY Mellon Corporate Trustee Services Limited and other parties named therein.

On 13 February 2017, under the terms and conditions of PGIL's 2022 Notes, which are guaranteed by JSC Polyus, and the respective trust deed entered into by and among PGIL, JSC Polyus and BNY Mellon Corporate Trustee Services Limited, dated 26 October 2016, the Company executed and delivered to BNY Mellon Corporate Trustee Services Limited a further guarantee by which it acceded as a guarantor under the 2022 Notes and guaranteed jointly and severally with JSC Polyus the obligations of PGIL under the 2022 Notes.

On 13 February 2017, JSC Polyus entered into a further loan agreement with PGIL, pursuant to which PGIL used the proceeds from its US$800 million 5.250 per cent guaranteed notes due 2023 to give a loan to JSC Polyus in the amount of US$800 million with an interest rate of 5.35 per cent. Under the loan agreement, JSC Polyus must repay the loan by 1 February 2023. The loan was subsequently assigned by PGIL to Polyus Finance plc.

On 21 April 2017, JSC Polyus entered into a supplemental trust deed with PGIL and BNY Mellon Corporate Trustee Services Limited, which modifies certain provisions of a trust deed dated 29 April 2013 as supplemented by the supplemental trust deed dated 11 June 2015.

On 28 April 2017, JSC Polyus entered into a supplemental trust deed with Polyus Finance plc, PGIL, BNY Mellon Corporate Trustee Services Limited and other parties, which modifies certain provisions of a trust deed and a paying agency agreement dated 7 February 2017, under which PGIL was substituted by Polyus Finance plc as the issuer of the US$800 million 5.250 per cent guaranteed notes due 2023. On 28 April 2017, the Company guaranteed Polyus Finance plc's obligations under the US$800 million 5.250 per cent guaranteed notes due 2023 by issuing a further guarantee under the terms of the notes and the trust deed.

On 12 May 2017, JSC Polyus entered into a supplemental trust deed with Polyus Finance plc, PGIL, BNY Mellon Corporate Trustee Services Limited and other parties, which modifies certain provisions of a trust deed and a paying agency agreement dated 29 April 2013, under which PGIL was substituted by Polyus Finance plc as the issuer of the US$750 million 5.625 per cent guaranteed notes due 2020.

On 30 May 2017, JSC Polyus and the Company entered into a supplemental trust deed with Polyus Finance plc, PGIL, BNY Mellon Corporate Trustee Services Limited and other parties, which modifies certain provisions of a trust deed and a paying agency agreement dated 26 October 2016, under which PGIL was substituted by Polyus Finance plc as the issuer of the US$500 million 4.699 per cent guaranteed notes due 2022.

REGULATORY MATTERS

Below is a summary of Russian regulatory matters that are applicable to the Group's operations in the Russian Federation.

Overview

The Group's operations in Russia are regulated by a number of laws relating to mining operations, precious metals, quality standards, industrial safety, environmental regulation and other matters. The relevant legislation includes the following laws:

- the Constitution of the Russian Federation dated 12 December 1993, as amended;
- the Civil Code of the Russian Federation, as amended (the "**Civil Code**");
- the Land Code of the Russian Federation dated 25 October 2001, as amended (the "**Land Code**");
- the Russian Subsoil Law;
- Federal Law No. 41-FZ on Precious Metals and Gems, dated 26 March 1998, as amended (the "**Precious Metals Law**");
- Federal Law No. 128 FZ on Licensing of Certain Types of Activities, dated 8 August 2001 (the "**Old Licensing Law**");
- Federal Law No. 99-FZ on Licensing of Certain Types of Activities, dated 4 May 2011, as amended (the "**Licensing Law**");
- Federal Law No. 7-FZ on Environmental Protection, dated 10 January 2002, as amended (the "**Environmental Protection Law**");
- Federal Law No. 116-FZ on Industrial Safety of Dangerous Industrial Facilities, dated 21 July 1997, as amended (the "**Safety Law**");
- Federal Law No. 173-FZ on Currency Regulation and Currency Control dated 10 December 2003, as amended (the "**Russian Currency Law**"); and
- Federal Law No. 57-FZ on Foreign Investments in Commercial Entities Having Strategic Importance for the Defence of the Country and the Security of State dated 29 April 2008, as amended (the "**Foreign Investments Law**"),

and rules and regulations adopted in accordance with those laws.

Subsoil use and mining

Subsoil licenses

The Precious Metals Law, the Russian Subsoil Law and the regulations issued under those laws are the main legal acts which establish the licensing regime in Russia for the use of subsoil for geological research, exploration and production of mineral resources, particularly gold. In accordance with the Precious Metals Law, the Russian Subsoil Law governs the licensing of use of subsoil plots containing precious metals and gems, under which the Russian Federal Agency for Subsoil Use (the "**Rosnedra**") may grant several types of subsoil licenses in relation to the geological survey and exploration and production of natural resources, including:

- combined licenses for the geological survey, exploration, assessment and production of natural resources;
- licenses for the geological exploration and assessment of a subsoil plot; and

- licenses for the geological exploration and production of natural resources.

Until January 2000, the Russian Government's Committee for Geology and Subsoil Use typically granted geological survey licenses for up to five years, production licenses for up to 20 years and licenses for combined activities for up to 25 years. Under the Russian Subsoil Law, as currently in effect, the maximum term of a regular geological survey license is still five years (although the maximum term of a license for the geological survey of subsoil plots located, fully or partly, in certain regions of the Russian Federation, including the Republic of Sakha (Yakutia), the Kamchatka region, Krasnoyarsk region, Khabarovsk region, Irkutsk region, Magadan region, Sakhalin region, Nenets autonomous region, Chukotka autonomous region and Yamalo-Nenets autonomous region is seven years and for the geological survey of subsoil plots under inland sea waters, territorial waters and the continental shelf of the Russian Federation is 10 years). The Rosnedra may issue a production license and combined license for the useful life of a mineral reserves field, calculated on the basis of a feasibility study for exploration and production that ensures rational use and protection of the subsoil.

Prior to the amendment of the Russian Subsoil Law in August 2004, geological survey and production licenses were granted jointly by federal and regional authorities. Under the Russian Subsoil law, as currently in effect, the Rosnedra awards production licenses and combined geological survey exploration and production licenses by tender or auction. While the auction or tender commission formed by the Rosnedra must include a representative of the relevant region, the Russian Subsoil Law no longer requires the separate approval of regional authorities in order to issue subsoil licenses. Regional authorities may, however, issue production licenses for "common" mineral resources, such as clay, sand or limestone. An auction for subsoil plots of federal importance (as defined by Article 2.1 of the Russian Subsoil Law), which include, among other things, subsoil plots with aggregate gold reserves exceeding or equal to 50 tonnes of vein gold, and in certain other cases is arranged by the Russian Government, and the Government may impose limitations on Russian legal entities with foreign shareholders participating in the auctions. The Russian Subsoil Law provides that, in a tender, the license should be awarded to the bidder which has submitted the most technically competent, financially attractive and socially and environmentally sound proposal that meets published tender terms and conditions, and, in an auction, to the bidder which has offered the largest one-off payment for the use of the subsoil plot. The Rosnedra may also, pursuant to a decision of the special committee comprised of representatives of the federal and state authorities, issue licenses for exploration and production without holding an auction or tender if holders of geological survey licenses discover mineral resource deposits through a geological survey (except for the subsoil plots of federal and local importance).

If a geological survey conducted at a subsoil site has identified a deposit falling under the classification of a subsoil plot of federal importance, in the interests of national defence and security, the Russian Government may decide to deny a Russian legal entity with foreign participation the right to conduct exploration and production (even if a combined license has already been issued to the subsoil user, which would entail the revocation of the license subject to payment of compensation to the subsoil user for expenses incurred in conducting the geological survey and reimbursement of the lump sum payment upon issue of the license). Exploration and production of natural resources on the subsoil plots of federal importance by foreign investors or persons under their control is only permitted by a resolution of the Russian Government.

Licensing agreements for subsoil use identify the terms and conditions for the use of the subsoil, the rights and obligations of the licensee and the level of payments. Although most of the conditions set out in a license are based on mandatory rules, the parties may negotiate a number of provisions in a licensing agreement.

As a general rule, the Russian Subsoil Law prohibits the transfer of rights of subsoil use, subject to a license, with certain exceptions, including the following:

- in the course of a reorganization of the license holder;
- to a newly established Russian legal entity in which the initial license holder has at least a 50 per cent interest;
- from a parent company to a Russian subsidiary;
- from a subsidiary to a Russian parent company;

- between two subsidiaries of the same parent company, provided that a transferee is a Russian company; and
- to a Russian legal entity as a result of the acquisition of property of a previous subsoil user in the course of insolvency proceedings.

Generally, the Russian Subsoil Law prohibits the transfer of rights of subsoil use over the subsoil plots of federal importance to a Russian legal entity with foreign participation if such foreign investor, or such group of persons including a foreign investor, directly or indirectly possesses more than 10 per cent of the voting shares of that entity; has the right, through a contract or otherwise, to issue binding instructions to that entity, including control over the business operations; or has the right to appoint the chief executive officer or more than 10 per cent of the members of the collective executive body, or has an unconditional right to elect more than 10 per cent of the board of directors or another collective management body of that entity. Such entities may obtain the right of subsoil use over the subsoil plots of federal importance in exceptional cases at the discretion of the Russian Government.

A license holder has the right to develop and to use (including to sell) resources extracted from the license area for a specified period. The Russian Federation, however, retains ultimate state ownership of all subsoil resources.

Licenses generally require the license holder to make various commitments, including:

- complying with the license term and the timing of commencement of works (preparation of the technical design, achieving full design capacity, submission of geological information for state expert review);
- complying with the terms of payments levied on the use of subsoil, land plots, and water bodies;
- complying with the requirements for agreeing targets for the extraction of minerals, title to the extracted minerals;
- complying with the requirements for timely submission of geological information on subsoil to the federal fund for geological information and its regional bodies;
- complying with the requirements for the protection of subsoil and the environment and for work safety as set forth in the law and the relevant standards, provisions and rules; and
- complying with the procedure and timing for preparing mine decommissioning and suspension projects and land reclamation.

The Group's licenses are scheduled to expire at different times during the period between 2020 and 2040. See "*Business — Licenses*". In addition, some of these licenses require approval of technical design of the deposit development (adjustment of the technical design of the deposit development) as a condition to extend the licenses and continue mining under them.

In accordance with the Russian Subsoil Law, a license holder may, on application to the Rosnedra, extend its license if the exploration, assessment or development of the licensed field or wind-up operations require completion, provided that the license holder complies with the terms of the license. The Group intends to extend its licenses for each of the fields that are expected to be productive following the end of their current periods.

In February 2015, Rosnedra commenced working on a one-time "actualization" of subsoil licenses, which includes elimination of some conditions of subsoil use, bringing them in compliance with amended regulatory framework, as well as exclusion of those license conditions that cannot be complied with and result in a formal requirement of premature termination of the right for subsoil use. The list of licenses which are subject to "actualization" is determined and from time to time updated by the Rosnedra. Most of the Group's licenses were "actualized" in 2016 and in the first half of 2017.

Governmental authorities may undertake periodic reviews for ensuring compliance by subsoil users with the terms of their licenses and applicable legislation. The Federal Service for Supervision in the Sphere of Natural Resource Use (the "**Rosprirodnadzor**") and the Federal Service for Ecological, Technological and Nuclear Supervision (the "**Rostechnadzor**") can fine a licensee for failing to comply with a subsoil license and requirements of subsoil protection and efficient subsoil use, and the Rosnedra can prematurely revoke, suspend or limit a subsoil production license in certain circumstances, including:

- a breach or violation by the licensee of material terms and conditions of the license;
- repeated violation by the licensee of subsoil regulations;
- the failure by the licensee to commence operations within a period of time specified in the license with production of required volumes;
- the occurrence of an emergency;
- the emergence of a direct threat to the life or health of people working or residing in the area affected by the subsoil use operations;
- the liquidation of the licensee; and
- a failure to submit reporting data or geological information in accordance with Russian subsoil legislation.

Mining allotments

Under the Russian Subsoil Law, the Rosnedra provides a subsoil plot to a subsoil user as a "mining allotment", in other words, a geometric block of subsoil. The Rosnedra determines the boundaries of the preliminary mining allotment at the time it issues the license, subject to approval of the regional bodies of Rostechnadzor. Following the preparation of a subsoil use development plan by the licensee, which the state mining supervision authorities (or, in relation to subsoil plots of local importance, the regional authorities) and an environmental examination committee must approve, Rostechnadzor (or, in relation to subsoil plots of local importance, the regional authorities) prepares a mining allotment act and graphic annexes, which certify the exact mining allotment boundaries. The license will then incorporate the exact mining allotment boundaries.

Land use permits

In addition to a subsoil production license, a licensee needs to obtain rights to use surface land within the specified licensed mining area. The land resources management authorities provide a subsoil user with rights to the relevant land plot pursuant to Russian civil, forestry and land legislation. Under the previous regime, commercial legal entities were required to purchase or enter into lease agreements with respect to land plots occupied by their operations by 1 July 2012. From 1 March 2015, state-owned or municipality-owned land plots may be used for the purposes of geological exploration of a subsoil plot upon a formal decision of the regional land resources management authorities without entering into a purchase or lease agreement. The Group is in compliance with these requirements with respect to its material land plots occupied by its principal operations.

Payment system for the use of subsoil

Under the Russian Subsoil Law, the payment system for the use of subsoil currently consists of the following payment obligations:

- one-off payments in cases specified in the license;
- regular payments for subsoil use;
- fees for the right to participate in tenders and auctions; and

- other payments and fees set forth by the legislation of the Russian Federation on taxes and duties.

The Russian Subsoil Law contains a range of minimum and maximum rates of regular payments for the use of subsoil and the federal authorities (and, in relation to subsoil plots of local importance, the regional authorities) have authority to set the rate in any particular license. The Russian Tax Code contains the relevant rates of mineral extraction tax.

Precious metals regulation

The extraction, production and refining of precious metals are subject to specific regulations set forth in the Precious Metals Law. As a general rule, a company which extracts ores that contain precious metals has title to those precious metals. Russian companies may buy or sell ores and concentrate which contain precious metals provided that they are registered with the Russian State Assay Chamber. Only authorized entities approved by the Russian Government may refine precious metals. Companies which extract precious metals are required to offer refined precious metals, as well as nuggets and precious metals which qualify as "unique", on a priority basis to the relevant governmental authorities, which may use their pre-emptive rights if they have notified such companies of their intention to purchase previous metals within a month since the date of the relevant offer to purchase refined precious metals on a priority basis, have entered into agreements for the purchase and sale of precious metals and made an advance payment under those agreements. Since 2008, the governmental authorities have not acquired any refined metals from the Group on such a priority basis. Refined precious metals which have not been sold to governmental authorities may be sold in the domestic markets, used in internal production and for collateral or exported.

Companies are required to obtain a license from the Russian Ministry of Industry and Trade in order to export refined gold. For non-banking institutions, the Ministry of Industry and Trade only issues such licenses with respect to each particular export contract for a term of not longer than one year. This kind of one-off license is granted for a fixed volume of product, as specified in the sale contract. Imports of precious metals into Russia are not subject to licensing. In 2016, 2015 and 2014, the Group believed it could obtain more favorable contract terms with Russian banks for the sale of gold in its domestic market, except for the sale of the flotation concentrate through an agency agreement with Otkritie pursuant to the one-off export licenses granted with respect to several sale contracts with Chinese and Korean consumers.

Licensing of types of activity

In addition to licenses for subsoil use, the Group is required to obtain other licenses, authorisations and permits from Russian governmental authorities for its operations. In particular, the Group requires licenses for the operation of its hazardous industrial facilities using explosive and flammable materials and chemically hazardous materials and for the use of its underground water resources.

Licensing of the operation of hazardous facilities

The Rostechnadzor issues licenses for the operation of industrial facilities using explosive and flammable materials and chemically hazardous materials having a specified hazard level and maintains a register of such facilities. In accordance with the Licensing Law, many provisions of which came into effect on 3 November 2011, the Group must continue to conduct those types of its activities on the basis of previously issued licenses issued under the Old Licensing Law and the regulations introduced under that law. Under the Old Licensing Law, licenses were issued for a minimum period of five years. Licenses issued under the Licensing Law are not limited to a specified term. The issuance of the license is subject to completion of a state industrial safety review and an industrial safety declaration and other requirements set forth in the licensing regulations. Licenses issued prior to and valid as at the date of the Licensing Law coming into force will also have unlimited duration.

Under the Licensing Law, a license will be suspended by a licensing authority in the following situations:

- imposition of administrative sanctions on a licensee for failure to implement, within the established period, orders issued by the licensing authority curing a material violation of the licensing requirements; and

- imposition upon a licensee of an administrative penalty in the form of administrative suspension of activity by reason of a material violation of licensing requirements.

If during a period of administrative suspension of the activity and suspension of a license, as established by a court or an official of the Rostechnadzor, a licensee has failed to cure a material violation of the licensing requirements, the licensing authority is obliged to bring before a court an application for revocation of the license.

Licensing of surface water use

The Water Code of the Russian Federation No. 74-FZ dated 3 June 2006 (the "**Water Code**") does not require licensing of surface water use. However, prior to the Water Code, the law did require such licensing and the Group currently holds all of the licenses that were previously required.

Under the Water Code, water users may use surface water under a water use agreement concluded with state or local authorities; a decision of state or local authorities granting rights to the use of surface water; or without any such agreements or decisions, depending on the purpose of the surface water use. Water users and state or local authorities may conclude agreements on water use for a period of up to 20 years.

Licensing of underground water use

Users of underground water resources in Russia require a subsoil license issued under the Russian Subsoil Law and the regulations adopted under that law. The Rosnedra currently issues licenses for the use of underground water (except for the subsoil plots of local importance). The Rosnedra may grant licenses for a term of up to 25 years. Licensees may only amend the conditions of a subsoil license, including its term, by application to the licensing authorities. The user may also enter into an agreement with the licensing authorities which sets out further terms of use of the relevant resources.

However, if underground water is produced for the process of water supply by the holders of combined licenses for the geological survey, exploration and production of natural resources or licenses for the geological survey and exploration of a subsoil plot, the requirements described above do not apply and the subsoil user is entitled to produce underground water upon approval of the technical design.

In the event of repeated breaches by the licensee of applicable regulations or material terms of the license, as well as upon the occurrence of certain emergencies, the licensing authorities may amend, suspend or terminate the license. Breaches may also result in the imposition of fines.

Environmental Law

General

The Group is subject to extensive federal and state environmental laws and regulations and local environmental regulations in the Russian Federation. The operations of the Group involve the discharge of materials and contaminants into the environment, the disturbance of land, potential damage to flora and fauna and other environmental concerns. As part of the Group's mining operations, the Group uses various chemicals and produces wastewater that could, if improperly disposed of, have a negative impact on wildlife and vegetation. In addition, the Group uses hazardous materials, such as solvents, to clean, refurbish and maintain its equipment. Russian laws and regulations set various health and environmental quality standards, provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to compensate for environmental damage and restore environmental conditions.

Environmental protection laws are primarily set forth in the Environmental Protection Law, together with a number of other federal, state and local legal acts.

Pay-to-pollute

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. Additional payment obligations may arise under other laws such as Federal Law No. 89-FZ of

24 June 1998 on Production and Consumption Waste, as amended, and Federal Law No. 96-FZ of 4 May 1999 on the Protection of Atmospheric Air, as amended.

Legal regulation with respect to control and surveillance over environmental use and protection is a function of the Ministry of Natural Resources and Ecology. Ecology surveillance functions, including the "pay-to-pollute" regime, are administered by the Rosprirodnadzor. Certain ecology surveillance functions are exercised by the Rostechnadzor in its capacity as the authority responsible for the register of the hydro-technical facilities, such as tailing dams.

The Russian Government has established standards that regulate the permissible impact of industrial and other business activities on the environment. Various Federal Ministries and Services, including the Rosprirodnadzor and the Rostechnadzor, determine limits for emissions and disposal of hazardous substances, waste disposal and soil and subsoil contamination. Companies must develop their own pollution standards based on these statutory standards, as modified to take into account the type and scale of the environmental impact of their operations. Companies must then submit these standards and limits for waste disposal for approval by the Rosprirodnadzor, which, if those standards do not comply with the relevant regulations, may determine the applicable limit for pollution and require the relevant company to prepare and submit a program for the reduction of emissions or disposals to the prescribed limit. The law generally requires a company to implement an emission reduction program within a specified period.

The Russian Government has established fees for the statutory approved limits on emissions and effluents and for pollution in excess of these limits. The fees may be increased by statutory approved multiples to reflect a company's environmental impact. Under the Environmental Protection Law, fees are subject to multiples that may reach up to 25 times for emission and effluents in excess of statutory limits will be effective until 31 December 2019. From 1 January 2020, the highest multiple that can be applied to the fees will be increased to 100 times, which will apply to companies exceeding such pollution limits and having a significant negative environmental impact. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities. The Group paid approximately US$0.91 million, US$1.06 million and US$1.35 million in such charges in Russia in 2016, 2015 and 2014, respectively.

Industrial environmental monitoring

Under the Environmental Protection Law, objects having negative environmental impact are divided into four categories based on the level of impact: objects having significant negative environmental impact, objects having moderate negative environmental impact, objects having low negative environmental impact and objects having minimal negative environmental impact. The criteria for determining the appropriate category of impact are determined by the Russian Government and take into account such factors as the level of negative environmental impact of business and/or production activity, toxic level and carcinogenic property of polluting substances, classification of industrial facilities, etc. All objects having negative environmental impact will be registered with state authorities.

The Environmental Protection Law requires companies operating businesses and activities at a specified impact criteria to carry on an industrial environmental monitoring which includes implementation of a program of industrial environmental monitoring and reporting on the results of the industrial environmental monitoring to the Rosprirodnadzor.

Ecological approval

Federal Law No. 174-FZ on Ecological Expert Examination, dated 23 November 1995, as amended (the "**Ecological Examination Law**"), provides for mandatory ecological approval of documentation before the implementation of certain types of activities made to prevent negative impact of these activities on the environment, and the receipt of a positive examination by state ecological expert before the project may commence or be financed. State ecological approval must be obtained from federal or regional authorities based on the list of certain types of documentation being objects of such ecological approval (Environmental Impact Assessment) set forth by the Ecological Examination Law. Violation of the Ecological Examination

Law may result in administrative fines, civil liability (to compensate for damages and losses) and criminal liability as described below.

Environmental protection authorities

The Rosprirodnadzor, the Rostechnadzor, the Russian Federal Service for Hydrometeorology and Environmental Monitoring, the Rosnedra, the Russian Federal Agency on Forestry and the Russian Federal Agency on Water Resources, along with their regional branches, are primarily responsible for environmental control, and the monitoring, implementation and enforcement of the relevant laws and regulations. The Russian Government and the Russian Ministry of Natural Resources and Ecology are responsible for the development of regulations in the sphere of environmental protection and for the coordination of activities of the regulatory authorities in this area. These regulatory authorities, along with other state authorities, individuals and public and non-governmental authorities, have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, the environmental authorities may suspend these operations (for up to 90 days) or a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company that fails to comply with environmental regulations may be subject to administrative and/or civil liability, and its employees may be held disciplinary, civilly, administratively or criminally liable. A court may impose an obligation to conduct reclamation measures at the expense of a breaching entity pursuant to a plan of restorative works.

Since 1 January 2012, owners of certain types of hazardous facilities are required to obtain insurance for liability for harm caused to third parties (individuals) as a result of accidents at the facilities, except for harm caused to the environment. In addition, the Ministry of Natural Resources and Environment has recommended that a voluntary environmental insurance policy be obtained to cover events of accidental environmental pollution of air or land or accidental discharge of waste waters or other clean-up liabilities.

Reclamation

Reclamation activities, such as re-cultivation, restoration, regeneration and other methods of rehabilitation, are prescribed in the Basic Regulations on Land Reclamation, Removal, Preservation, and Rational Use of the Fertile Soil Layer, approved by Order No. 525/67 of 22 December 1995 of the Ministry of Natural Resources and Environment and the Russian Committee for Land Resources and Land Use. In general, reclamation activities applicable to the Group involve both a technical stage and a biological stage. In the first, technical stage, the Group performs landscaping operations (backfilling of the pits, grades and terraces mound slopes, levelling of the surface of the mounds, and adding clay rock on top for greater adaptability of young plants). In the second, biological stage, conifers, such as pine, larch or cedar, on horizontal and gently sloping surfaces, as well as shrubs and bushes, start to grow to reinforce inclines. Russian environmental regulations do not require mines to achieve the approximate original contour of the property as is required, for example, in the United States.

Regulation of Real Estate

General

At present, the Russian Federation or the Russian regions or municipalities own most land in Russia, and only a small proportion of land is in private ownership. A relatively higher proportion of buildings and similar real estate assets is privately owned, due to a less restrictive regulatory regime which applies to these properties.

Under the Land Code, companies generally have ownership or lease rights in relation to the use of land in the Russian Federation. The Group owns or leases the majority of land plots that it uses in its activities.

The Federal Service for State Registration, Cadastre and Cartography ("**Rosreestr**") records details of land plots and other types of immovable property in a Unified State Register of Immovable Property (the "**Register of Immovable Property**"), which includes, among other parameters of land plots, their measurements and boundaries, category and permitted use. As a general rule, a landowner must register a land plot in the Register of Immovable Property and obtain a state cadastre number for a land plot as conditions to selling, leasing or otherwise transferring interests in that plot. As described below, Rosreestr maintains a combined register for the state cadastre numbers and maps, registration of rights, transactions and encumbrances and other information relating to the real estate.

Russian law categorizes all land as having a particular designated purpose, for example agricultural land, industry land, settlement lands, lands by specially protected territories and objects. Land should be used in accordance with the purpose designated by the relevant category and determined permitted use. However, in March 2014, a draft federal law prepared by the Ministry of Economic Development of the Russian Federation and aimed primarily at simplifying the existing land use rules was submitted to the Russian State Duma, which was adopted in the first reading in December 2014 and is currently being considered by the Russian State Duma in the second reading. If the draft is adopted, the land categories will be abolished, and all land plots (save for the most valuable agricultural land) will be divided into certain functional zones.

Those companies that had obtained a right of perpetual use over land prior to the enactment of the Land Code were required, by 1 July 2012, either to purchase the land from, or to enter into a land lease agreement with, the relevant federal, regional or municipal authority owning the land. Those companies that had a right of perpetual use over land containing linear facilities (such as power transmission lines, communication lines, pipelines and railway lines) were entitled to purchase such land, enter into a land lease agreement or establish a right of limited use of such land (servitude) by 1 January 2016. The right of perpetual use was abolished for companies starting from 1 March 2015.

Under Russian law, it is possible that the person or entity holding the ownership rights to a building or other real estate asset may not be the same person or entity holding the ownership rights to the land plot on which the building or other real estate asset is constructed. In these circumstances, the owner of that building, as a general rule, has a right of use over the relevant portion of that plot of land occupied by the building and needed for its use or, in some cases, the owner of the building or other real estate asset can use the relevant portion of the land plot under the lease agreement with the owner of such land plot. Moreover, in certain cases, an owner of a building or plot of land may require that the owner of an adjoining plot of land grant a right of limited use of the adjoining plot of land (servitude) in its favor.

State registration of real estate and transactions and encumbrances involving registered real estate

With effect from 1 January 2017, the Rosreestr maintains the Register of Immovable Property, which contains, among other things, the information on rights and encumbrances in respect of real estate, cadastre of real estate assets and borders of zones with special terms of land use. Registration as required for specified transactions involving leases of the registered real estate (including, among other things, buildings, facilities, land plots and other real estate for a term of not less than one year (with certain exceptions and assumptions), as well as certain encumbrances, such as servitude. A person acquires rights to the relevant real estate only upon such state registration. A failure to register a transaction which requires state registration generally results in the transaction being rendered invalid for the third parties or, to the extent stipulated by law, null and void.

Regulation of the sale and lease of real estate

The Civil Code requires that agreements for the sale or lease of buildings expressly set out the price of such sale or lease. In relation to leases, both the rights granted by the lease and the lease agreement (other than lease agreements for a term of less than one year) require registration. In relation to sales, only the transfer of ownership effected by the relevant sale (but not the sale agreement itself) requires registration.

Technical Regulation

The Group is subject to various technical regulations and standards which apply to industrial manufacturing businesses. Federal Law No. 184-FZ on Technical Regulation, dated 27 December 2002 (the "**Technical Regulation Law**") introduced, on 1 July 2003, a new regime for the development, enactment, application and enforcement of mandatory rules applicable to products, manufacturing, storage, transportation, sales and specified other operations and processes, as well as new regulations relating to the quality of products and processes, including technical regulations, standards and certifications. Technical regulations are expected to replace the previously adopted state standards (the so-called "**GOSTs**"), and, in the absence of certain technical regulations, the existing federal laws and regulations, including GOSTs, that prescribe rules for different products and processes remain in force to the extent that they protect health, property, the environment or consumers. In any event, the State Committee on Standardisation and Metrology (a predecessor of the Federal Service for Technical Regulation and Metrology) has declared GOSTs and interstate standards adopted before 1 July 2003 to be the applicable national standards.

In those cases where the Technical Regulation Law provides for mandatory confirmation that a product conforms to established technical regulations or standards, companies are required to obtain certifications of compliance with the applicable technical regulations, standards and terms of contracts. Currently, companies must certify a number of products containing precious metals and Russian law requires mandatory certification under a classification system. Where certification is not mandatory, a company may elect for voluntary certification by applying for a compliance certificate from the relevant authorities. Following the issuance of that certificate, the applicant has the right to use the relevant compliance mark on its products.

Health and Safety

Due to the nature of the business of the Group, the Group's workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Safety Law. The Safety Law applies, in particular, to industrial facilities and sites where companies undertake specific activities, including sites where companies use lifting machines, produce alloys of ferrous and non-ferrous metals and conduct certain types of mining. Dangerous industrial facilities under the Safety Law are divided into four categories based on the level of hazard. These categories vary from level one (extremely dangerous industrial sites) to level four (least dangerous industrial sites). The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where companies use these substances. As a general rule, a company that utilizes industrial facilities of the highest two hazard levels is obliged to adopt an industrial safety declaration.

Other Russian regulations address safety rules for coal mines and the production and processing of ore, gold smelting and alloy production. Additional safety rules apply to metallurgical and coke chemical enterprises, the foundry industry and other industries.

Any construction, reconstruction, liquidation or other activity in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited, unless the revised documentation undergoes expert examination and the Rostechnadzor approves the same.

Companies that operate regulated industrial facilities and sites have a wide range of obligations under the Safety Law and other laws, including the Russian Labor Code effective from 1 February 2002, as amended (the "**Labor Code**"). In particular, companies must limit access to such sites to qualified specialists, maintain industrial safety controls, have third-party insurance liability for injuries caused in the course of operating industrial sites and comply with other specific obligations. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or, in some cases, create their own wrecking services; conduct personnel training programs; create emergency response systems; inform the Rostechnadzor of accidents; and maintain these systems in good working order.

In some cases, companies operating industrial sites must also prepare industrial safety declarations, which summarize the risks associated with operating a particular industrial site and the measures the company has taken, and will take, to mitigate such risks and to use the site in accordance with applicable industrial safety requirements. The chief executive officer of the company must adopt those declarations, and is personally responsible for the completeness and accuracy of the data contained in the declarations. The Rostechnadzor requires the industrial safety declaration and certain other documents, including a state industrial safety review, for the issuance of a license permitting the operation of a hazardous industrial facility when such a license is required by law.

Companies operating hazardous industrial facilities at the highest two levels of hazard are required to approve and ensure maintenance of an industrial safety management system, including an industrial safety policy, an internal regulation on industrial safety management system and an internal regulation on industrial control.

The Rostechnadzor has broad authority in the field of industrial safety. In the event of an accident, a special commission led by a representative of the Rostechnadzor conducts a technical investigation of the cause of the incident. The company operating the dangerous industrial facility where the accident took place must bear all the costs of the investigation. Rostechnadzor officials have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Rostechnadzor has the power to suspend or terminate operations or impose administrative liability on the company or its officials.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obliged to compensate the individual for lost earnings, as well as for health-related damages, and, in certain cases, its activity may be suspended.

Employment and Labor

General

The Labor Code is the key law in Russia which governs labor matters. In addition to this core legislation, various federal laws, such as Russian Law No. 1032-1 dated 19 April 1991 on Employment of Population in the Russian Federation, as amended, regulate relationships between employers and employees.

Employment contracts

As a general rule, employers must conclude employment contracts for an indefinite term with all employees. Russian labor legislation expressly limits the possibility of entering into fixed term employment contracts. However, employers and employees may enter into an employment contract for a fixed term in certain cases where it is not possible to establish labor relations for an indefinite term due to the nature of the duties or the conditions of the performance of such duties, as well as in other cases expressly identified by the Labor Code or other federal laws.

An employer may terminate an employment contract only on the basis of the specific grounds stated in the Labor Code, including, among others:

- the liquidation of the company or downsizing of staff;
- the failure of the employee to comply with the position's requirements due to incompetence confirmed by results of the employee's appraisal;
- the systematic failure of the employee to fulfil his or her labor duties if he or she was the subject of disciplinary measures;
- the gross violation by the employee of labor duties; and
- the provision by the employee of false documents upon entering into the employment contract.

Employees' rights

The Labor Code provides an employee with certain minimum rights, including the right to a working environment which complies with health and safety requirements and the right to receive a salary on a timely basis and to participate in the management of the authorized entity. These rights may be extended by other federal laws, the company's constituent documents and local regulations, and collective and other agreements.

An employee dismissed from the company due to downsizing or liquidation is entitled to receive compensation from his or her employer, including a severance payment and, depending on the circumstances, salary payments for a specified period of time.

The Labor Code also provides protections for specified categories of employees. For example, except in limited circumstances, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 (or with a disabled child under the age of 18) or other persons caring for a child under the age of 14 without a mother.

Any termination by an employer that is inconsistent with the Labor Code requirements may be invalidated by a court, which may require the employer to reinstate the employee. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent and Russian courts tend to support employees' rights in most cases. Where a court reinstates an employee, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for any mental distress.

Work time

The Labor Code sets the regular working week at 40 hours. In general, an employer must compensate an employee for any time worked beyond 40 hours per week, as well as for work on public holidays and weekends, at a higher rate.

Annual paid vacation leave is generally 28 calendar days. Employees who perform underground and open pit mining works or other work in harmful conditions are entitled to additional paid vacation of at least 7 calendar days. Employees required to work non-standardized working hours are entitled to additional paid vacation of at least three calendar days.

The retirement age in the Russian Federation is generally 60 years for males and 55 years for females. However, the retirement ages of males who have worked in arduous working conditions for at least 12 years and six months and females who have worked in arduous working conditions for at least 10 years are 55 years and 50 years, respectively, provided that their total qualifying period is not less than 25 years and 20 years, respectively. In the case of work involving underground operations, hazardous conditions or hot workshops, the retirement age is 50 years for males who have worked in such conditions for at least 10 years and whose qualifying period is not less than 20 years and 45 years for females who have worked in such conditions for at least 7 years and six months and whose qualifying period is not less than 15 years. Persons who have worked as miners in open pit mines or underground mines for at least 25 years, and in specified circumstances for at least 20 years, may retire regardless of age.

Salary

The minimum monthly salary in Russia is established by federal law from time to time. Starting from 1 July 2016, the minimum monthly salary is set at an amount of RUB 7,500 and, from 1 July 2017, will be set at an amount of RUB 7,800. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current statutory minimum monthly salary is generally considered to be less than the minimum subsistence level. Salaries of the Group's employees are generally higher than the statutory minimum and none are below such minimum.

Social infrastructure programs

The Group has voluntarily provided its employees with certain amenities, leisure and sporting facilities. In addition, the Group occasionally purchases apartments for employees of a managerial position so that they are able to live closer to the mines. In 2016, the budget for maintaining the facilities for the Group's employees was RUB 100 million. The budget for 2017 has increased to RUB 500 million as a result of the need to construct new dormitories for the Group's employees in the Irkutsk business unit. The Group expects this increase to be a one-off significant expense, in particular due to the infrastructure for employees at the Natalka site, which is due to be commissioned at the end of 2017, already being in place.

Strikes

The Labor Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labor dispute. Russian legislation contains several requirements which must be met for strikes to be legal. An employer may not use an employee's participation in a legal strike as grounds for terminating an employment contract, although Russian law generally does not require employers to pay wages to striking employees for the duration of the strike. Conversely, an employee's participation in an illegal strike may provide adequate grounds for termination of his or her employment contract.

Trade unions

Trade unions are defined by Federal Law No. 10-FZ on Trade Unions, Their Rights and Guaranties of Their Activity, dated 12 January 1996, as amended (the "**Trade Union Law**"), as voluntary unions of individuals with common professional interests which are created for the purposes of representing and protecting social and labor rights and interests of their members. Russian law also permits national trade union associations, which coordinate activities of trade unions throughout Russia.

Although Russian labor regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. The Group's management routinely interacts with trade unions in order to ensure the appropriate treatment of its employees and the stability of the Group's business.

The activities of trade unions are generally governed by the Trade Union Law and applicable legal acts including the Labor Code.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labor laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labor issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labor disputes with management;
- participate in strikes and meetings to protect social and labor rights of employees; and
- monitor the redundancy of employees and seek action by municipal authorities to delay or suspend mass redundancies.

Russian laws require that companies cooperate with trade unions and not interfere with their activities. Trade unions and their members enjoy certain guarantees as well, such as:

- the retention of job positions for those employees who stop working due to their election to the management of trade unions;

- protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- the provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work conditions requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may receive information on social and labor issues from an employer (or employers' unions) and state and local authorities, as well as cooperate with state authorities for the purposes of supervision of compliance with Russian labor laws. Trade unions may also initiate collective labor disputes, which may lead to strikes.

To initiate a collective labor dispute, trade unions must present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labor disputes are generally referred to mediation or labor arbitration.

The Trade Union Law provides that those who violate the rights and guarantees of trade unions and their officers may be subject to disciplinary, administrative and criminal liability. The Russian Code on Administrative Offences of 30 December 2001, as amended, specifies that such violations may lead to imposition of an administrative fine. Although the Russian Criminal Code of 13 June 1996, as amended, currently has no provisions specifically relating to these violations, general provisions and sanctions may be applicable.

Regulation of Competition

Federal Law No. 135-FZ on the Protection of Competition, dated 26 July 2006, as amended (the "**Competition Law**"), regulates competition in Russia, through the FAS.

Dominant position in the market

The Competition Law determines a dominant position pursuant to certain criteria, including, among other things, where a company or a group of persons has a market share in a particular commodity market in excess of 50 per cent, unless the FAS specifically establishes that the relevant company does not have a dominant position. However, even if a company has a market share of less than 50 per cent in a particular commodity market, the FAS may still specifically determine that the company has a dominant position in certain cases. The Competition Law assumes that a company has a dominant position if it has a substantial influence on the circulation of goods in a particular commodity market; may force other participants from such market; or may restrict the access of other companies to such market. The Competition Law also provides for the principle based on "collective" dominance, which applies to a number of markets characterized by an absence of substitute goods and fixed demand for goods. In such markets, any one of three or fewer entities with a total market share of more than 50 per cent, or any one of five or fewer entities with a total market share of more than 70 per cent (if the shares of these entities are bigger than the shares of other participants in this market and in no event is the share of each such entity less than 8 per cent), will be deemed to be in a dominant position to the extent that, for a period of at least one year or for the period of existence of the relevant market, the market shares of the respective entities do not change in any significant respect; the access of new competitors to this market is impeded; and the relevant commodity cannot be substituted by other commodities, a price increase for such commodity does not condition the relevant decrease in demand for such commodity and information about prices, sale and purchase of such commodity in the relevant market is publicly available.

As a general rule, a company may not be deemed to be in a dominant position if its market share is less than 35 per cent, but this rule does not apply if the company is holding a collective dominant position (as described above) or if any specific federal law establishes that dominance may still be recognized where the market share of a certain company is less than 35 per cent. Subject to certain exceptions, a company may not be deemed to be in a dominant position if its sole shareholder or all shareholders are individuals and the sales proceeds of such company for the last calendar year do not exceed RUB 400 million.

Russian law prohibits companies having a dominant position from, among other things, entering into agreements which have the effect of price fixing or which otherwise have the effect of limiting competition, artificially limiting the supply of goods, maintaining high or low monopolistic prices and refusing without justification to sell goods to third parties, setting different prices for the same goods. For instance, in 2014, one of the Group's companies was found to have violated regulations that require it to provide connections to the power grid within the prescribed deadline on equal basis for Group companies and other end users. Companies in a dominant position may also become subject to additional antimonopoly restrictions imposed by the FAS.

Merger and joint venture control

The FAS also exercises state control over competition by reviewing merger and acquisition transactions. Relevant persons must obtain prior antimonopoly clearance from the FAS for an acquisition of: more than 25 per cent of the voting shares in a Russian joint stock company (or a one-third interest in a Russian limited liability company) and any subsequent increase of that stake to more than 50 per cent or more than 75 per cent of the voting shares (or a one-half and two-thirds interest in a Russian limited liability company); subject to certain exceptions, an acquisition of fixed production assets or goodwill of a company located in Russia in an amount exceeding 20 per cent of the aggregate balance sheet value of all fixed production assets and goodwill of the company; the right to control the business activities of another Russian company or perform the functions of its executive body; or an acquisition of more than 50 per cent of voting shares (or a 50 per cent interest) in a company registered outside Russia, which delivered goods to the Russian territory in the amount exceeding RUB 1 billion within the previous year, or any other right to control its business activities or perform the functions of its executive body. Certain other transactions are also subject to a prior antimonopoly clearance from the FAS.

Any of the above acquisition transactions would require prior approval by the FAS if, based on the latest balance sheet: the aggregate asset value of a purchaser (and its group) together with the target (and its group) exceeds RUB 7 billion; or the total revenues of such persons for the preceding calendar year exceed RUB 10 billion and in each case the total asset value of the target (and its group) exceeds RUB 400 million. Mergers and acquisitions within the same group are exempt from pre-transactional clearance by the FAS, subject to compliance with specified reporting requirements.

Under the amendments to the Competition Law introduced in 2015, joint venture agreements between competitors are subject to prior antimonopoly clearance if the aggregate asset value of the parties to the agreement (or their group), based on the latest balance sheet, exceeds RUB 7 billion, or if the total revenues of the parties to the transaction (or their group) for the preceding calendar year exceed RUB 10 billion.

Foreign Investment in Sectors that are of Strategic Importance for the National Security and Defence of the Russian Federation, including the Subsoil Sector

In May 2008, new laws came into effect that changed the legal environment for foreign investment in sectors that are of strategic importance for the national security and defence of the Russian Federation, including the gold mining industry. The relevant laws are the Foreign Investments Law and Federal Law No. 58-FZ on Certain Legislative Acts of the Russian Federation and Deeming Inoperative Certain Legislative Acts of the Russian Federation in Connection with the Adoption of the Federal Law on Procedure of Foreign Investment in Commercial Entities Having Strategic Importance for the Defence of the Country and the Security of the State, dated 29 April 2008 (the "**Amending Law**") (together with the Foreign Investments Law, the "**Strategic Investment Laws**"), which introduced, among other things, various amendments to the Russian Subsoil Law.

The Foreign Investments Law provides for stringent requirements in respect of foreign investment in companies engaged in activities that have strategic importance for the national defence and security, the list of which is provided in the Foreign Investments Law. These activities include geological exploration of, and production on, subsoil plots of federal importance. Companies engaged in such activities are considered

Strategic Subsoil Companies. Foreign investors, or a group of persons including a foreign investor, intending to enter into a transaction or perform acts which result in the acquisition of "control" (as defined in the Foreign Investments Law) over Strategic Subsoil Companies, as well as the acquisition of right of ownership, possession or use of the fixed production assets of a Strategic Subsoil Company, the value of which represents 25 per cent or more of the balance sheet value of the assets of such company as of the last reporting date, are required to obtain the prior approval of the Government Commission on Monitoring Foreign Investment in the Russian Federation (the "**Foreign Investment Commission**"). The list of subsoil plots of federal importance was officially published in March 2009, and has been subsequently amended several times. As at the date of this Prospectus, certain material subsidiaries of the Company, namely, JSC Polyus (the holder of the licenses with respect to the Titimukhta, Olimpiada and Blagodatnoye deposits), JSC Tonoda (the holder of the license with respect to the Chertovo Koryto deposit), JSC Matrosova Mine (the holder of the license with respect to the Natalka deposit), LLC Amurskoye GRP (the holder of the license with respect to the Bamskoye deposit), LLC Krasnoyarskoye GRP (the holder of the licenses with respect to Razdolinskoye and Panimba), JSC Pervenets (the holder of the license with respect to the Verninskoye deposit) and SL Gold (the holder of the license with respect to Sukhoi Log), are using subsoil plots of federal importance, as defined in the Russian Subsoil Law that are included in the list of such deposits maintained by the Federal Agency for Subsoil Use, and therefore are considered Strategic Subsoil Companies.

Under the Foreign Investments Law, the acquisition, which includes agreements in written or oral form, by a foreign investor (or a "group" of persons (as defined in the Competition Law) including one or more foreign investors directly or indirectly) of 25 per cent or more, or in case of the acquisition by foreign states, international organisations or entities under their control, of more than 5 per cent, of the voting shares of a Strategic Subsoil Company is subject to prior approval. Foreign states, international organizations or entities under their control are generally prohibited from acquiring control over strategic companies. The Foreign Investments Law further provides that if a foreign investor (or a group of persons including one or more foreign investors) already exercises direct or indirect control over 25 per cent (but less than 75 per cent) of the voting shares of a Strategic Subsoil Company, each subsequent acquisition of shares of the Strategic Subsoil Company by the foreign investor (or group of persons including the foreign investor) would require the prior approval of the Foreign Investment Commission (with the exception of transactions which do not result in the increase of an ownership percentage of a foreign investor or a group including a foreign investor in the charter capital of a Strategic Subsoil Company, where such transactions are performed as part of the charter capital increase of such Strategic Subsoil Company or by persons that are under control of the person which controls such Strategic Subsoil Company), whereas transactions in respect of Strategic Subsoil Companies, if prior to the transaction the foreign investor (or group of persons including a foreign investor) had the right to directly or indirectly control more than 75 per cent of the total number of the voting shares of the relevant Strategic Subsoil Company, are exempted from the scope of the Foreign Investments Law. Failure to obtain such prior approval will either render the relevant transaction void or may prevent the relevant foreign investor, or the group of persons including the foreign investor, from voting at shareholders meetings of the relevant Strategic Subsoil Company.

Furthermore, should a foreign investor or a group of persons including a foreign investor establish control over a Strategic Subsoil Company as a result of events other than the direct acquisition of shares, for example, as a result of a buy-out or redemption by the Strategic Subsoil Company of its own shares, a conversion of its preferred shares into ordinary shares or otherwise, the relevant foreign investor or a group of persons including a foreign investor would be obliged to apply for approval of control by the Foreign Investment Commission within three months from the date of establishment of control. Failure to apply for such approval may result in a prohibition on voting, as set out above. Should the Foreign Investment Commission refuse to approve the establishment of foreign control over a Strategic Subsoil Company, the relevant foreign investor or a group of persons including a foreign investor would be obliged to dispose of part of its shares so that the remaining shares do not represent a controlling stake. If the foreign investor (or a group of persons including a foreign investor) fails to dispose of the shares within three months from the date when the prior governmental approval is declined, the FAS may file a lawsuit with a Russian court requiring that a foreign investor (or a group of persons including a foreign investor) be prohibited from voting at the shareholders meeting of the Strategic Subsoil Company.

The Russian Subsoil Law also provides that exploration and production at a subsoil plot of federal importance, even under a previously issued combined subsoil license, may only be commenced if permitted by the Russian Government following the completion of a geological survey. If, in the course of geological research at a subsoil plot, a foreign investor or a Russian legal entity with foreign participation discovers a deposit which meets the criteria for a subsoil plot of federal importance, and there is a possibility of an apparent threat to the national security of the Russian Federation, the licensing authorities have the right to revoke the related combined subsoil license or refuse to grant an exploration and production subsoil license following a decision of the Russian Government. In the case of such a revocation, the Russian Subsoil Law contemplates that the license holder will be reimbursed for costs incurred in connection with prospecting and evaluating the relevant deposit and the amount of the one-off fee for subsoil use paid under the terms of the related combined subsoil license or geological research license, and may be paid a premium in accordance with applicable procedures. These amounts, however, may not cover the license holder's actual costs, or be paid at all. In addition, the Russian Subsoil Law provides that only Russian legal entities are entitled to use subsoil plots of federal importance. In the interests of national security, Russian legal entities with foreign participation may also be subject to limitations imposed by the Russian Government on participation in subsoil auctions or tenders for the use of subsoil plots of federal importance. The rights to use a subsoil plot of federal importance may not be transferred to legal entities controlled by a foreign investor or a group of persons including a foreign investor, save for the transfer of rights in exceptional cases at the discretion of the Russian Government.

Currency Restrictions

The Group's operations are subject to certain currency control restrictions, which are set forth in the Russian Currency Law and respective regulations of the CBR.

Pursuant to the Russian Currency Law, Russian residents and non-residents may settle transactions between them either in roubles or in a foreign currency, and there are no restrictions on currency operations between Russian residents and non-residents. However, the settlement of transactions between Russian residents in a foreign currency is generally prohibited.

Under the Russian Currency Law, Russian residents conducting foreign trade operations must, subject to certain exemptions stipulated by the Russian Currency Law, repatriate to accounts in authorized Russian banks all roubles and foreign currency payable to them under foreign trade contracts. In addition, such Russian residents must procure the repatriation of funds paid to non-residents for goods, works, services, intellectual property and information that were not delivered into the Russian Federation.

In addition, the Russian Currency Law and CBR Instruction No. 138-I of 4 June 2012 set forth the requirement for Russian residents to open a "transaction passport" with an authorized Russian bank to comply with the CBR regulations on currency control. This procedure applies, as a general rule, to export and import operations between Russian residents and non-residents, and to loans granted to Russian residents by non-residents (and vice versa). In relation to imports, the relevant parties must complete this procedure prior to making payments for the imported goods.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

Below is the description of the Company's registered ordinary shares, the material provisions of the Company's charter in effect on the date of this Prospectus and certain requirements of Russian legislation applicable to the Company and its Shares.

Company's Purpose

Article 2 of the Company's charter provides that the main purpose of the Company's operations is to earn profit.

Description of Share Capital

General

Pursuant to the Company's charter and Russian legislation, the Company has the right to issue registered ordinary shares and other securities provided for by the securities legislation of the Russian Federation.

The Company's share capital consists of 127,545,429 issued, fully paid, registered ordinary shares, each with a par value of 1.00 rouble, issued in accordance with the laws of the Russian Federation. All of such shares were issued in 2006 in the course of the spin-off by OJSC Norilsk Nickel of its gold-mining assets and were registered by the FSFM on 27 April 2006.

Under Russian law, charter capital refers to the aggregate nominal value of the issued and outstanding shares. The Company also has 28,594,162 authorised and non-issued ordinary shares, each with a par value of 1.00 rouble. Following placement of the New Shares and assuming all applicable legal requirements have been complied with, the Company's share capital will consist of 133,561,513 issued, fully paid registered ordinary shares, each with a par value of 1.00 rouble, issued in accordance with the laws of the Russian Federation and the Company will have 22,578,078 authorised and non-issued ordinary shares, each with a par value of 1 RUB.

On 22 December 2016, the Company's Extraordinary General Meeting approved the reorganization of the Company in the form of a merger of LLC Polyus-Invest, a then subsidiary of the Company, into the Company and the decrease of the Company's charter capital by way of cancellation of 63,082,318 Shares then held by LLC Polyus-Invest following completion of the merger. The merger and subsequent cancellation of the Company's Shares were completed on 7 April 2017 and 10 April 2017, respectively. Prior to the completion of the merger, the Company's share capital consisted of 190,627,747 Shares. Following the completion of the merger and cancellation of 63,082,318 Shares held by LLC Polyus-Invest, the share capital of the Company was decreased by 63,082,318 Shares to 127,545,429 Shares. The Company has not cancelled the 1,913,200 Shares that it received from LLC Polyus-Invest in the merger. These Shares are being held by the Company as treasury shares primarily for general corporate purposes, including possible sale and the LTIP. Such treasury shares will not have voting rights or be taken into account for the purposes of quorum requirements at General Shareholders' Meetings and will not be entitled to dividends. The Company will be required to either dispose of such treasury shares within one year following completion of the merger or, if such shares are not disposed of, cancel the treasury shares and decrease its charter capital accordingly.

On 3 March 2017, the Company repurchased 13,556 Shares from the shareholders who exercised their redemption rights arising from their non-participation in the general shareholders' meeting approving the reorganization or voted against the reorganization.

No preference shares are authorized or outstanding. Additional ordinary shares in excess of the number of authorized and non-issued ordinary shares stipulated in the Company's charter or any additional preference shares may only be issued if the scope of the relevant authorizations in the Company's charter is amended by a shareholders' resolution.

The Company is a public joint stock company with more than 1,000 holders of shares carrying voting rights for the purposes of certain provisions of the Joint Stock Companies Law discussed below.

Rights attaching to ordinary shares

As required by the Joint Stock Companies Law and the Company's charter, all of the Company's ordinary shares have the same nominal value and grant identical rights to their holders. Each fully paid ordinary share, except for treasury shares, give their holder the right to:

- freely transfer the share without the consent of other shareholders;
- receive dividends if the General Shareholders' Meeting approves payment of such dividends upon a recommendation of the Board of Directors;
- participate in General Shareholders' Meetings and vote on all matters within the competence of a General Shareholders' Meeting, including through a representative acting by way of a power of attorney;
- participate in the election and dismissal of members of the Board of Directors;
- if holding, alone or with other holders, two per cent or more of the Shares, within 60 days after the end of the Company's fiscal year, make proposals for inclusion into the agenda of the forthcoming annual General Shareholders' Meeting and nominate candidates to the Board of Directors and the Internal Audit Commission (as defined in "—*Internal Audit Commission*");
- if holding, alone or with other holders, 10 per cent or more of the Shares, demand that the Board of Directors convene an Extraordinary General Shareholders' Meeting or arrange an unscheduled audit by the Internal Audit Commission;
- if holding, alone or with other holders, one per cent or more of the Shares:
    - sue in court, on the Company's behalf, members of senior management, the General Director and Chairman of the Board of Directors and/or members of the Board of Directors of the Company for damages incurred by the Company as a result of their faulty actions or failures to act;
    - challenge in court major transactions or interested party transactions entered into by the Company in breach of the requirements established by the Joint Stock Companies Law;
    - access the list of persons entitled to participate in the General Shareholders' Meeting;
    - put on the agenda for voting at either a General Shareholders' Meeting or a meeting of the Board of Directors (as determined in accordance with applicable statutory thresholds) the approval of interested party transactions, and demand evidence from the Company that the interested party transaction was in the interests of the Company.
- bring a civil claim against the members of the Board of Directors or the General Director in case of violations of statutory rules applicable to voluntary tender offers, mandatory tender offers and squeeze-outs under the Joint Stock Companies Law;
- subject to certain limitations, demand repurchase by the Company of all or some of the Shares owned by such shareholder, where such shareholder voted against, or did not participate in the voting on, the

decision approving, or consenting to, any of the following actions (and provided that the Company may not use more than 10 per cent of the Company's net assets to repurchase such shares):

- ◦ any reorganization;
- ◦ entry into a major transaction involving assets valued at more than 50 per cent of the balance sheet value of the Company's assets, as defined by the Joint Stock Companies Law;
- ◦ an amendment to the Company's charter or adoption of a new version of the Company's charter that limits such shareholder's rights;
- ◦ the delisting of the Company's shares and the decision to convert the Company into a non-public company;

- acquire the Company's Shares in case of issuance of additional Shares, by exercising pre-emptive rights on a *pro rata* basis in relation to the shareholder's existing holding of Shares, as provided for by the Joint Stock Companies Law and the Company's charter;
- upon the Company's liquidation, receive a proportionate amount of the Company's property after the Company's obligations of higher priority are paid off in full; and
- have access to certain documents of the Company, receive copies for a reasonable fee and, if holding, alone or with other shareholders, 25 per cent or more of the Shares, have free access to accounting documents and minutes of the Board of Directors.

Pre-emptive rights

The Company's charter and the Joint Stock Companies Law provide existing shareholders with a pre-emptive right to purchase shares or convertible securities placed by way of an open subscription in an amount proportionate to their existing shareholding. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or convertible securities placed by way of a closed subscription in an amount proportionate to their existing shareholding if the shareholders voted against or did not participate in the voting on the decision approving such subscription. This pre-emptive right does not apply to a closed subscription made available only to existing shareholders, provided that, in such circumstances, each such shareholder may acquire a whole number of shares or convertible securities being placed in an amount proportionate to their existing holdings of such securities. Subject to the next paragraph, the Company must provide shareholders with written notice of their pre-emptive rights at least 45 days prior to the offering, during which time shareholders may exercise their pre-emptive rights.

If the price of offered shares or securities convertible into shares is determined after the expiration of the pre-emptive rights, the Company, being a public joint stock company disclosing information as required under the legislation of the Russian Federation, must provide shareholders with a written notice of their pre-emptive rights at least eight business days since the date of disclosure of the information on the price of offered shares, during which time the shareholders may exercise their pre-emptive rights. In the latter case, the shareholders exercising their pre-emptive rights will have at least five business days for payment of the price of offered shares.

Dividends

The Joint Stock Companies Law and the Company's charter set forth the procedure for the distribution of dividends by the Company to its shareholders. According to the Company's charter, dividends may be declared in the first quarter, semi-annually, in the nine months of the financial year or annually, provided that the declaration of such dividends recommended by the Board of Directors is approved by the General Shareholders' Meeting within three months of the end of the relevant reporting period. Dividends are recommended to the General Shareholders' Meeting by a majority vote of the Board of Directors and approved by the General Shareholders' Meeting by a majority vote. The dividend approved by the General Shareholders' Meeting may not be more than the amount recommended by the Board of Directors. Dividends, if declared, are payable within a period not exceeding 10 business days to the nominee holders and trustee holders and within 25 business days to persons whose shares are recorded directly on the Company's share register, in each case since the date when the list of shareholders eligible to receive dividends is drawn. The date for preparation of the list of shareholders eligible to receive dividends must be set forth in the decision of the General Shareholders' Meeting and may not be less than 10 days following the date when the dividends have been declared and more than 20 days following such date. See "*—General Shareholders*' *Meeting—Notice and participation*". Dividends are not paid on treasury shares, as defined under Russian law.

In October 2016, the Board of Directors approved a new dividend policy, pursuant to which the Company will, subject to applicable requirements of Russian law for dividends to be paid out of net profit determined in accordance with Russian accounting standards, pay dividends on a semi-annual basis in an amount of 30 per cent of the EBITDA for the applicable reporting period, subject to certain exceptions. See "*Dividend Policy*".

The Joint Stock Companies Law allows dividends to be paid only out of net profits calculated under Russian accounting standards. A decision to pay dividends can be taken as long as the following conditions have been met:

- the charter capital of the company has been paid in full;
- the company has repurchased all shares tendered by shareholders having the right to request repurchase;
- the company does not meet and would not meet, as the result of the proposed dividend payment, the criteria for insolvency;
- the value of the company's net assets is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's charter capital, the company's reserve fund and the excess of the liquidation value over the par value of the issued and outstanding preferred shares of the company; and
- in other cases provided by law.

Declared dividends may not be paid in the following situations:

- the company meets or would meet as the result of such decision the criteria for insolvency as of the date of payment;
- the value of the company's net assets is less (or would become less as a result of the proposed dividend payment) than the sum of the company's charter capital, the company's reserve fund and the excess of the liquidation value over the par value of the issued and outstanding preferred shares of the company as of the date of payment; and
- in other cases provided by law.

If a company is prohibited, as a result of the occurrence or existence of the above circumstances, from paying a dividend that it has previously declared, it must pay such dividend in the event that such circumstances no longer apply.

Distributions to shareholders on liquidation

Under Russian law, the liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and the Company's charter provide that the Company can be liquidated by a decision taken by a three-quarters majority vote at a Shareholders' Meeting or by a court order.

Following a decision to liquidate the company, the right to manage the Company's affairs, save for the right to approve liquidation balances, which remains with the shareholders, passes to the liquidation commission which, in the case of voluntary liquidation, is appointed by the Shareholders' Meeting and, in an involuntary liquidation, is appointed by the court. Creditors may file claims within a period to be determined by the liquidation commission but which may not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

- individuals owed compensation for injuries or deaths or infliction of emotional distress;
- employees and individuals party to copyright contracts;
- federal and local governmental entities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- other creditors in accordance with Russian legislation.

Claims of creditors seeking damages in the form of lost profits or penalties are satisfied following the satisfaction of the claims set out above.

Claims of creditors who have been granted a pledge over the company's property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, provided that claims of such creditors arose before the respective pledges have been entered into. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank *pari passu* with the claims of the fourth-priority creditors.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders which demand the repurchase of their shares in accordance with the Joint Stock Companies Law;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- payments to holders of ordinary and preferred shares on a *pro rata* basis.

The Federal Law No. 127-FZ dated 26 October 2002 "On Insolvency (Bankruptcy)", as amended (the "**Bankruptcy Law**") provides for a different order of priority of creditors' claims in the event of insolvency and subsequent liquidation. Certain current obligations must be settled out of the bankrupt estate outside the order of priority indicated above. In the event that the cessation of the activities of the debtor's organization or of a structural subdivision thereof could result in man-made and/or ecological disasters or in people's deaths, expenses associated with measures to prevent those consequences from arising must also be settled outside the order of priority prior to any claims of the creditors under current obligations.

Under the Bankruptcy Law, the creditors' claims under current obligations are satisfied in the order of priority during liquidation set out below:

- court expenses of the debtor, expenses associated with the payment of remuneration to the arbitration manager (*i.e.*, court-appointed receiver) and remuneration to third parties engaged by the arbitration manager whose engagement is statutorily prescribed by the Bankruptcy Law;
- severance payment and payment for the labor of persons who work or worked (after the bankruptcy petition was submitted) under an employment agreement;
- expenses associated with the payment of remuneration to third parties engaged by the arbitration manager in connection with fulfilment of his or her duties;
- current utility and operational payments;
- other expenses associated with the current obligations.

Further, the Bankruptcy Law provides for the following order of priority during liquidation (other than claims under current obligations):

- claims of individuals owed compensation for injuries or deaths and other claims envisaged by the Bankruptcy Law;
- severance payment and payment for the labor of persons who work or worked under an employment agreement, and remuneration under copyright agreements;
- settlements with other creditors.

Claims of creditors who have been granted a pledge over the company's property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save that only 70 per cent (80 per cent if the pledge secures a loan agreement) of the value of the company's property could be delivered to the creditors whose claims have been secured by the pledge and 20 per cent (15 per cent if the pledge secures a loan agreement) of such value must be distributed to the creditors of the first and second orders of priority, with the remaining 10 per cent (5 per cent if the pledge secures a loan agreement) of the value of the pledge to be used for payment of court expenses, expenses associated with the payment of remuneration to the arbitration manager and remuneration to third parties engaged by the arbitration manager. Expenses incurred in connection with ensuring safe custody of pledged property and the sale of such pledged property at an auction must be paid prior to the claims of creditors who have been granted a pledge over such property and demands of the creditors of the first and second order of priority.

Liability of shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one person or entity is capable of determining decisions made by another entity. The person or entity capable of determining such decisions is deemed an "effective parent". The entity whose decisions are capable of being so determined is deemed an "effective subsidiary". The effective parent bears joint and several liability for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons; and
- the effective parent gives binding instructions to the effective subsidiary.

Accordingly, a shareholder of an effective parent is not itself liable for the debts of such effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Under the general provisions of the Civil Code, any person who has the ability to de facto direct activities of a legal entity or give instructions to senior management and members of the governing bodies of a legal entity is obliged to act in the interests of such legal entity in good faith and may be held liable for the losses sustained by a legal entity as a result of breach of such duty. Accordingly, shareholder will not be personally liable for the Company's debts or those of the Company's effective subsidiaries unless a relevant shareholder controls the Company's business.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the wilful action or inaction of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in losses.

Charter capital increase

The Company may increase its charter capital by issuing new shares or by increasing the nominal value of already issued shares.

Generally, a decision to increase the charter capital by increasing the nominal value of issued shares requires a three-quarters majority vote of a General Shareholders' Meeting. A decision to increase the charter capital by (1) issuing, by open subscription, additional ordinary shares up to 25 per cent of the previously issued and outstanding ordinary shares; or (2) issuing, by open subscription, additional preferred shares convertible into up to 25 per cent of the previously issued and outstanding ordinary shares, requires a unanimous vote of the Company's Board of Directors. A decision to increase the charter capital by (i) issuing, by open subscription, additional ordinary shares exceeding 25 per cent of the previously issued and outstanding ordinary shares; (ii) issuing, by open subscription, additional preferred shares convertible into more than 25 per cent of the previously issued and outstanding ordinary shares; or (iii) issuing ordinary or preferred shares by closed subscription, requires a three-quarters majority vote of all the shareholders present at a General Shareholders' Meeting. The Company's charter provides for 28,594,162 of authorised and non-issued ordinary shares, each with a par value of 1.00 rouble, and does not provide for any preferred shares. Consequently, any issuance of additional ordinary shares in excess of the amount of authorised and non-issued ordinary shares currently authorised under the Company's charter or preferred shares or the increase of the nominal value of the Company's shares require a three-quarters majority vote of a General Shareholders' Meeting to make the necessary amendments to the Company's charter.

The Joint Stock Companies Law requires that newly issued shares be sold with the market value being taken into account, except in limited circumstances where (1) existing shareholders exercise their pre-emptive right to purchase the shares at not less than 90 per cent of the price paid by third parties, or (2) the fees of up to 10 per cent are paid to intermediaries, in which case the fees paid may be deducted from the price. The price may not be set at less than the nominal value of the shares. The Board of Directors and an independent appraiser value any in-kind contributions for the new shares.

Russian securities regulations set out detailed procedures for the issuance and registration of shares of a joint stock company. These procedures include:

- adoption of a decision on the increase of share capital by placement of additional shares;
- adoption of a decision on the share issuance;
- registration of the share issuance by the CBR;
- placement of the shares;
- registration of the report or filing of the notification on the results of the share issuance with the CBR; and
- public disclosure of the information at the relevant stages of the share issuance.

Capital decrease; share buy-backs

The Joint Stock Companies Law does not allow a company to reduce its charter capital below the minimum charter capital required by law, which is RUB 100,000 (approximately US$1,649) for a public joint stock company. The Company's charter requires that any decision to reduce its charter capital, whether through a repurchase and cancellation of shares or a reduction in the nominal value of the shares, should be approved by a majority vote at a General Shareholders' Meeting. In addition, pursuant to the Joint Stock Companies Law, within three business days of a decision to reduce the company's charter capital, the Company is required to notify the competent authority on adoption of such decision and publish, each month for the following two months, a notification on the decrease of the charter capital in specially designated mass media. The Company's creditors whose demands have arisen prior to the publication of the notice on the decrease of the charter capital are entitled to demand early performance of the company's obligations within 30 days from the date when the last notification on the decrease of the charter capital was published and, in the case of failure by the company to perform its obligations earlier, to demand the termination of the relevant agreement and damages resulting from such termination.

The Joint Stock Companies Law allows a joint stock company to decrease its charter capital only if the following conditions are met:

- the company's charter capital has been paid in full;
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase of their shares;
- the company is not insolvent on the date of adoption of the decision to decrease the share capital and would not become insolvent as a result of the proposed decrease of charter capital;
- the value of the company's net assets on the date of adoption of the decision to decrease the charter capital is not less (and would not become less as a result of the proposed decrease of charter capital) than the sum of its charter capital, the reserve fund and the difference between the liquidation value and par value of the company's issued and outstanding preferred shares;
- declared dividends have been paid in full; and
- other specified requirements of the Russian legislation have been met.

The Joint Stock Companies Law allows the Company's shareholders or its Board of Directors to authorize the repurchase of up to ten per cent of its shares in exchange for cash. The repurchased shares must be resold at the price which is not less than the market price within one year of their repurchase, failing which the shareholders must vote on the cancellation of such shares and decrease in the Company's charter capital.

Subject to certain limitations, Russian law provides that the Company's shareholders may demand the repurchase by the Company of all or some of their shares, where such shareholder voted against, or did not participate in the voting on, the decision approving, or consenting to, any of the following actions:

- any reorganization;
- entry into a major transaction involving assets valued at more than 50 per cent of the balance sheet value of the Company's assets, as defined by the Joint Stock Companies Law;
- an amendment to the Company's charter or adoption of a new version of the Company's charter that limits such shareholder's rights;
- the delisting of the Company's shares and the decision to convert the Company into a non-public company.

Pursuant to the Joint Stock Companies Law, shareholders demanding repurchase of their shares are not entitled to dispose of, or encumber, their shares from the moment of receipt by the Company of the respective shareholder's demand until the earlier of registration of the transfer of the shares to the Company on the shareholders' register or the revocation by that shareholder of its demand. The Board of Directors must approve the report on the results of the share repurchase within 50 days of the relevant decision of the General Shareholders' Meeting. In such circumstances, the number of shares that the Company is entitled to repurchase is limited by the amount equal to 10 per cent of the Company's net assets, calculated according to Russian accounting standards as of the date of the General Shareholders' Meeting which approved the relevant decision described above. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10 per cent of the Company's net assets, the Company will repurchase shares from each such shareholder on a *pro rata* basis.

Registration and transfer of shares

Russian legislation requires that a joint stock company maintain a register of its shareholders. The register of shareholders of a joint stock company must be maintained by a specialized licensed registrar. Ownership of the Company's registered ordinary shares is evidenced by entries made in such register or on the books of a Russian licensed depositary (nominee holder).

The Central Depositary Law, which came into force on 1 January 2012, set out a legal framework for the establishment and operation of the Russian central depositary. On 6 November 2012, the FSFM granted to the National Settlement Depositary the status of the central depositary. Within one year from the date of having been granted such a status, the central depositary should have taken all necessary steps to open its nominee accounts in, among others, the securities registers of all issuers which are obliged to disclose information in accordance with the Securities Market Law. As the Company is required to make public disclosures, the above requirement is applicable to it, which means that the central depositary is currently the only person having a nominee account in the Company's share register. The Central Depositary Law prohibits persons maintaining securities registers from opening and depositing securities (save for limited exceptions) to other nominee accounts from the date of the opening of a nominee account with the central depositary.

Any of the Company's shareholders whose rights to shares are recorded in the Company's register may obtain an extract from the Company's register certifying the number of shares that such shareholder holds. The Company is also entitled to obtain an extract from the Company's shareholders' register which sets out details of all of the Company's shareholders. However, currently the Company is unable to monitor transfers of its shares that are held on the books of a Russian licensed depositary registered in the Company's shareholders' register maintained by the registrar as a nominal holder, because underlying shareholders have no obligation to reveal their identity and such depositary has no obligation to notify the Company about such transfers. As a result, the Company can currently only identify its actual shareholders in a limited number of cases as provided for by Russian law, including when requesting the Company's registrar to compile a list of shareholders of record for the General Shareholders' Meeting. However, the Company's shareholders are required to notify the Company and the CBR of the right to vote on five per cent or more of the Company's ordinary shares by virtue of an agreement or otherwise, and of any subsequent change in the number of such ordinary shares above or below certain thresholds, and the Company is required to disclose such information in accordance with Russian securities regulations.

The Company's shareholders' register is maintained by Joint Stock Company "Independent Registrar Company" (previously named Closed Joint Stock Company "**Computershare Registrar**"), whose registered office is located at 8 Ivan Franco Street, 121108 Moscow, the Russian Federation.

A purchase, sale or other transfer of shares are accomplished through the registration of the transfer in the shareholder register or with a licensed Russian depositary if shares are held through such depositary. The registrar or depositary may not request any documents in addition to those required by Russian legislation in order to transfer shares in the register or with a depo account, as applicable. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, may be challenged in court.

Reserve fund

Russian legislation requires each joint stock company to establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in the event that other funds are not available. According to the Company's charter, its reserve fund must constitute 15 per cent of the Company's charter capital and shall be formed by way of remitting annually five per cent of the Company's net revenues to the reserve fund until it reaches the prescribed amount.

Disclosure of Information

The Company is required under Russian securities regulations to make the following public disclosures and filings on a periodical basis:

- publishing quarterly reports containing information about the Company, its shareholders, the structure of its management bodies, the members of the board of directors, its branches and representative offices, the Company's shares, bank accounts and auditors, important developments during the reporting quarter, and other information about the Company's financial and business activity;

- publishing consolidated financial statements;
- publishing in newswire, as well as on the Company's website, any information concerning material facts and changes in the Company's financial condition or business activities, including among other things:
  - any reorganization;
  - certain changes in the composition of the Company's assets;
  - certain facts related to share issuances;
  - decisions of the General Shareholders' Meetings and certain decisions of the Board of Directors;
  - acquisition or disposal by a person, directly or indirectly and independently or together with other persons specified in the Securities Market Law, of Shares carrying a specified number of voting rights, if such number of voting rights equals five per cent or becomes more or less than five per cent, ten per cent, 15 per cent, 20 per cent, 25 per cent, 30 per cent, 50 per cent, 75 per cent or 95 per cent of the total number of voting rights attached to the shares;
  - information on any of the following documents received by the Company: a voluntary tender offer (including any competing tender offer); a mandatory tender offer (including any competing tender offer); a notice of the right of shareholders to sell their shares to the person that has acquired more than 95 per cent of the ordinary shares; or a request that minority shareholders sell their shares to the person that has acquired more than 95 per cent of the ordinary shares;
- disclosing information on various stages of shares issuance through publication of certain data as required by the securities regulations;
- disclosing the Company's annual report and annual financial statements prepared in accordance with Russian accounting standards;
- disclosing on the Company's website on a quarterly basis a list of the Company's affiliated persons; and
- other information as required by applicable Russian securities legislation.

General Shareholders' Meetings

Procedure

The competency of a shareholders' meeting is set forth in the Joint Stock Companies Law and in the Company's charter. A shareholders' meeting may not decide on issues that are not included in the list of its competence by the Joint Stock Companies Law. According to the Company's charter, among the issues which the shareholders have the exclusive right to decide upon are:

- charter amendments;
- reorganization or liquidation;
- determination of the number of, election and removal of the members of the Board of Directors;
- determination of the number, nominal value and type of authorised shares and rights granted by such shares;

- changes in the Company's charter capital except for the issuance of (i) ordinary shares by open subscription up to 25 per cent of the previously issued and outstanding ordinary shares, and (ii) preferred shares, by open subscription, convertible into up to 25 per cent of the previously issued and outstanding ordinary shares;
- decrease of the Company's charter capital by reducing the nominal value of shares through buy-back of shares in order to reduce their total number, as well as through redemption of shares purchased or bought back by the Company;
- election of the members of the Internal Audit Commission and early termination of their powers;
- approval of an external auditor (for statutory accounts according to RAS);
- payment (declaration) of dividends based on the results of the first quarter, six months and nine months of the fiscal year;
- approval of annual reports and annual accounts;
- distribution of profits, including payment (declaring) of dividends (other than payment (declaration) of dividends based on the results of the first quarter, six months and nine months of the fiscal year), and losses of the company based on the results of the fiscal year;
- determination of the procedure for holding a General Shareholders' Meeting;
- split and consolidation of the Company's shares;
- approval of interested party and major transactions as determined under the Joint Stock Companies Law;
- approval of shares' buy-back by the company as determined under the Joint Stock Companies Law;
- participation in financial and industrial groups, associations and other alliances of commercial organizations;
- approval of by-laws and other internal documents regulating the corporate relations within the Company;
- adoption of a decision on the filing of application on delisting of the Company's shares and/or other securities, convertible to shares;
- other matters provided for by the Joint Stock Companies Law.

Under the Joint Stock Companies Law, certain shareholders' resolutions may provide that they remain valid for a specific period of time, including resolutions with respect to a company's reorganization or spin-off, an increase or decrease of share capital or a splitting or consolidation of shares (the "**Validity Period**"). However, in the event such shareholders' resolutions are not acted upon within the Validity Period and/or the effective Validity Period for such resolutions has expired, such resolutions become null and void, and, subject to provisions of the Joint Stock Companies Law, are no longer enforceable.

Voting at a general shareholders' meeting is generally on the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which is done through cumulative voting. See "— *Board of Directors*". Decisions are generally passed by a majority vote of the shareholders present at a general shareholders' meeting. However, Russian law and the Company's charter require a three-quarters majority vote of the holders of Shares present at a General Shareholders' Meeting to approve the following:

- charter amendments;
- reorganization or liquidation;
- certain major transactions, including major transactions involving assets in excess of 50 per cent of the balance sheet value of the assets of a Company;

- determination of the number, nominal value and type of authorised shares and the rights granted by such shares;
- repurchase by the Company of its issued shares;
- adoption of a decision on the filing of application on delisting of the Company's shares and/or other securities, convertible to shares;
- any issuance of shares or securities convertible into ordinary shares by closed subscription; or
- issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case, constituting more than 25 per cent of the number of issued and outstanding ordinary shares.

The quorum for the Company's Shareholders' Meeting is met if shareholders (or their representatives) accounting for more than 50 per cent of the Shares are present. If the 50 per cent quorum requirement is not met, another Shareholders' Meeting with the same agenda may (or, in the case of an annual meeting, must) be scheduled and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30 per cent of the Shares are present at that meeting.

The annual General Shareholders' Meeting must be convened by the Board of Directors between 1 March and 30 June of each year, and the agenda must include the following items:

- election of the members of the Board of Directors;
- approval of the annual statutory report, balance sheet and profit and loss statement;
- approval of the distribution of profits, including approval of annual dividends, if any;
- approval of an independent auditor for statutory accounts; and
- election of members of the Internal Audit Commission.

The Shareholders' Meeting also approves the remuneration of the members of the Board of Directors. A shareholder or group of shareholders owning in the aggregate at least two per cent of the issued voting shares may introduce proposals for inclusion into the agenda of the annual General Shareholders' Meeting and may nominate candidates to the Board of Directors and the Internal Audit Commission. Any agenda proposals or nominations must be provided to the Company by no later than 60 days from the calendar year end.

Extraordinary General Shareholders' Meetings may be called by the Board of Directors on its own initiative, or at the request of the Internal Audit Commission, the independent auditor of the statutory accounts or a shareholder or group of shareholders owning in the aggregate at least ten per cent of the Shares as at the date of the request.

A General Shareholders' Meeting may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by the General Shareholders' Meeting through the attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues on the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the Company without personally attending the meeting. A General Shareholders' Meeting by absentee ballot contemplates the determination of shareholders' opinions on issues on the agenda by means of a written poll.

The following issues cannot be decided by a General Shareholders' Meeting by absentee ballot:

- election of members of the Board of Directors;
- election of the Internal Audit Commission;
- approval of the company's independent auditor for statutory accounts; and
- approval of the annual report, balance sheet, profit and loss statement under Russian law.

Notice and participation

The Company's shares are listed for trading on MOEX and, as a result, the Company is subject to certain extended shareholder notification requirements. Under the Company's charter, all shareholders entitled to participate in a General Shareholders' Meeting must be notified of the meeting, whether the meeting is to be held in direct form or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification must specify the agenda for the meeting. However, in relation to an Extraordinary General Shareholders' Meeting to elect the Board of Directors or a General Shareholders' Meeting to approve any reorganization in the form of merger, spin-off or demerger and to elect the board of directors of the company established as a result of any reorganization in the form of merger, spin-off or demerger, shareholders must be notified at least 50 days prior to the date of the meeting. Only those items that were set out in the agenda may be voted upon at a General Shareholders' Meeting.

The list of persons entitled to participate in a General Shareholders' Meeting is compiled from the Company's shareholders register and the information received from the nominee holders on the date set forth by the Board of Directors, which may not be earlier than 10 days from the date of adoption of the board resolution to hold a General Shareholders' Meeting or more than 25 days before the date of the meeting (or, in the case of a shareholders' meeting to approve reorganization, not more than 35 days before the date of the meeting).

The right to participate in a General Shareholders' Meetings may be exercised by a shareholder as follows:

- by personally participating in the discussion of agenda items and voting thereon;
- by sending an authorised representative to participate in the discussion of agenda items and to vote thereon; or
- by ballot.

Board of Directors

The Board of Directors is responsible for general management matters, with the exception of those matters that are designated by law and the Company's charter as being the exclusive responsibility of the General Shareholders' Meeting.

The Company's charter and the Joint Stock Companies Law provide that the Company's entire Board of Directors must be elected at each annual General Shareholders' Meeting and that the Board of Directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of Shares held by such shareholder multiplied by the number of persons to be elected to the Board of Directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a Shareholders' Meeting. If the Company's shareholders sought to dismiss one of the Company's directors, shareholders would be required to dismiss the entire Board of Directors and then re-appoint at a General Shareholders' Meeting those directors whom they wished to retain.

The Joint Stock Companies Law requires all joint stock companies with 50 or more shareholders to have at least a five-member board of directors, at least a seven-member board of directors for a joint stock company with more than 1,000 holders of shares carrying voting rights, and at least a nine-member board of directors for a joint stock company with more than 10,000 holders of shares carrying voting rights. Only individuals (as opposed to legal entities) are entitled to sit on the board of directors. Members of the board of directors are not required to be shareholders of the company. The actual number of directors is determined by the company's charter or by a decision of the shareholders' meeting. The Company's charter provides that the Board of Directors must consist of nine members. See "*Management and Corporate Governance—Board of Directors*".

The Joint Stock Companies Law generally prohibits the board of directors from acting on issues that fall within the exclusive competence of the General Shareholders' Meeting. The Company's Board of Directors has the power to direct the general management of the Company, and to decide, among other things, on the following issues:

- determination of the Company's business priorities, approval of Company plans and budgets as well as changes thereto;
- convening General Shareholders' Meetings and approval of the agenda thereof;
- setting up the date for compiling a list of persons entitled to participate in the General Shareholders' Meeting and resolving other issues with respect to preparation and holding the General Shareholders' Meeting;
- placement of the Company's bonds and other securities, including bonds convertible into shares and options;
- determination of the value (monetary valuation) of property and placement or buy-back price of securities in cases provided for by the Joint Stock Companies Law;
- buying back outstanding shares, bonds and other securities placed by the Company in cases provided for by the Joint Stock Companies Law;
- appointment of the General Director as the sole executive body of the Company and early termination of his powers, determination of the amount of remuneration and compensation package paid to the General Director, approval, amendments to and termination of the agreement with the General Director;
- recommendations on the amount of remuneration and compensations to be paid to the members of the Internal Audit Commission and determination of the amount of remuneration for the services of the external auditor;
- recommendations on the amount of dividends and procedure for payment thereof;
- use of the reserve fund and other funds of the Company;
- approval of the Company's internal documents, with the exception of internal documents which require the approval of the shareholders in a General Shareholders' Meeting;
- approval of transactions involving the Company's equity stakes or shares in other entities that will or may lead to alienation or encumbrance of such equity stakes or shares, as well as adoption of other decisions that may lead to changes in the size of equity stakes in other entities (such as the decision not to exercise pre-emptive rights to acquire shares and participation in the subscription for shares);
- voting at the general shareholders' (participants') meetings of other companies, whose shares or equity stakes are owned by the Company, with respect to the issues of increase of the charter capital, reorganization and liquidation;
- establishment and liquidation of branches and opening and closing of representative offices of the Company, approval of regulations on the Company's branches and representative offices;
- approval of interested party and major transactions as determined under the Joint Stock Companies Law;
- approval of the Company's registrar, terms and termination of the contract therewith;
- increase of the charter capital by (1) issuing, by open subscription, additional ordinary shares up to 25 per cent of the previously issued and outstanding ordinary shares; or (2) issuing, by open subscription, additional preferred shares convertible into up to 25 per cent of the previously issued and outstanding ordinary shares;
- approval of the Company's securities issues, reports on the results of the securities' issue and securities prospectuses;

- approval of the Company's dividend policy;
- approval of the system and procedures of internal control and of management information system;
- appointment and dismissal of the Company's head of the control and audit service and determination of the amount of his remuneration;
- appointment and dismissal of the Company's Secretary and the Secretary of the Board of Directors, determination of the terms of agreement therewith, including with respect to the amount of his remuneration;
- identification of the main risks related to the Company's activities and implementation of measures and procedures to manage such risks;
- monitoring the Company's management and its financial and economic activities, evaluating operations of the Company's General Director, control over execution of the decisions of the Board of Directors;
- establishment of the Committees of the Board of Directors;
- adoption of the decision to file an application seeking listing of the Company's shares or securities convertible into Company's shares;
- other matters provided for by the Joint Stock Companies Law and the charter.

The Company's charter generally requires a majority vote of the directors present for an action to pass, with the exception of actions for which Russian legislation requires a unanimous vote or a majority vote of the disinterested and independent directors, as described herein. In the absence of the requisite number of directors for actions requiring a unanimous vote or majority vote of disinterested and independent directors, some of these actions may be submitted to the General Shareholders' Meeting for approval. A Board of Directors meeting is considered duly assembled and legally competent to act when a majority of the number of directors provided for in the Company's charter are present.

General Director

The General Director exercises executive authority over all of the Company's day-to-day activities, except for issues assigned to the exclusive competence of the General Shareholders' Meeting and the Board of Directors. Pursuant to the Company's charter, the General Director is elected by the Board of Directors for a three year period and could be dismissed by the Board of Directors at any time.

Internal Audit Commission

The Company's internal audit commission (the "**Internal Audit Commission**"), whose activities are governed by the Company's charter and Regulations on the Internal Audit Commission, oversees and coordinates audits of the Company's financial and economic activity. The principal duties of the Internal Audit Commission are to ensure that the Company's activities comply with applicable legislation and do not infringe on shareholders' rights, and that the Company's accounting and reporting do not contain any material misstatements. The General Shareholders' Meeting elects its members for one year. Members of the Company's Board of Directors and senior management may not be appointed to the Internal Audit Commission.

The Company's Internal Audit Commission currently consists of five members:

Name	*Year of Birth*	*Position*
Mr. Daniil Chirva	1983	Head of Corporate Reporting at MC Polyus LLC
Mr. Alexey Shaymardanov	1979	Head of Accounting at MC Polyus LLC
Mr. Evgeny Yaminsky	1983	Head of Operations Control at MC Polyus LLC
Ms. Anna Lobanova	1978	Head of Controlling at MC Polyus LLC

Mr. Yury Borschik	1983	Head of Krasnoyarsk territory financial control at the Department of Controlling at MC Polyus LLC

Interested Party Transactions

On 1 January 2017, a set of amendments to the Joint Stock Company Law came into effect, implementing a comprehensive overhaul of the regulation of "interested party transactions" of Russian joint stock companies.

Under the amended Joint Stock Companies Law, certain transactions defined as "interested party transactions" may require approval by disinterested directors or shareholders of the company. "Interested party transactions" include transactions involving a member of the board of directors or a member of any executive body of the company, any controlling person or any person who is able to direct the actions of the company, if that person, or that person's spouse, parents, children, adoptive parents or children, brothers or sisters or controlled person (controlled entity), is:

- a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the controlling person of a legal entity that is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- a member of any management body of a company or a member of any management body of the managing organization of the company that is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary.

For the purposes of regulating interested party transactions, a controlling person is a person who has the right to:

- directly or indirectly (through controlled entities) control more than 50 per cent of the votes in the supreme governing body of the controlled entity; or
- appoint or elect the sole executive body and/or more than 50 per cent of the collective executive body of the controlled entity.

A "controlled person" or a "controlled company" is the legal entity which is directly or indirectly controlled by the controlling person.

A company must notify the following persons of an interested party transaction:

- members of the board of directors and the collective executive body; and
- company shareholders, where:
    - the company has no board of directors,
    - all members of the board of directors are interested parties to the transaction, or
    - the company charter contains an obligation to notify shareholders as well as members of the board of directors of any potential interested party transactions.

Such notice must be delivered at least 15 days prior to the date of the transaction.

Members of the company's governing bodies, the company's controlling persons, and persons who have the right to give binding instructions to the company must provide the company with the information about the nature of their interest in a transaction under the regime of the Joint Stock Companies Law within two months from the day they became or should have become aware of circumstances by virtue of which they may be deemed to be interested parties. Furthermore, if such information changes, the company must be notified of such changes within 14 days from the day on which such relevant party became or should have become aware of the changes. If the person who may be deemed to be an interested party to the transaction is in breach of his duty to inform the company (as described above) as of the date on which such transaction is entered into, it will be presumed that such person is liable for causing any loss suffered by the company as a result of such transaction.

A public joint stock company must prepare a report on interested party transactions concluded by the company during the reporting year. Such reports must be made available to persons entitled to take part in the general shareholders' meeting as part of the preparation for the general shareholders' meeting of a public joint stock company. The report must be signed by the sole executive body of the company and approved by the board of directors of the company, while the accuracy of the information contained in the report must be confirmed by the company's internal audit commission or its auditor.

An interested party transaction must be approved in advance by the board of directors or by the general shareholders' meeting only if such approval is requested by:

- the sole executive body of the company, a member of the board of directors or collective executive body; or
- a shareholder (or shareholders) holding at least 1 per cent of the voting shares of the company.

A transaction that has not been approved can be subsequently challenged by the company, any board member or a shareholder (or shareholders) holding at least one per cent of the voting shares in the company, provided that the transaction in question was prejudicial to the interests of the company and the other party to the transaction knew or should have known that (i) the transaction was an interested party transaction and/or (ii) such transaction had not been approved. Shareholders and board members may also demand formal evidence from the company that the interested party transaction was in the interests of the company. Such information must be provided at the request of a member of the board of directors of the company or a shareholder (or shareholders) holding at least one per cent of the company's voting shares within 20 days of request.

An interested party transaction requires the approval by a majority vote of directors who are not interested parties to the transaction and who meet a number of additional criteria set forth in the Joint Stock Companies Law and by the general shareholders' meeting if it involves assets with a value of over 10 per cent of the book value of the company's assets or if it involves the sale of more than two per cent of the company's issued shares, unless a lesser amount is set forth in the company's charter. Under the Joint Stock Companies Law, a resolution to approve an interested party transaction is passed if the majority of all of the holders of the company's voting shares who took part in the voting, and who are not interested parties to the transaction, voted in its favour, subject to there being a quorum at the relevant meeting.

The interested party transaction regime does not apply, for example, to:

- transactions in the ordinary course of business (provided that the company has entered into numerous similar transactions on comparable terms over an extended period of time and that such prior transactions were not interested party transactions);
- transactions in respect of assets whose price or book value does not exceed 0.1 per cent of the book value of the company's assets, provided that the value of such transactions does not exceed the limits established by the CBR (currently set forth in CBR Regulation No. 4335-U of 31 March 2017);
- transactions concluded as part of a public tender or following a public tender, provided that the terms of participating in such tender or of holding such tender received the prior approval of the board of directors of the company.

Major Transactions

On 1 January 2017, a set of amendments to the Joint Stock Company Law came into effect, implementing a comprehensive overhaul of the regulation of "major transactions" of Russian joint stock companies. The amended Joint Stock Companies Law defines a "major transaction" as a transaction, or a series of transactions entered into outside of the ordinary course of business, involving the acquisition or disposal, or a possibility of disposal, of property, transfer of property for temporary use or transfer of certain rights in relation to intellectual property, in each case having a value of 25 per cent or more of the balance sheet value of the assets of a company as determined under the RAS, subject to certain carve-outs set out in the Joint Stock Companies Law.

For the purposes of the Joint Stock Companies Law, a transaction is considered to be within the ordinary course of business of a company (or any another organisation) which conducts business of a similar type (regardless of whether or not the company has entered into such transactions previously) if it does not result in the cessation of the company's business, a change in the type of business undertaken by the company, or a material change in the scale of the company's business.

Major transactions involving assets ranging from 25 per cent to 50 per cent of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing to obtain such approval, a simple majority vote of a shareholders' meeting. Major transactions involving assets in excess of 50 per cent of the balance sheet value of the assets of a company require a three-quarters majority vote of a shareholders' meeting. Where a major transaction requires the approval (or subsequent approval) of the general shareholders' meeting (for example, where the value of the transaction exceeds 50 per cent of the book value of the company's assets), the documentation to be presented before the general shareholders' meeting must include an opinion on such major transaction, endorsed by the board of directors, absent which, the chief executive officer. This opinion must include, among other things, information on the likely impact of such major transaction on the company's business and a determination as to whether or not the transaction is in the interests of the company.

The Joint Stock Companies Law expressly authorizes the subsequent approval of major transactions and allows for ratification of any transactions for which approval may not have been obtained in advance.

Any major transaction entered into in breach of the requirements established by the Joint Stock Companies Law may be invalidated by a court pursuant to a claim made by a company, member of its board of directors or any shareholder(s) holding at least 1 per cent of the shares carrying voting rights in the company.

Shareholders' Agreements

Shareholders' agreements in respect of Russian joint stock companies are regulated by the Civil Code and the Joint Stock Companies Law, which stipulates that shareholders may enter into an agreement under which they undertake to exercise their shareholder rights in a certain manner or to refrain from exercising their shareholder rights, including:

- to vote in a certain manner at a General Shareholders' Meeting;
- to coordinate voting with other shareholders;
- to acquire or dispose of shares at a pre-determined price and/or upon occurrence of certain events;
- to refrain from disposing of shares until the occurrence of certain events; and
- to perform jointly other actions relating to the company's management, activities, re-organization and liquidation.

The Joint Stock Companies Law mandates shareholders of the joint stock company to report the fact of entry into a shareholders agreement by such shareholders within 15 days since the date of entry and instructs any person granted voting rights under the shareholders agreement to report such rights to the company if it has the right to dispose of, directly or indirectly, voting shares of the company carrying more than five per cent, ten per cent, 15 per cent, 20 per cent, 25 per cent, 30 per cent, 50 per cent or 75 per cent of the total number of votes attached to the issued ordinary shares of the company. In the last case such notice must be sent to the company within five days since the moment such shareholder has been granted with such voting rights over a certain number of votes. Russian public joint stock company then is obliged to disclose information on the shareholders agreements and the number of votes granted to the relevant shareholder thereunder. There is no requirement to disclose the text of the shareholders agreement to the company or publish it.

Under Russian law, failure by one of the parties to comply with the terms of the shareholders' agreement must not affect decisions of the general shareholders' meeting, unless all shareholders are party to such agreement, in which case an aggrieved shareholder is entitled to file a claim seeking invalidation of the relevant decision of the general shareholders' meeting adopted in breach of the terms of the shareholders' agreement.

Provisions of the Joint Stock Companies Law in respect of shareholders' agreements and general provisions of the Russian Civil Code on corporate agreements are relatively new, rather vaguely drafted and remain largely untested. It is still to be seen how this regulation is implemented and enforced in practice.

Foreign Ownership

The Foreign Investments Law that came into force on 7 May 2008 regulates foreign investments (whether direct or indirect) in Russian businesses having strategic importance for procuring state defence and security and, *inter alia*, requires foreign investors to receive the prior consent of the special Government commission before acquiring certain percentages of ordinary shares or certain management rights in respect of strategic companies. The Foreign Investments Law provides for an extensive list of types of activities having strategic importance for procuring state defence and security, which includes, inter alia, geological exploration of subsoil and/or prospecting and extraction of minerals on subsoil plots of federal importance. For a more detailed discussion of implications of the Foreign Investments Law, see "*Regulatory Matters—Foreign Investment in Sectors that are of Strategic Importance for the National Security and Defence of the Russian Federation, including the Subsoil Sector*".

Change in Control

Share Acquisition above Certain Thresholds and Anti-Takeover Protection

A person intending to acquire more than 30 per cent of the voting shares (taking into account those it already holds together with its affiliates) has the right to make a public offer to other shareholders of the public joint stock company (a voluntary offer). Within 35 days after acquisition by any means, subject to certain exceptions, of more than 30 per cent, 50 per cent or 75 per cent of such shares, the acquirer must make a public offer to purchase the remaining shares from the shareholders (a mandatory offer).

The acquirer's payment obligations arising from both voluntary and mandatory offers must be secured in each case by an irrevocable bank guarantee valid for at least six months after the expiration date of the relevant acceptance period.

At any time after the company receives a voluntary or a mandatory offer and until 25 days prior to the expiration of the relevant acceptance period, any person has the right to make a competing offer (that satisfies the requirements for voluntary or mandatory offers, as the case may be) to purchase that number of shares at a price that is not less than the price offered in the relevant voluntary or mandatory offer. Any shareholder may revoke its previous acceptance of that offer and accept the competing offer. A copy of the competing offer must be sent to the person who made the respective voluntary or mandatory offer so that such person has the opportunity to amend its offer by increasing the purchase price and/or shortening the settlement period.

In addition, from the date upon which a voluntary or mandatory offer has been made until 20 days after the expiration of the period for acceptance of such voluntary or mandatory offer, decisions on share capital increases through an additional share issuance, approval of interested party and certain other transactions and issues may only be made by a shareholders' resolution.

If, as a result of either a voluntary or the mandatory offer, the acquirer purchases more than 95 per cent of the voting shares, it will have an obligation to:

- notify all the other shareholders (within 35 days after acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into shares; and
- purchase their shares and/or convertible securities upon request of each such minority shareholder.

The notice must be accompanied by a bank guarantee.

In addition, as an alternative to giving such notice, the acquirer has the right to deliver a mandatory buy-out request, requiring the minority shareholders to sell their shares if it purchases more than 95 per cent of the shares carrying voting rights as a result of the relevant offer, where at least 10 per cent of the shares were acquired in the course of such offer. No bank guarantee is required in such case as the shares are transferred to the acquirer, subject to the purchase price having been paid to the shareholders or deposited with a notary.

Prior notice of the offers, the buy-out notice or request must be filed with the CBR. The CBR may require revisions to be made to the terms of the offer (including the price) in order to bring them into compliance with the applicable rules.

Approval of the Russian Federal Antimonopoly Service

The Competition Law requires that certain acquisitions of shares in a joint stock company must be notified to, or submitted for prior approval by, the FAS. See "*Regulatory Matters—Regulation of Competition*".

From 6 November 2013, the shares underlying depositary receipts evidencing depositary shares are no longer recorded with a depositary's "owner's" account with the custodian registered, directly or through other nominees, as nominee holder in the company's shareholders' register. Instead, the underlying shares were re-recorded to, and must now be held through, a "depo account of depositary programs", opened with a licensed Russian custodian who, in turn, has a "depo" account of a nominee holder with the Russian central depositary. As a result, the Depositary is no longer viewed as a holder of title to the underlying Shares for the purposes of the Securities Market Law and the Joint Stock Companies Law and, accordingly, the Depositary may no longer be viewed as a shareholder of the Company. As a result, the Depositary may no longer be able to exercise the rights typically enjoyed by shareholders (other than voting and dividend rights, which are explicitly granted to the Depositary by law). Although the Competition Law does not specifically exempt depositaries fulfilling the functions similar to those of the Depositary from antimonopoly clearance, such depositaries have in practice benefited from such an exemption, as clarified by the FAS in letters issued on a case-by-case basis.

Exchange Control

Russian currency control restrictions with regard to such instruments as ordinary shares are set forth in the Currency Law and respective regulations of the CBR. Pursuant to the Currency Law, currency operations with ordinary shares between residents and non-residents may be conducted without limitations in both roubles and foreign currencies. Under the Currency Law, currency operations with securities between non-residents may be conducted either in roubles or in foreign currencies, subject to compliance with Russian securities, antimonopoly and other laws and regulations. Finally, non-residents may receive dividends declared by Russian companies, both in foreign currencies (confirmed by the CBR in its Information Letter No. 31 dated 31 March 2005) and roubles. Dividends declared and paid in roubles may be freely converted through Russian authorised banks and remitted outside of the Russian Federation.

The ability to convert roubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of roubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of roubles into foreign currencies outside of Russia and no viable market in which to hedge rouble and rouble-denominated investments.

CBR Approval of Placement and/or Circulation of Shares in the Form of DSs

In accordance with the Securities Market Law, the circulation of securities of a Russian company outside of Russia (including through an offering of foreign-issued depositary shares representing the company's securities) is subject to the prior approval by the CBR. Current CBR regulations generally limit the number of shares in Russian companies for which the approval for circulation abroad can be granted to a maximum of 25 per cent. At the time the FSFM DS Approval was issued to the Company, the relevant threshold was higher and approvals for the depositary receipt programs of Russian issuers were granted, provided that no more than 35 per cent of a Russian company's aggregate shares would be traded abroad in the form of depositary receipts. The FSFM DS Approval was obtained for the circulation outside of Russia of up to approximately 35 per cent of the Company's share capital. However, if the CBR in the future seeks to apply the 25 per cent threshold to previously issued approvals, including the FSFM DS Approval, the Depositary may refuse to accept additional deposits of issued Shares in the DS facilities in excess of such threshold. See "*Risk Factors—Risks Relating to the Securities and the Trading Market—It may not be possible to deposit Shares in the GDS or Level I ADS facilities in order to receive GDSs or Level I ADSs, and changes in Russian regulatory policy with respect to the circulation of the Shares outside Russia in the form of DSs or otherwise may negatively affect the market for the Shares*".

Notification of Foreign Ownership

Pursuant to Part I of the Tax Code of the Russian Federation of 31 July 1998, as amended (the "**Tax Code**") foreign persons registered as individual entrepreneurs in Russia and foreign companies, regardless of whether they are registered with the Russian tax authorities, that acquire more than 10 per cent of shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign companies that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. In addition, a foreign investor or a group of persons must notify the FAS of any acquisition of five per cent or more of the shares of strategic enterprise under the Foreign Investments Law within 45 days following such acquisition. For a more detailed discussion of implications of the Foreign Investments Law, see "*Regulatory Matters—Foreign Investment in Sectors that are of Strategic Importance for the National Security and Defence of the Russian Federation, including the Subsoil Sector*".

Notification of Acquisitions above Certain Thresholds

Pursuant to Russian securities legislation, a person must notify the company and the CBR of the acquisition or disposal of, directly or indirectly (through persons that it controls), voting shares of the company carrying a specified number of votes, if such number of votes equals five per cent or becomes more or less than five per cent, ten per cent, 15 per cent, 20 per cent, 25 per cent, 30 per cent, 50 per cent, 75 per cent or 95 per cent of the total number of votes attached to the shares of the company. In addition, a person holding at least five per cent of the company's voting shares must notify the company and the CBR of any persons controlling it or of the absence of such persons (and the termination of the grounds of such control).

As a general rule, such notifications must be effected not later than within 10 days from the date when the disclosing person acquired/disposed of the securities, or learned or should have learned of the relevant fact, including acquisition or sale of securities.

DESCRIPTION OF LEVEL I ADSs

American Depositary Shares

The Bank of New York Mellon, as Depositary, will register and deliver American Depositary Shares, also referred to as Level I ADSs. Each Level I ADS will represent one-half of one Share (or a right to receive one-half of one Share) deposited with VTB Bank, as custodian for the Depositary, located in Russia. Each Level I ADS will also represent any other securities, cash or other property which may be held by the Depositary. The Depositary's office at which the Level I ADSs will be administered is located at 101 Barclay Street, New York, New York 10286. The Bank of New York Mellon's principal executive office is located at 225 Liberty Street, New York, New York 10286.

Level I ADS holders may hold Level I ADSs either (A) directly by having an American Depositary Receipt, also referred to as an ADR, which is a certificate evidencing a specific number of Level I ADSs, registered in the name of the Level I ADS holder, or (B) indirectly by holding a security entitlement in Level I ADSs through the Level I ADS holder's broker or other securities intermediary. If a Level I ADS holder holds Level I ADSs directly, they are a registered Level I ADS holder, also referred to as a Level I ADS holder. Persons that hold Level I ADSs indirectly must rely on the procedures of their broker or other securities intermediary to assert the rights of Level I ADS holders described in this section. Indirect Level I ADS holders should consult with their broker or other securities intermediary to find out what those procedures are.

As a Level I ADS holder, the Company will not treat a Level I ADS holder as one of its shareholders and a Level I ADS holder will not have shareholder rights. Russian law governs shareholder rights. The Depositary will be the holder of the Shares underlying a Level I ADS holder's Level I ADSs. As a registered holder of Level I ADSs, a Level I ADS holder will have Level I ADS holder rights. The ADS Deposit Agreement among the Company, the Depositary, Level I ADS holders and all other persons beneficially owning Level I ADSs sets out Level I ADS holder rights as well as the rights and obligations of the Depositary. New York law governs the ADS Deposit Agreement and the Level I ADSs.

The following is a summary of the material provisions of the ADS Deposit Agreement. For more complete information, Level I ADS holders should read the entire ADS Deposit Agreement and the form of ADR. Directions on how to obtain copies of those documents are provided on page 378 – see "*General Information*".

Dividends and Other Distributions

How will Level I ADS holders receive dividends and other distributions on the shares?

The Depositary has agreed to pay to Level I ADS holders the cash dividends or other distributions it or the custodian receives on Shares or other deposited securities, after deducting its fees and expenses. Level I ADS holders will receive these distributions in proportion to the number of Shares their respective Level I ADSs represent.

Cash. The Depositary will convert any cash dividend or other cash distribution the Company pays on the Shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any government approval is needed and cannot be obtained, the ADS Deposit Agreement allows the Depositary to distribute the foreign currency only to those Level I ADS holders to whom it is possible to do so. The Depositary will hold the foreign currency it cannot convert for the account of the Level I ADS holders who have not been paid. The Depositary will not invest the foreign currency and it will not be liable for any interest.

Before making a distribution, any withholding taxes, or other governmental charges that must be paid, will be deducted. See "*Taxation*". The Depositary will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. *If the exchange rates fluctuate during a time when the Depositary cannot convert the foreign currency, Level I ADS holders may lose some or all of the value of the distribution*.

Shares. The Depositary may distribute additional Level I ADSs representing any Shares the Company distributes as a dividend or free distribution. The Depositary will only distribute whole Level I ADSs. The

Depositary will sell Shares which would require it to deliver a fraction of a Level I ADS (or Level I ADSs representing those Shares) and distribute the net proceeds in the same way as it does with cash. If the Depositary does not distribute additional Level I ADSs, the outstanding Level I ADSs will also represent the new Shares.

Rights to purchase additional shares. If the Company offers holders of the Company's securities any rights to subscribe for additional Shares or any other rights, the Depositary may make these rights available to Level I ADS holders. If the Depositary decides it is not legal and practical to make the rights available but that it is practical to sell the rights, the Depositary will use reasonable efforts to sell the rights and distribute the proceeds in the same way as it does with cash. The Depositary will allow rights that are not distributed or sold to lapse. *In that case, Level I ADS holders will receive no value for them.*

If the Depositary makes rights available to Level I ADS holders, it will exercise the rights and purchase the Shares on the Level I ADS holders' behalf. The Depositary will then deposit the Shares and deliver Level I ADSs to the persons entitled to them. The Depositary will only exercise rights if the Level I ADS holder pays the Depositary the exercise price and any other charges the rights require such Level I ADS holder to pay.

U.S. securities laws may restrict transfers and cancellation of the Level I ADSs represented by Shares purchased upon exercise of rights. For example, Level I ADS holders may not be able to trade these Level I ADSs freely in the United States. In this case, the Depositary may deliver restricted depositary shares that have the same terms as the Level I ADSs described in this section except for changes needed to put the necessary restrictions in place.

Other Distributions. The Depositary will send to Level I ADS holders anything else the Company distributes on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the Depositary has a choice. The Depositary may decide to sell what the Company distributed and distribute the net proceeds, in the same way as it does with cash. Or, the Depositary may decide to hold what the Company distributed, in which case Level I ADSs will also represent the newly distributed property. However, the Depositary is not required to distribute any securities (other than Level I ADSs) to Level I ADS holders unless it receives satisfactory evidence from the Company that it is legal to make that distribution.

The Depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any Level I ADS holders. The Company has no obligation to register Level I ADSs, Shares, rights or other securities under the Securities Act. The Company also has no obligation to take any other action to permit the distribution of Level I ADSs, Shares, rights or anything else to Level I ADS holders. *This means that Level I ADS holders may not receive the distributions the Company makes on its Shares or any value for them if it is illegal or impractical for the Company to make them available to Level I ADS holders*.

Deposit, Withdrawal and Cancellation

How are Level I ADSs issued?

The Depositary will deliver Level I ADSs upon the deposit of Shares or evidence of rights to receive Shares with the custodian. Upon payment of the Depositary's fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the Depositary will register the appropriate number of Level I ADSs and will deliver the Level I ADSs to or upon the order of the person that made the deposit.

How can Level I ADS holders withdraw the deposited securities?

Level I ADS holders may surrender their Level I ADSs at the Depositary's office. Upon payment of the Depositary's fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the Depositary will deliver the Shares and any other deposited securities underlying the Level I ADSs to the Level I ADS holder or a person the Level I ADS holder designates at the office of the custodian. Or, at the Level I ADS holder's request, risk and expense, the Depositary will deliver the deposited securities at its office, if feasible.

Voting Rights

How do Level I ADS holders vote?

Level I ADS holders may instruct the Depositary how to vote the number of deposited Shares their Level I ADSs represent. *Otherwise, Level I ADS holders won't be able to exercise their right to vote unless they withdraw the Shares. However, Level I ADS holders may not know about the meeting enough in advance to withdraw the Shares.*

The Depositary will notify Level I ADS holders of shareholders' meetings and arrange to deliver the Company's voting materials to them if the Company asks it to. Those materials will describe the matters to be voted on and explain how Level I ADS holders may instruct the Depositary how to vote. For instructions to be valid, they must reach the Depositary by a date set by the Depositary.

The Depositary will try, as far as practical, subject to the laws of Russia and of the Company's charter or similar documents, to vote or to have its agents vote the Shares or other deposited securities as instructed by Level I ADS holders. The Depositary will only vote or attempt to vote as instructed.

The Company cannot assure Level I ADS holders that they will receive the voting materials in time to ensure that such Level I ADS holders can instruct the Depositary to vote their shares. In addition, the Depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. *This means that Level I ADS holders may not be able to exercise their right to vote and there may be nothing such Level I ADS holders can do if their Shares are not voted as requested.*

Fees and Expenses

Persons depositing or withdrawing Shares or Level I ADS holders must pay:	***For:***
\$5.00 (or less) per 100 Level I ADSs (or portion of 100 Level I ADSs)	Issuance of Level I ADSs, including issuances resulting from a distribution of shares or rights or other property
	Cancellation of Level I ADSs for the purpose of withdrawal, including if the ADS Deposit Agreement terminates
\$0.02 (or less) per Level I ADS	Any cash distribution to Level I ADS holders
A fee equivalent to the fee that would be payable if securities distributed to Level I ADS holders had been Shares and the Shares had been deposited for issuance of Level I ADSs	Distribution of securities distributed to holders of deposited securities which are distributed by the Depositary to Level I ADS holders
\$0.02 (or less) per Level I ADS per calendar year	Depositary services
Registration or transfer fees	Transfer and registration of Shares on the Company's share register to or from the name of the Depositary or its agent upon deposits or withdrawals of Shares
Expenses of the Depositary	Cable, telex and facsimile transmissions (when expressly provided in the ADS Deposit Agreement) converting foreign currency to U.S. dollars
Taxes and other governmental charges the Depositary or the custodian has to pay on any Level I ADSs or Shares underlying Level I ADSs, such as stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the Depositary or its agents for servicing the deposited securities	As necessary

The Depositary collects its fees for delivery and surrender of Level I ADSs directly from investors depositing Shares or surrendering Level I ADSs for the purpose of withdrawal or from intermediaries acting for them. The Depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The Depositary may collect any of its fees by deduction from any cash distribution payable to Level I ADS holders that are obligated to pay those fees. The Depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the Depositary may make payments to the Company to reimburse and/or share revenue from the fees collected from Level I ADS holders, or waive fees and expenses for services provided, generally relating to costs and expenses arising out of establishment and maintenance of the Level I ADS program. In performing its duties under the ADS Deposit Agreement, the Depositary may use brokers, dealers or other service providers that are affiliates of the Depositary and that may earn or share fees, spreads or commissions.

The Depositary may convert currency itself or through any of its affiliates and, in those cases, acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the ADS Deposit Agreement and the rate that the Depositary or its affiliate receives when buying or selling foreign currency for its own account. The Depositary makes no representation that the exchange rate used or obtained in any currency conversion under the ADS Deposit Agreement will be the most favorable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favorable to Level I ADS holders, subject to the Depositary's obligations under the ADS Deposit Agreement. The methodology used to determine exchange rates used in currency conversions is available upon request.

Payment of Taxes

Level I ADS holders will be responsible for any taxes or other governmental charges payable on their Level I ADSs or on the deposited securities represented by any of their Level I ADSs. The Depositary may refuse to register any transfer of a Level I ADS holder's Level I ADSs or allow a Level I ADS holder to withdraw the deposited securities represented by their Level I ADSs until such taxes or other charges are paid. It may apply payments owed to a Level I ADS holder or sell deposited securities represented by a Level I ADS holder's Level I ADSs to pay any taxes owed and such Level I ADS holder will remain liable for any deficiency. If the Depositary sells deposited securities, it will, if appropriate, reduce the number of Level I ADSs to reflect the sale and pay to Level I ADS holders any proceeds, or send to Level I ADS holders any property, remaining after it has paid the taxes.

Reclassifications, Recapitalizations and Mergers

If the Company:	***Then:***
• Changes the nominal or par value of its shares • Reclassifies, splits up or consolidates any of the deposited securities • Distributes securities on the shares that are not distributed to Level I ADS holders • Recapitalizes, reorganizes, merges, liquidates, sells all or substantially all of its assets, or takes any similar action	The cash, shares or other securities received by the Depositary will become deposited securities. Each Level I ADS will automatically represent its equal share of the new deposited securities. The Depositary may distribute new Level I ADSs representing the new deposited securities or ask a Level I ADS holder to surrender their outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

Amendment and Termination

How may the ADS Deposit Agreement be amended?

The Company may agree with the Depositary to amend the ADS Deposit Agreement and the ADRs without Level I ADS holders' consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the Depositary for registration fees, facsimile costs, delivery charges or similar items, or prejudices a substantial right of Level I ADS holders, it will not become effective for outstanding Level I ADSs until 30 days after the Depositary notifies Level I ADS holders of the amendment. *At the time an amendment becomes effective, Level I ADS holders are considered, by continuing to hold their Level I ADSs, to agree to the amendment and to be bound by the ADRs and the ADS Deposit Agreement as amended.*

How may the ADS Deposit Agreement be terminated?

The Depositary will terminate the ADS Deposit Agreement at the Company's direction by mailing notice of termination to the Level I ADS holders then outstanding at least 90 days prior to the date fixed in such notice for such termination. The Depositary may also terminate the ADS Deposit Agreement by mailing notice of termination to the Company and the Level I ADS holders if 90 days have passed since the Depositary told the Company it wants to resign but a successor depositary has not been appointed and accepted its appointment.

After termination, the Depositary and its agents will do the following under the ADS Deposit Agreement but nothing else: collect distributions on the deposited securities, sell rights and other property, and deliver Shares and other deposited securities upon cancellation of Level I ADSs. One year after termination, the Depositary may sell any remaining deposited securities by public or private sale. After that, the Depositary will hold the money it received on the sale, as well as any other cash it is holding under the ADS Deposit Agreement for the *pro rata* benefit of the Level I ADS holders that have not surrendered their Level I ADSs. The Depositary will not invest the money and has no liability for interest. The Depositary's only obligations will be to account for the money and other cash. After termination the Company's only obligations will be to indemnify the Depositary and to pay fees and expenses of the Depositary that the Company agreed to pay.

Limitations on Obligations and Liability

Limits on the Company's Obligations and the Obligations of the Depositary; Limits on Liability to Holders of Level I ADSs

The ADS Deposit Agreement expressly limits the Company's obligations and the obligations of the Depositary. It also limits the Company's liability and the liability of the Depositary. The Company and the Depositary:

- are only obligated to take the actions specifically set forth in the ADS Deposit Agreement without negligence or bad faith;
- are not liable if the Company is or the Depositary is prevented or delayed by law or circumstances beyond the Company's or the Depositary's control, or, in the case of the Depositary only, if the Depositary is prevented or delayed by any act or failure to act by the Company or the Company's Russian share registrar, any provision of the Company's charter or any provision of the deposited securities or any other securities issued or distributed by the Company, from performing the Company's or the Depositary's obligations under the ADS Deposit Agreement;
- are not liable if the Company or the Depositary exercises discretion permitted under the ADS Deposit Agreement;
- are not liable for the inability of any holder of Level I ADSs to benefit from any distribution on deposited securities that is not made available to holders of Level I ADSs under the terms of the ADS Deposit Agreement;

- have no obligation to become involved in a lawsuit or other proceeding related to the Level I ADSs or the ADS Deposit Agreement on the Level I ADS holder's behalf or on behalf of any other person; and
- may rely upon any documents the Company believes or the Depositary believes in good faith to be genuine and to have been signed or presented by the proper person.

In the ADS Deposit Agreement, the Company and the Depositary agree to indemnify each other under certain circumstances.

The ADS Deposit Agreement provides that claims against the Company arising out of or relating to the shares or other deposited securities, the ADSs or the ADS Deposit Agreement must be submitted to and resolved through arbitration in London, except that any claims of that kind relating to or based on the U.S. federal securities laws will be submitted to arbitration only if so elected by the claimant.

Requirements for Depositary Actions

Before the Depositary will deliver or register a transfer of Level I ADSs, make a distribution on Level I ADSs, or permit withdrawal of Shares, the Depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any Shares or other deposited securities;
- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with regulations it may establish, from time to time, consistent with the ADS Deposit Agreement, including presentation of transfer documents.

The Depositary may refuse to deliver Level I ADSs or register transfers of Level I ADSs when the transfer books of the Depositary or the Company's transfer books are closed or at any time if the Depositary or the Company thinks it advisable to do so.

Level I ADS holders' Right to Receive the Shares Underlying their Level I ADSs

Level I ADS holders have the right to cancel their Level I ADSs and withdraw the underlying Shares at any time except:

- when temporary delays arise because: (i) the Depositary has closed its transfer books or the Company has closed its transfer books; (ii) the transfer of Shares is blocked to permit voting at a shareholders' meeting; or (iii) the Company is paying a dividend on its shares;
- when the Level I ADS holder owes money to pay fees, taxes and similar charges; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to Level I ADSs or to the withdrawal of Shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the ADS Deposit Agreement.

Pre-release of Level I ADSs

The ADS Deposit Agreement permits the Depositary to deliver Level I ADSs before deposit of the underlying shares. This is called a pre-release of the Level I ADSs. The Depositary may also deliver Shares upon cancellation of pre-released Level I ADSs (even if the Level I ADSs are cancelled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying shares are delivered to the Depositary. The Depositary may receive Level I ADSs instead of Shares to close out a pre-release. The Depositary may pre-release Level I ADSs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made represents to the Depositary in writing that it or its customer owns the Shares or Level I ADSs to be deposited; (2) the pre-release is fully collateralized with cash or other collateral that the Depositary considers appropriate; and (3) the Depositary must be able to close out the pre-release on not more than five business days' notice. In addition, the Depositary will limit the number of Level I ADSs that may be outstanding at any time as a result of pre-release, although the Depositary may disregard the limit from time to time if the Depositary thinks it is appropriate to do so.

Shareholder communications; inspection of register of holders of Level I ADSs

The Depositary will make available for a Level I ADS holder's inspection at its office all communications that it receives from the Company as a holder of deposited securities that the Company makes generally available to holders of deposited securities. The Depositary will send copies of those communications to Level I ADS holders if the Company asks it to. Level I ADS holders have a right to inspect the register of holders of Level I ADSs, but not for the purpose of contacting those holders about a matter unrelated to the Company's business or the Level I ADSs.

DESCRIPTION OF GDSs

Global Depositary Shares and Global Depositary Receipts

The Bank of New York Mellon, also referred to as the Depositary, will register and deliver Rule 144A Global Depositary Shares, also referred to as Rule 144A GDSs under the Rule 144A GDS Deposit Agreement, among the Company, the Depositary and all registered holders and persons indirectly or beneficially owning Rule 144A GDSs. Each Rule 144A GDS will represent one-half of one Share (or a right to receive one-half of one Share) deposited with VTB Bank, as custodian for the depositary in Russia, also referred to as the custodian. Each Rule 144A GDS will also represent any other securities, cash or other property that may be held by the Depositary under the Rule 144A GDS Deposit Agreement.

Rule 144A GDS holders may hold Rule 144A GDSs either (A) directly (i) by having a Rule 144A Global Depositary Receipt, also referred to as a Rule 144A GDR, which is a certificate evidencing a specific number of Rule 144A GDSs, registered in such Rule 144A GDS holder's name or (ii) by having uncertificated Rule 144A GDSs registered in such Rule 144A GDS holder's name, or (B) indirectly by holding a security entitlement in Rule 144A GDSs through such Rule 144A GDS holder's broker or other financial institution that is a direct or indirect participant in The Depository Trust Company, also called DTC. However, so long as the Rule 144A GDSs are eligible for DTC, the Depositary will only deliver Rule 144A GDSs to accounts with direct or indirect DTC participants.

The Depositary will register and deliver Regulation S Global Depositary Shares, also referred to as Regulation S GDSs, under the Regulation S GDS Deposit Agreement, among the Company, the Depositary and all registered holders and persons indirectly or beneficially owning Regulation S GDSs. Each Regulation S GDS will represent one-half of one Share (or a right to receive one-half of one Share) deposited with the custodian. Each Regulation S GDS will also represent any other securities, cash or other property that may be held by the depositary under the Regulation S GDS Deposit Agreement.

Regulation S GDS holders may hold Regulation S GDSs either (A) directly (i) by having a Regulation S Global Depositary Receipt, also referred to as a Regulation S GDR, which is a certificate evidencing a specific number of Regulation S GDSs, registered in such Regulation S GDS holder's name or (ii) by having uncertificated Regulation S GDSs registered in such Regulation S GDS holder's name, or (B) indirectly by holding a security entitlement in Regulation S GDSs through such Regulation S GDS holder's broker or other financial institution that is a direct or indirect participant in Euroclear Bank S.A./N.V., also referred to as Euroclear and Clearstream Banking, *société anonyme*, also referred to as Clearstream, Luxembourg. However, so long as the Regulation S GDS are eligible for Euroclear and Clearstream, Luxembourg, the Depositary will only deliver Regulation S GDSs to accounts with direct or indirect participants of Euroclear or Clearstream, Luxembourg.

In this section, Rule 144A GDSs and Regulation S GDSs are sometimes referred to together as GDSs. Rule 144A GDRs and Regulation S GDRs are sometimes referred to together as GDRs. The Rule 144A GDS Deposit Agreement and the Regulation S GDS Deposit Agreement are each sometimes referred to as the GDS Deposit Agreement, and, together, they are sometimes referred to as the GDS Deposit Agreements. The deposited Shares and any other cash, securities or other property held by the Depositary under a GDS Deposit Agreement are referred to as the deposited securities. If an investor holds GDSs directly, they are a registered GDS holder, also referred to as a GDS holder. If the investor holds the GDSs indirectly, such investor must rely on the procedures of their broker or other securities intermediary to assert the rights of GDS holders described in this section. The investor should consult with their broker or securities intermediary to find out what those procedures are. Registered holders of uncertificated GDSs will receive statements from the Depositary confirming their holdings.

The Depositary's office at which the GDSs will be administered is located at 101 Barclay Street, New York, New York 10286. Copies of the GDS Deposit Agreements will be available for inspection at the Depositary's office.

As a GDS holder, the Company will not treat a GDS holder as one of the Company's shareholders and GDS holders will not have shareholder rights. Russian law governs shareholder rights. The Depositary will be the holder of the Shares underlying a GDS holder's GDSs. As a registered holder of GDSs, a GDS holder will have GDS holder rights. The applicable GDS Deposit Agreement sets out GDS holder rights as well as the rights and obligations of the Depositary. New York law governs the GDS Deposit Agreements and the GDSs.

The following is a summary of the material provisions of the GDS Deposit Agreements. Except as otherwise stated, the following applies to both Rule 144A GDSs and Regulation S GDSs. For more complete information, GDS holders should read the entire applicable GDS Deposit Agreement and form of GDR.

Available Information

The Company is and expects to continue to be exempt from the registration requirements of Section 12(g) of the Securities Exchange Act of 1934 under Rule 12g3-2(b) under that Act. The Company will agree in the GDS Deposit Agreements that if, at any time Rule 144A GDSs are outstanding (in the case of the Rule 144A GDSs) or during the Restricted Period, as defined below under "*—Deposit, Withdrawal and Cancellation*" (in the case of the Regulation S GDSs), the Company is neither a reporting company under Section 13 or 15(d) of the Securities Exchange Act of 1934 nor exempt from reporting pursuant to Rule 12g3-2(b) under that Act, the Company will provide to any holder or beneficial owner of GDSs or any holder of Shares, and to any prospective purchaser of GDSs or Shares designated by that holder or beneficial owner, upon request of that holder, beneficial owner or prospective purchaser, the information required by Rule 144A(d)(4)(i) under the Securities Act of 1933 and otherwise comply with Rule 144A(d)(4).

Transfer Restrictions

The GDSs and the Shares represented by the GDSs will be subject to restrictions on transfer that are described under "*Transfer Restrictions*".

If the Depositary receives notice from any governmental or regulatory authority or from independent legal counsel that the existence or operation of the GDS facility or the Depositary's ownership of the amount of Deposited Securities it owns under that facility violates any Russian law or regulation or requires the Depositary to make any filings or obtain any consent or license, the Depositary may, with notice to the Company and the GDS holders, sell some or all of the Deposited Securities and thereby eliminate the Depositary's holdings of any class of Deposited Securities or reduce it to an amount the Depositary determines to be necessary or advisable. If the Depositary makes a sale of that kind, a corresponding number of GDSs will automatically be converted into a right only to receive net proceeds of the sale of the number of Deposited Securities previously represented by those GDSs. The Depositary would notify the GDS holders of that conversion and call for the surrender of the converted GDSs.

Dividends and Other Distributions

How will GDS holders receive dividends and other distributions on the shares?

The Depositary has agreed to pay or distribute to GDS holders the cash dividends or other distributions it or the custodian receives on Shares or other deposited securities, upon payment or deduction of its fees and expenses. GDS holders will receive these distributions in proportion to the number of Shares their GDSs represent.

Cash. The Depositary will convert any cash dividend or other cash distribution the Company pays on the Shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any government approval is needed and cannot be obtained, the GDS Deposit Agreement allows the Depositary to distribute the foreign currency only to those GDS holders to whom it is possible to do so. The Depositary will hold the foreign currency it cannot convert for the account of the GDS holders who have not been paid. The Depositary will not invest the foreign currency and it will not be liable for any interest.

Before making a distribution, any withholding taxes, or other governmental charges that must be paid will be deducted. See "*Taxation*". The Depositary will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. *If the exchange rates fluctuate during a time when the Depositary cannot convert the foreign currency, GDS holders may lose some of the value of the distribution*.

Shares. The Depositary may distribute additional GDSs representing any Shares the Company distributes as a dividend or free distribution. The Depositary will only distribute whole GDSs. The Depositary will sell Shares which would require it to deliver a fraction of a GDS (or GDSs representing those Shares) and distribute the net proceeds in the same way as the Depositary does with cash. If the Depositary does not distribute additional GDSs, the outstanding GDSs will also represent the new Shares. The Depositary may sell a portion of the distributed Shares (or GDSs representing those Shares) sufficient to pay its fees and expenses in connection with that distribution.

Rights to purchase additional shares. If the Company offers holders of the Company's securities any rights to subscribe for additional Shares or any other rights, the Depositary may (i) exercise those rights on behalf of GDS holders, (ii) distribute those rights to GDS holders or (iii) sell those rights and distribute the net proceeds to GDS holders, in each case after deduction or upon payment of its fees and expenses. To the extent the Depositary does not do any of those things, it will allow the rights to lapse. *In that case, GDS holders will receive no value for them*. The Depositary will exercise or distribute rights only if the Company asks it to and provides satisfactory assurances to the Depositary that it is legal to do so. If the Depositary will exercise rights, it will purchase the securities to which the rights relate and distribute those securities or, in the case of Shares, new GDSs representing the new Shares, to subscribing GDS holders, but only if GDS holders have paid the exercise price to the Depositary. U.S. securities laws may restrict the ability of the Depositary to distribute rights or GDSs or other securities issued on exercise of rights to all or certain GDS holders, and the securities distributed may be subject to restrictions on transfer.

Other Distributions. The Depositary will send to GDS holders anything else the Company distributes on deposited securities by any means it thinks is legal, fair and practical. If the Depositary cannot make the distribution in that way, the Depositary has a choice. The Depositary may decide to sell what the Company distributed and distribute the net proceeds, in the same way as it does with cash. Or, the Depositary may decide to hold what the Company distributed, in which case GDSs will also represent the newly distributed property. However, the Depositary is not required to distribute any securities (other than GDSs) to GDS holders unless it receives satisfactory evidence from the Company that it is legal to make that distribution. The Depositary may sell a portion of the distributed securities or property sufficient to pay its fees and expenses in connection with that distribution. U.S. securities laws may restrict the ability of the Depositary to distribute securities to all or certain GDS holders, and the securities distributed may be subject to restrictions on transfer.

The Depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any GDS holders. The Company has no obligation to register GDSs, Shares, rights or other securities under the Securities Act. The Company also has no obligation to take any other action to permit the distribution of GDSs, Shares, rights or anything else to GDS holders. *This means that GDS holders may not receive the distributions the Company makes on its Shares or any value for them if it is illegal or impractical for the Company to make them available to GDS holders*.

Deposit, Withdrawal and Cancellation

How are GDSs issued?

The Depositary will deliver GDSs if a GDS holder or a GDS holder's broker deposits Shares or evidence of rights to receive Shares with the custodian. Upon payment of the Depositary's fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the Depositary will register the appropriate number of GDSs in the names the GDS holder requests and will deliver the GDSs to or upon the order of the person or persons that made the deposit.

Rule 144A GDSs: Any deposit of Shares for Rule 144A GDSs must be accompanied by a written acknowledgement, certification and agreement by or on behalf of the person who will be the beneficial owner of the Rule 144A GDSs:

- acknowledging that the Rule 144A GDSs and the Shares represented thereby have not been and will not be registered under the Securities Act;
- certifying that it is a QIB, acquiring such beneficial ownership for its own account or it is a broker-dealer acting for the account of one or more QIBs;
- agreeing that it will comply with the restrictions on transfers set forth under "*Transfer Restrictions—Rule 144A Securities*" on transfers of the Rule 144A GDSs and the underlying Shares.

The Depositary may refuse to accept Shares for deposit if it believes Rule 144A GDSs representing those Shares would not be eligible for resale pursuant to Rule 144A under the Securities Act.

Regulation S GDSs: Prior to the effective time, each deposit of Shares for Regulation S GDSs must be accompanied by a written acknowledgement, certification and agreement by or on behalf of the person who will be the beneficial owner of the Regulation S GDSs:

- acknowledging that the Regulation S GDSs and the Shares represented thereby have not been and will not be registered under the Securities Act;
- certifying that it is not a U.S. person (within the meaning of Regulation S) under the Securities Act and is located outside the United States (within the meaning of Regulation S) and acquired, or has agreed to acquire and will acquire, the Shares to be deposited outside the United States;
- certifying that it is not an affiliate of the Company or a person acting on behalf of one of the Company's affiliates;
- certifying that it is not in the business of buying and selling securities or, if it is in that business, it did not acquire the Shares to be deposited from the Company or any of the Company's affiliates in the Offering;
- agreeing that, during the restricted, it will comply with the restrictions on transfer set forth under "*Transfer Restrictions—Regulation S Securities*" on transfers of the Regulation S GDSs and the underlying Shares; and
- agreeing that if it sells or otherwise transfers the Regulation S GDSs during the Restricted Period, defined as the 40 days following the completion of the distribution of Regulation S GDSs of the relevant class, to a person it reasonably believes is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) in a transaction meeting the requirements of Rule 144A, it will cause the Shares represented by those Regulation S GDSs to be withdrawn in accordance with the Regulation S GDS Deposit Agreement and deposited under the Rule 144A GDS Deposit Agreement for issuance of Rule 144A GDSs in accordance with the Rule 144A GDS Deposit Agreement.

The Depositary will not accept Shares it believes were withdrawn from deposit under the Rule 144A GDS Deposit Agreement for deposit under the Regulation S GDS Deposit Agreement so long as those Shares are or may be restricted securities within the meaning of Rule 144(a)(3) under the Securities Act, and the Depositary may require certification from the person depositing those Shares to the effect that the Shares are not restricted securities.

How can GDS holders withdraw the deposited securities?

GDS holders may surrender their GDSs at the Depositary's office for the purpose of withdrawal of deposited securities. Upon payment of the Depositary's fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the Depositary will deliver the Shares and any other deposited securities underlying the GDSs to the GDS holder or a person the GDS holder designates at the office of the custodian. Or, at the GDS holder's request, risk and expense, the Depositary will deliver the deposited securities at its office, if feasible. The Depositary may charge the GDS holder a fee and its expenses for instructing the custodian regarding delivery of deposited securities.

Rule 144A GDSs: Notwithstanding the foregoing, no deposited securities may be withdrawn upon surrender of Rule 144A GDSs unless the Depositary has received a written certificate and agreement by or on behalf of the person surrendering the Rule 144A GDSs who after withdrawal will be the beneficial owner of the deposited securities withdrawn:

- acknowledging that the deposited securities have not been and will not be registered under the Securities Act;
- certifying that that person is either:
  - a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and:
    - has sold or otherwise transferred, or agreed to sell or otherwise transfer and at or prior to the time of withdrawal will have sold or otherwise transferred, the Rule 144A GDSs or the Shares in accordance with Regulation S under the Securities Act and it is, or prior to that sale or transfer it was, the beneficial owner of the Rule 144A GDSs;
    - has sold or otherwise transferred, or agreed to sell or otherwise transfer and at or prior to the time of withdrawal will have sold or otherwise transferred, the Rule 144A GDs or the Shares to another qualified institutional buyer in accordance with Rule 144A under the Securities Act and it is, or prior to that sale it was, the beneficial owner of the Rule 144A GDSs; or
    - will be the beneficial owner of the Shares upon withdrawal and, accordingly, agrees to comply with the restrictions on transfer of Shares under "*Transfer Restrictions—Rule 144A Securities*"; or
  - is located outside the United States and acquired, or has agreed to acquire and at or prior to the time of withdrawal will have acquired, the Rule 144A GDSs or the Shares outside the United States (within the meaning of Regulation S under the Securities Act) and it is, or upon acquisition will be, the beneficial owner of the Rule 144A GDSs or the Shares.

The Depositary will not accept Shares it believes were withdrawn from deposit under the Rule 144A GDS Deposit Agreement for deposit under the Regulation S GDS Deposit Agreement so long as those Shares are or may be restricted securities within the meaning of Rule 144(a)(3) under the Securities Act, and the Depositary may require certification from the person depositing those Shares to the effect that the Shares are not restricted securities.

Regulation S GDSs: Notwithstanding the foregoing, during the Restricted Period, no deposited securities may be withdrawn upon surrender of Regulation S GDSs unless the Depositary has received a written certificate and agreement by or on behalf of the person surrendering those Regulation S GDSs who after withdrawal will be the beneficial owner of the deposited securities withdrawn:

- acknowledging that the Regulation S GDSs and the Shares they represent have not been registered and will not be registered under the Securities Act;
- certifying that that person is either:
  - located outside the United State and either:
    - has sold or otherwise transferred, or agreed to sell or otherwise transfer and at or prior to the time of withdrawal will have sold or otherwise transferred the Regulation S GDS or Shares in accordance with Regulation S under the Securities Act and is, or prior to that sale or other transfer was, the beneficial owner of the Regulation S GDSs;
    - has sold or otherwise transferred, or agreed to sell or otherwise transfer and at or prior to the time of withdrawal will have sold or otherwise transferred the Regulation S GDSs

or the Shares to a qualified institutional buyer (as defined in Rule 144A under the Securities Act) in accordance with Rule 144A and, accordingly, is giving instructions to withdraw the Shares from deposit under the Regulation S GDS Deposit Agreement and deposit those Shares under the Rule 144A GDS Deposit Agreement for issuance of Rule 144A GDSs to that qualified institutional buyer in accordance with the Rule 144A GDS Deposit Agreement, and is, or prior to that sale or other transfer was, the beneficial owner of the Regulation S GDSs; or

- will be the beneficial owner of the Shares upon withdrawal and, during the Restricted Period, will comply with the restrictions on transfer of those Shares as described under "*Transfer Restrictions—Regulation S Securities*"; or

◦ is a qualified institutional buyer (as defined in Rule 144A under the Securities Act, agreed to acquire the Regulation S GDSs or the Shares in a transaction made in reliance on Rule 144A and, accordingly, is giving instructions to withdraw the Shares from deposit under the Regulation S GDS Deposit Agreement and deposit those Shares under the Rule 144A GDS Deposit Agreement for issuance of Rule 144A GDSs to that qualified institutional buyer in accordance with the Rule 144A GDS Deposit Agreement, and is, or prior to that sale or other transfer was, the beneficial owner of the Regulation S GDSs.

Automatic exchange of Regulation S GDSs

At the expiration of the Restricted Period, the Regulation S GDSs will be automatically exchanged into Level I ADSs that will be fungible with the currently outstanding Level I ADSs. The terms of the Level I ADSs differ in various respects from the Regulation S GDSs. See "*Description of Level I ADSs*".

How do GDS holders interchange between certificated GDSs and uncertificated GDSs?

A GDS holder may surrender a GDR to the Depositary for the purpose of exchanging their GDR for uncertificated GDSs. The Depositary will cancel that GDR and will send to the GDS holder a statement confirming that the GDS holder is the registered holder of uncertificated GDSs. Alternatively, upon receipt by the Depositary of a proper instruction from a registered holder of uncertificated GDSs requesting the exchange of uncertificated GDSs for certificated GDSs, the Depositary will execute and deliver to the GDS holder an GDR evidencing those GDSs.

Voting Rights

How do GDS holders vote?

GDS holders may instruct the Depositary how to vote the number of deposited Shares their GDSs represent. If the Company requests the Depositary to solicit the GDS holders' voting instructions (and the Company is not required to do so), the Depositary will notify the GDS holders of a shareholders' meeting and send or make voting materials available to them. Those materials will describe the matters to be voted on and explain how GDS holders may instruct the Depositary how to vote. For instructions to be valid, they must reach the Depositary by a date set by the Depositary. The Depositary will try, as far as practical, subject to the laws of Russia and the provisions of the Company's charter or similar documents, to vote or to have its agents vote the Shares or other deposited securities as instructed by GDS holders. If the Company does not request the Depositary to solicit the GDS holders' voting instructions, a GDS holder can still send voting instructions, and, in that case, the Depositary may try to vote as the GDS holder instructs, but it is not required to do so.

Except by instructing the Depositary as described above, GDS holders won't be able to exercise voting rights unless they surrender their GDSs and withdraw the Shares. However, GDS holders may not know about the meeting enough in advance to withdraw the Shares. In any event, the Depositary will not exercise any discretion in voting deposited securities and it will only vote or attempt to vote as instructed.

The Company cannot assure GDS holders that they will receive the voting materials in time to ensure that they can instruct the Depositary to vote their shares. In addition, the Depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. *This means that GDS holders may not be able to exercise voting rights and there may be nothing GDS holders can do if their Shares are not voted as requested.*

In order to give GDS holders a reasonable opportunity to instruct the Depositary as to the exercise of voting rights relating to deposited securities, if the Company requests the Depositary to act, the Company agrees to give the Depositary notice of any such meeting and details concerning the matters to be voted upon at the same time that notice is given to holders of Shares, which is expected to be not less than 30 days prior to the meeting.

Fees and Expenses

Persons depositing or withdrawing Shares or GDS holders must pay:	***For:***
$5.00 (or less) per 100 GDSs (or portion of 100 GDSs)	Issuance of GDSs, including issuances resulting from a distribution of Shares or rights or other property Cancellation of GDSs for the purpose of withdrawal, including if the GDS Deposit Agreement terminates. The Depositary has agreed to waive cancellation (withdrawal) fees payable by GDS holders to the Depositary for the first three years from the closing date of the Offering
$0.02 (or less) per GDS	Any cash distribution to GDS holders
A fee equivalent to the fee that would be payable if securities distributed to the GDS holder had been Shares and the Shares had been deposited for issuance of GDSs	Distribution of securities distributed to holders of deposited securities (including rights) that are distributed by the Depositary to GDS holders
$0.02 (or less) per GDS per calendar year	Depositary services
Registration or transfer fees	Transfer and registration of Shares on the Company's share register to or from the name of the Depositary or its agent when the GDS holder deposits or withdraws Shares
Expenses of the Depositary	Cable, telex and facsimile transmissions (when expressly provided in the GDS Deposit Agreement) converting foreign currency to U.S. dollars
Taxes and other governmental charges the Depositary or the custodian has to pay on any GDSs or Shares underlying GDSs, such as stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the Depositary or its agents for servicing the deposited securities	As necessary

The Depositary collects its fees for delivery and surrender of GDSs directly from investors depositing Shares or surrendering GDSs for the purpose of withdrawal or from intermediaries acting for them. The Depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The Depositary may collect any of its fees by deduction from any cash distribution payable (or by selling a portion of securities or other property distributable) to GDS holders that are obligated to pay those fees. The Depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the Depositary may make payments to the Company to reimburse the Company for costs and expenses generally arising out of establishment and maintenance of the GDS program, waive fees and expenses for services provided to the Company by the Depositary or otherwise, including as may be requested by the Company, or share revenue from the fees collected from GDS holders. In performing its duties under the GDS Deposit Agreement, the Depositary may use brokers, dealers, foreign currency or other service providers that are owned by or affiliated with the Depositary and that may earn or share fees, spreads or commissions.

The Depositary may convert currency itself or through any of its affiliates and, in those cases, acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the GDS Deposit Agreement and the rate that the Depositary or its affiliate receives when buying or selling foreign currency for its own account. The Depositary makes no representation that the exchange rate used or obtained in any currency conversion under the GDS Deposit Agreement will be the most favorable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favorable to GDS holders, subject to the Depositary's obligations under the GDS Deposit Agreement. The methodology used to determine exchange rates used in currency conversions is available upon request.

Payment of Taxes

GDS holders will be responsible for any taxes or other governmental charges payable on their GDSs or on the deposited securities represented by any of their GDSs. The Depositary may refuse to register any transfer of a GDS holder's GDSs or allow such GDS holder to withdraw the deposited securities represented by their GDSs until those taxes or other charges are paid. The Depositary may apply payments owed to the GDS holder or sell deposited securities represented by the GDS holder's American Depositary Shares to pay any taxes owed and the GDS holder will remain liable for any deficiency. If the Depositary sells deposited securities, it will, if appropriate, reduce the number of GDSs to reflect the sale and pay to GDS holders any proceeds, or send to GDS holders any property, remaining after it has paid the taxes.

Tender and Exchange Offers; Redemption, Replacement or Cancellation of Deposited Securities

The Depositary will not tender deposited securities in any voluntary tender or exchange offer unless instructed to do by a GDS holder surrendering GDSs and subject to any conditions or procedures the Depositary may establish.

If deposited securities are redeemed for cash in a transaction that is mandatory for the Depositary as a holder of deposited securities, the Depositary will call for surrender of a corresponding number of GDSs and distribute the net redemption money to the holders of called GDSs upon surrender of those GDSs.

If there is any change in the deposited securities such as a sub-division, combination or other reclassification, or any merger, consolidation, recapitalization or reorganization affecting the issuer of deposited securities in which the Depositary receives new securities in exchange for or in lieu of the old deposited securities, the Depositary will hold those replacement securities as deposited securities under the GDS Deposit Agreement. However, if the Depositary decides it would not be lawful and to hold the replacement securities because those securities could not be distributed to GDS holders or for any other reason, the Depositary may instead sell the replacement securities and distribute the net proceeds upon surrender of the GDSs.

If there is a replacement of the deposited securities and the Depositary will continue to hold the replacement securities, the Depositary may distribute new GDSs representing the new deposited securities or ask GDS holders to surrender their outstanding GDRs in exchange for new GDRs identifying the new deposited securities.

If there are no deposited securities underlying GDSs, including if the deposited securities are cancelled, or if the deposited securities underlying GDSs have become apparently worthless, the Depositary may call for surrender of those GDSs or cancel those GDSs upon notice to the GDS holders.

If the Depositary receives notice from any Russian governmental or regulatory authority that the GDS facility violates Russian law or requires the Depositary or the Custodian to make any filing or obtain any consent, approval or license to operate the GDS facility, then the Depositary may, with notice to the Company and the GDS holders, sell some or all of the GDSs. If the Depositary sells GDSs under the preceding sentence, a corresponding number of GDSs will automatically be converted into a right only to receive the net proceeds of the sale of the GDSs previously represented thereby. The proceeds shall be allocated to the GDS holders *pro rata* to their respective holdings of GDSs immediately prior to the sale.

Amendment and Termination

How may the GDS Deposit Agreement be amended?

The Company may agree with the Depositary to amend the GDS Deposit Agreement and the GDRs without the GDS holders' consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the Depositary for registration fees, facsimile costs, delivery charges or similar items, or prejudices a substantial right of GDS holders, it will not become effective for outstanding GDSs until 30 days after the Depositary notifies GDS holders of the amendment. *At the time an amendment becomes effective, GDS holders are considered, by continuing to hold their GDSs, to agree to the amendment and to be bound by the GDRs and the GDS Deposit Agreement as amended.*

How may the GDS Deposit Agreement be terminated?

The Depositary will initiate termination of the GDS Deposit Agreement if the Company instructs the Depositary to do so. The Depositary may initiate termination of the GDS Deposit Agreement if:

- 90 days have passed since the Depositary told the Company it wants to resign, but a successor depositary has not been appointed and accepted its appointment;
- the Company delists its Shares from an exchange on which they were listed and does not list the Shares on another exchange;
- the Company appears to be insolvent or enters insolvency proceedings;
- all or substantially all the value of the deposited securities has been distributed either in cash or in the form of securities;
- there are no deposited securities underlying the GDSs or the underlying deposited securities have become apparently worthless; or
- there has been a replacement of deposited securities.

If the GDS Deposit Agreement will terminate, the Depositary will notify GDS holders at least 90 days before the termination date. At any time after the termination date, the Depositary may sell the deposited securities. After that, the Depositary will hold the money it received on the sale, as well as any other cash it is holding under the GDS Deposit Agreement, unsegregated and without liability for interest, for the *pro rata* benefit of the GDS holders that have not surrendered their GDSs. Normally, the Depositary will sell as soon as practicable after the termination date.

After the termination date and before the Depositary sells, GDS holders can still surrender their GDSs and receive delivery of deposited securities, except that the Depositary may refuse to accept a surrender for the purpose of withdrawing deposited securities if it would interfere with the selling process. The Depositary may refuse to accept a surrender for the purpose of withdrawing sale proceeds until all the deposited securities have been sold. The Depositary will continue to collect distributions on deposited securities, *but*, after the termination date, the Depositary is not required to register any transfer of GDSs or distribute any dividends or other distributions on deposited securities to the GDSs holder (until they surrender their GDSs) or give any notices or perform any other duties under the GDS Deposit Agreement except as described in this paragraph.

Limitations on Obligations and Liability

Limits on the Company's Obligations and the Obligations of the Depositary; Limits on Liability to Holders of GDSs

The GDS Deposit Agreement expressly limits the Company's obligations and the obligations of the Depositary. It also limits the Company's liability and the liability of the Depositary. The Company and the Depositary:

- are only obligated to take the actions specifically set forth in the GDS Deposit Agreement without negligence or bad faith;
- are not liable if the Company is or the Depositary is prevented or delayed by law or by events or circumstances beyond the Company's or the Depositary's ability to prevent or counteract with reasonable care or effort, or, in the case of the Depositary only, if the Depositary is prevented or delayed by any act or failure to act by the Company or the Company's Russian share registrar, any provision of the Company's charter or any provision of the deposited securities or any other securities issued or distributed by the Company, from performing the Company's or the Depositary's obligations under the GDS Deposit Agreement;
- are not liable if the Company or the Depositary exercises discretion permitted under the GDS Deposit Agreement;
- are not liable for the inability of any holder of GDSs to benefit from any distribution on deposited securities that is not made available to holders of GDSs under the terms of the GDS Deposit Agreement, or for any special, consequential or punitive damages for any breach of the terms of the GDS Deposit Agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the GDSs or the GDS Deposit Agreement on a GDS holder's behalf or on behalf of any other person;
- are not liable for the acts or omissions of any securities depository, clearing agency or settlement system; and
- may rely upon any documents the Company believes or the Depositary believes in good faith to be genuine and to have been signed or presented by the proper person.

In the GDS Deposit Agreement, the Company and the Depositary agree to indemnify each other under certain circumstances.

The GDS Deposit Agreement provides that claims against the Company arising out of or relating to the Shares or other deposited securities, the GDSs or the GDS Deposit Agreement must be submitted to and resolved through arbitration in London, if so elected by the claimant.

Requirements for Depositary Actions

Before the Depositary will deliver or register a transfer of GDSs, make a distribution on GDSs, or permit withdrawal of Shares, the Depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any Shares or other deposited securities;

- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and

- compliance with regulations it may establish, from time to time, consistent with the GDS Deposit Agreement, including presentation of transfer documents.

The Depositary may refuse to deliver GDSs or register transfers of GDSs when the transfer books of the Depositary or the Company's transfer books are closed or at any time if the Depositary or the Company thinks it advisable to do so.

GDS holders' Right to Receive the Shares Underlying their GDSs

After the effective time, Regulation S GDS holders have the right to cancel their GDSs and withdraw the underlying Shares at any time except:

- when temporary delays arise because: (i) the Depositary has closed its transfer books or the Company has closed its transfer books; (ii) the transfer of Shares is blocked to permit voting at a shareholders' meeting; or (iii) the Company is paying a dividend on its Shares;

- when the GDS holder owes money to pay fees, taxes and similar charges; or

- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to GDSs or to the withdrawal of Shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the GDS Deposit Agreement.

Pre-release of GDSs

The GDS Deposit Agreement permits the Depositary to deliver GDSs before deposit of the underlying Shares, unless requested in writing by the Company to cease doing so. This is called a pre-release of the GDSs. The Depositary may also deliver Shares upon cancellation of pre-released GDSs (even if the GDSs are cancelled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying Shares are delivered to the Depositary. The Depositary may receive GDSs instead of Shares to close out a pre-release. The Depositary may pre-release GDSs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made represents to the Depositary in writing that it or its customer (i) owns the Shares or GDSs to be deposited, (ii) assigns all beneficial right, title and interest in such Shares or GDSs to the Depositary for the benefit of the GDS holders and (iii) will not take any action with respect to such Shares or GDSs that is inconsistent with the transfer of beneficial ownership (including, without the consent of the Depositary, disposing of such Shares or GDSs, other than in satisfaction of such pre-release); (2) the pre-release is fully collateralized with cash or other collateral that the Depositary considers appropriate (such collateral to be held by the Depositary as security for the performance of the pre-releasee's obligations); and (3) the Depositary must be able to close out the pre-release on not more than five business days' notice. In addition, the Depositary will limit the number of GDSs that may be outstanding at any time as a result of pre-release, although the Depositary may disregard the limit from time to time if it thinks it is appropriate to do so.

Direct Registration System

In the Rule 144A GDS Deposit Agreement, all parties to the Rule 144A GDS Deposit Agreement acknowledge that the Direct Registration System, also referred to as DRS, and Profile Modification System, also referred to as Profile, will apply to the Rule 144A GDSs that are DTC eligible. DRS is a system administered by DTC that facilitates interchange between registered holding of uncertificated GDSs and holding of security entitlements in Rule 144A GDSs through DTC and a DTC participant. Profile is feature of DRS that allows a DTC participant, claiming to act on behalf of a registered holder of uncertificated Rule 144A GDSs, to direct the Depositary to register a transfer of those Rule 144A GDSs to DTC or its nominee and to deliver those Rule 144A GDSs to the DTC account of that DTC participant without receipt by the Depositary of prior authorization from the Rule 144A GDS holder to register that transfer.

In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties to the Rule 144A GDS Deposit Agreement understand that the Depositary will not determine whether the DTC participant that is claiming to be acting on behalf of a Rule 144A GDS holder in requesting registration of transfer and delivery as described in the paragraph above has the actual authority to act on behalf of the Rule 144A GDS holder (notwithstanding any requirements under the Uniform Commercial Code). In the Rule 144A GDS Deposit Agreement, the parties agree that the Depositary's reliance on and compliance with instructions received by the Depositary through the DRS/Profile system and in accordance with the Rule 144A GDS Deposit Agreement will not constitute negligence or bad faith on the part of the Depositary.

Shareholder communications; inspection of register of holders of GDSs

The Depositary will make available for a GDS holder's inspection at its office all communications that it receives from the Company as a holder of deposited securities that the Company makes generally available to holders of deposited securities. The Depositary will send copies of those communications or otherwise make those communications available to GDS holders if the Company asks it to. GDS holders have a right to inspect the register of holders of GDSs, but not for the purpose of contacting those holders about a matter unrelated to the Company's business or the GDSs.

DESCRIPTION OF ARRANGEMENTS TO SAFEGUARD THE RIGHTS OF THE HOLDERS OF THE LEVEL I ADSs

Definitions of terms in this Section apply only to this Section.

The Depositary

The Depositary is a wholly-owned subsidiary of The Bank of New York Mellon Corporation, a Delaware bank holding company that is a global banking and financial services company.

Rights of Holders of Level I ADSs

Relationship of Holders of Level I ADSs with the Depositary

The rights of registered holders of the Level I ADSs ("**ADS Holders**") against the Depositary are governed by the ADS Deposit Agreement, which is governed by New York law. The Depositary, the Company, the ADS Holders and all beneficial owners of Level I ADSs are parties to the ADS Deposit Agreement. ADS Holders have contractual rights against the Depositary under the ADS Deposit Agreement in relation to Shares represented by Level I ADSs deposited with the Depositary under the ADS Deposit Agreement ("**Deposited Shares**") and in relation to all cash and any other property received by the Depositary in respect or in lieu of the Deposited Shares and held by the Depositary under the Deposit Agreement (together with the Deposited Shares, "**Deposited Property**").

Voting

With respect to voting of Deposited Shares and other Deposited Property represented by Level I ADSs, the ADS Deposit Agreement provides that, if notified by the Company of and provided with relevant information in relation to shareholder meetings, and if so requested in writing by the Company, the Depositary will send to any person who is an ADS Holder on the record date established by the Depositary for that purpose voting materials and instructions for voting. The ADS Deposit Agreement provides that the Depositary will endeavor to exercise or cause to be exercised the voting rights with respect to Deposited Shares in accordance with the voting instructions it has received from ADS Holders, subject to applicable law.

Each ADS Holder is entitled to give instructions to the Depositary to vote for or against, or abstain from voting on, each resolution specified in the agenda for the meeting. Each voting instruction from an ADS Holder must be in the form required by the Depositary. Exercise of voting rights from ADS Holders will be subject in each case to applicable law and the Depositary's determination of what is reasonably practicable, which may mean that in some cases the Depositary can only procure the exercise of the number of votes representing the net positive difference between total votes in favour of a resolution and total votes opposed to such resolution, or cannot procure the exercise of any votes.

Delivery of Shares

The ADS Deposit Agreement provides that the Deposited Shares can only be delivered out of the Level I ADS facility (i) to, or to the order of, an ADS Holder upon surrender and cancellation of Level I ADSs or (ii) in connection with a sale to pay taxes or certain other charges due to the Depositary or following termination of the ADS Deposit Agreement.

Rights of the Company

The Company has broad rights to remove the Depositary under the terms of the ADS Deposit Agreement, but no specific rights under the ADS Deposit Agreement which are triggered in the event of the insolvency of the Depositary.

Default of the Depositary

If the Depositary fails to pay cash or deliver non-cash assets to ADS Holders in the circumstances required by the ADS Deposit Agreement or otherwise engages in a breach of the ADS Deposit Agreement for which it would be liable under the ADS Deposit Agreement, the ADSs Holders would have a claim under New York law against the Depositary to the extent that the Depositary is in breach of its contractual obligations under the ADS Deposit Agreement.

Insolvency of the Depositary

Applicable insolvency law

If the Depositary becomes insolvent, the insolvency proceedings will be governed by U.S. law applicable to the insolvency of banks.

Effect of applicable insolvency law in relation to cash

Any cash held by the Depositary for ADS Holders under the ADS Deposit Agreement is held by the Depositary as banker. Under current U.S. law, it is expected that: (a) any cash held by the Depositary as banker under the ADS Deposit Agreement would constitute an unsecured obligation of the Depositary; and (b) in relation to any amounts of cash held by the Depositary pursuant to the ADS Deposit Agreement and due to ADS Holders but not yet paid at the time of such insolvency, the ADS Holders will have only an unsecured claim in the Depositary's insolvency for such cash, and that cash would also be available to satisfy claims of other general creditors of the Depositary and of the Federal Deposit Insurance Corporation (FDIC).

Effect of applicable insolvency law in relation to non-cash assets

Under current U.S. law, it is expected that (a) any Deposited Shares and other securities held for the ADS Holders by the Depositary should not constitute assets of the Depositary that are available to general creditors of the Depositary; and (b) in relation to any securities or other non-cash assets held by the Depositary pursuant to the Deposit Agreement for the ADS Holders at the time of such insolvency, the ADS Holders will have ownership rights to such securities or other non-cash assets and will be able to request the Depositary's liquidator to deliver such securities and other non-cash assets to the ADS Holders.

The Custodian

The "**Custodian**" is VTB Bank, a legal entity established under Russian law. The Custodian holds securities and cash for the Depositary under a custody agreement.

Cash payments from the Company (which are expected to be denominated in RUB) will be received by the JSC "National Settlement Depositary" ("**NSD**") as paying agent who will distribute such amounts to the entitled NSD participants including the Custodian. Cash is then transferred by the Custodian into an account held in the Depositary's name with the Account Bank (as defined below).

Relationship of Holders of ADSs with the Custodian

The ADS Holders do not have any contractual relationship with, or rights enforceable against, the Custodian.

All Shares, including the Deposited Shares, will be held through the Russian Central Depositary system managed by NSD. The accounts maintained by NSD would include an account in the name of, and managed by, the Custodian.

Default of the Custodian

Failure to deliver non-cash assets

If the Custodian fails to deliver Deposited Shares or other non-cash assets held for the Depositary as required by the Depositary, or otherwise defaults under the terms of the custody agreement, the Custodian will be in breach of its obligations to the Depositary. Under Russian law, the Depositary would have a claim against the Custodian for the Custodian's breach of its obligations under the custody agreement. The Depositary can remove the Custodian and appoint a substitute or additional custodians and may exercise such rights if it deems necessary.

Failure to deliver cash

If the Custodian fails to deliver cash to the account of the Depositary at the Account Bank as required under the custody agreement or otherwise engages in a default for which it would be liable under the custody agreement, the Custodian will be in breach of its contractual obligations. Under Russian law the Depositary would have a claim against the Custodian for the Custodian's breach of its contractual obligations. The Depositary can also remove the Custodian and appoint a substitute or additional custodian and may exercise such rights if it deems necessary.

The Depositary's liability

The Depositary is only liable to ADS Holders for loss incurred by ADS Holders as a result of default by the Custodian if such loss arises from the negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

The Depositary's obligations

The Depositary has no obligation to pursue a claim for breach of obligations against the Custodian on behalf of ADS Holders. The Depositary is not responsible for and will incur no liability in connection with or arising from default by the Custodian due to any act or omission to act on the part of the Custodian, except to the extent that there is loss or damage which arises from the negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

Applicable law

The custody agreement is governed by Russian law.

Insolvency of the Custodian

Applicable insolvency law

If the Custodian becomes insolvent, Russian law will apply to the insolvency proceedings.

Effect of applicable insolvency law in relation to non-cash assets

In the event of the Custodian's bankruptcy, the Deposited Shares (along with any other securities held by the Custodian on behalf of the Depositary) would not form part of the Custodian's general insolvent estate. It is expected, instead, that the Depositary would be recognized as the owner of the Deposited Shares (and such other securities, if any).

Under Russian law and according to the charter of the Company, dividends may be paid either in cash or "in kind". There are no specific restrictions as to types of non-cash assets that can be used to pay dividends in kind, but they may include securities, participatory interests or goods. Russian law is silent as to the treatment of assets other than cash and securities held in custody on the insolvency of the Custodian. There is therefore a risk that, if the Company pays dividends in kind, such assets (other than securities) would be treated as being part of the Custodian's general insolvent estate.

Effect of applicable insolvency law in relation to cash

Cash held in the Custodian's name on account with the Russian Central Bank gives the Depositary an unsecured claim against the Custodian in case of the Custodian's bankruptcy. Under Russian law, any cash held for the Depositary by the Custodian at the time of the Custodian's bankruptcy would become part of the general insolvent estate.

The Depositary's liability

The Depositary is only liable to ADS Holders for loss incurred by ADS Holders as a result of the Custodian's insolvency if such loss arises from the negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

The Depositary's obligations

The Depositary has no obligation to pursue a claim in the Custodian's insolvency on behalf of the ADS Holders. The Depositary has no responsibility for, and will incur no liability in connection with or arising from, the insolvency of any custodian. In the event of the insolvency of the Custodian, the ADS Holders have no direct recourse to the Custodian under the ADS Deposit Agreement or the Depositary's agreement with the Custodian, though the Depositary can also remove the Custodian and appoint a substitute or additional custodians and may exercise such rights if it deems necessary.

The Account Bank

Information relating to the Account Bank

Cash payments from the Company (which are expected to be denominated in RUB and pass initially through the Custodian's cash account held with the Russian Central Bank as described above) will be received by the Depositary into a cash account held with Raiffeisenbank (the "**Account Bank**") in Russia in the Depositary's name. Subject to Russian law, amounts received from the Company by the Depositary will then be exchanged for U.S. dollars in accordance with the ADS Deposit Agreement and the US dollars will be received by the Depositary in New York. After deduction of any fees and expenses of the Depositary, the US dollars will then be credited to the appropriate accounts of the ADS Holders.

Default of the Account Bank

Failure to deliver cash

If the Account Bank fails to deliver cash to the Depositary as required under the account bank agreement or otherwise engages in a default for which it would be liable under the account bank agreement, the Account Bank will be in breach of its contractual obligations. Under Russian law, the Depositary would have a claim against the Account Bank for the Account Bank's breach of its contractual obligations. The Depositary can also remove the Account Bank and appoint a substitute or additional account bank and may exercise such rights if it deems necessary.

The Depositary's obligations

The Depositary has no obligation to pursue a claim for breach of obligations against the Account Bank on behalf of ADS Holders. The Depositary is not responsible for and will incur no liability in connection with or arising from default by the Account Bank due to any act or omission to act on the part of the Account Bank, except to the extent that loss arises from the negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

Applicable law

The account bank agreement is governed by Russian law.

Insolvency of the Account Bank

Applicable insolvency law

If the Account Bank becomes insolvent, Russian law will apply to the insolvency proceedings.

Effect of applicable insolvency law in relation to cash

Cash held by the Account Bank on account with the Account Bank gives the Depositary an unsecured claim against the Account Bank in case of the Account Bank's bankruptcy. Under Russian law any cash held for the Depositary by the Account Bank at the time of the Account Bank's insolvency would become part of the general insolvent estate.

The Depositary's liability

The Depositary is only liable to ADS Holders for loss incurred by ADS Holders as a result of the Account Bank's insolvency if such loss arises from the wilful default, negligence or fraud of the Depositary or that of its agents, officers, directors or employees.

The Depositary's obligations

The Depositary has no obligation to pursue a claim in the Account Bank's insolvency on behalf of the ADS Holders. The Depositary has no responsibility for, and will incur no liability in connection with or arising from, the insolvency of the Account Bank. In the event of the insolvency of the Account Bank, the ADS Holders have no direct recourse to the Account Bank under the ADS Deposit Agreement or the Depositary's agreement with the Account Bank, though the Depositary can remove the Account Bank and appoint substitute or additional account banks and may exercise such rights if it deems necessary.

DESCRIPTION OF ARRANGEMENTS TO SAFEGUARD THE RIGHTS OF THE HOLDERS OF THE REGULATION S GDSs AND RULE 144A GDSs

Definitions of terms in this Section apply only to this Section

The Depositary

The Depositary is a wholly-owned subsidiary of The Bank of New York Mellon Corporation, a Delaware bank holding company that is a global banking and financial services company.

Rights of Holders of GDSs

Relationship of Holders of GDSs with the Depositary

The rights of registered holders of the GDSs ("**GDS Holders**") against the Depositary are governed by the GDS Deposit Agreements, which are governed by New York law. The Depositary, the Company, the GDS Holders and all indirect and beneficial owners of GDSs are parties to the GDS Deposit Agreements. GDS Holders have contractual rights against the Depositary under the GDS Deposit Agreements in relation to Shares represented by GDSs deposited with the Depositary under the GDS Deposit Agreements ("**Deposited Shares**") and in relation to all cash and any other property received by the Depositary in respect or in lieu of the Deposited Shares and held by the Depositary under the GDS Deposit Agreements (together with the Deposited Shares, "**Deposited Property**").

Voting

With respect to voting of Deposited Shares and other Deposited Property represented by GDSs, the GDS Deposit Agreements provide that, if notified by the Company of and provided with relevant information in relation to shareholder meetings, and if so requested in writing by the Company, the Depositary will send to any person who is a GDS Holder on the record date established by the Depositary for that purpose voting materials and instructions for voting. The GDS Deposit Agreements provide that the Depositary will endeavor to exercise or cause to be exercised the voting rights with respect to Deposited Shares in accordance with the voting instructions it has received from GDS Holders, subject to applicable law.

Each GDS Holder is entitled to give instructions to the Depositary to vote for or against, or abstain from voting on, each resolution specified in the agenda for the meeting. Each voting instruction from a GDS Holder must be in the form required by the Depositary. Exercise of voting rights from GDS Holders will be subject in each case to applicable law and the Depositary's determination of what is reasonably practicable, which may mean that in some cases the Depositary can only procure the exercise of the number of votes representing the net positive difference between total votes in favour of a resolution and total votes opposed to such resolution, or cannot procure the exercise of any votes.

Delivery of Shares

The GDS Deposit Agreements provide that the Deposited Shares can only be delivered out of the GDS facility (i) to, or to the order of, a GDS Holder upon surrender and cancellation of GDSs or (ii) in connection with a sale to pay taxes or certain other charges due to the Depositary or following termination of the GDS Deposit Agreements.

Rights of the Company

The Company has broad rights to remove the Depositary under the terms of the GDS Deposit Agreements, but no specific rights under the GDS Deposit Agreements which are triggered in the event of the insolvency of the Depositary.

Default of the Depositary

If the Depositary fails to pay cash or deliver non-cash assets to GDS Holders in the circumstances required by the GDS Deposit Agreements or otherwise engages in a breach of the GDS Deposit Agreements for which it would be liable under the GDS Deposit Agreements, the GDSs Holders would have a claim under New York law against the Depositary to the extent that the Depositary is in breach of its contractual obligations under the applicable GDS Deposit Agreement.

Insolvency of the Depositary

Applicable insolvency law

If the Depositary becomes insolvent, the insolvency proceedings will be governed by U.S. law applicable to the insolvency of banks.

Effect of applicable insolvency law in relation to cash

Any cash held by the Depositary for GDS Holders under the GDS Deposit Agreements is held by the Depositary as banker. Under current US law, it is expected that: (a) any cash held by the Depositary as banker under the GDS Deposit Agreements would constitute an unsecured obligation of the Depositary; and (b) in relation to any amounts of cash held by the Depositary pursuant to the GDS Deposit Agreements and due to GDS Holders but not yet paid at the time of such insolvency, the GDS Holders will have only an unsecured claim in the Depositary's insolvency for such cash, and that cash would also be available to satisfy claims of other general creditors of the Depositary and of the Federal Deposit Insurance Corporation (FDIC).

Effect of applicable insolvency law in relation to non-cash assets

Under current US law, it is expected that (a) any Deposited Shares and other securities held for the GDS Holders by the Depositary should not constitute assets of the Depositary that are available to general creditors of the Depositary; and (b) in relation to any securities or other non-cash assets held by the Depositary pursuant to the GDS Deposit Agreements for the GDS Holders at the time of such insolvency, the GDS Holders will have ownership rights to such securities or other non-cash assets and will be able to request the Depositary's liquidator to deliver such securities and other non-cash assets to the GDS Holders.

The Custodian

The "**Custodian**" is VTB Bank, a legal entity established under Russian law. The Custodian holds securities and cash for the Depositary under a custody agreement.

Cash payments from the Company (which are expected to be denominated in RUB) will be received by the JSC "National Settlement Depositary" ("**NSD**") as paying agent who will distribute such amounts to the entitled NSD participants including the Custodian. Cash is then transferred by the Custodian into an account held in the Depositary's name with the Account Bank (as defined below).

Relationship of Holders of GDSs with the Custodian

The GDS Holders do not have any contractual relationship with, or rights enforceable against, the Custodian.

All Shares, including the Deposited Shares, will be held through the Russian Central Depositary system managed by NSD. The accounts maintained by NSD would include an account in the name of, and managed by, the Custodian.

Default of the Custodian

Failure to deliver non-cash assets

If the Custodian fails to deliver Deposited Shares or other non-cash assets held for the Depositary as required by the Depositary, or otherwise defaults under the terms of the custody agreement, the Custodian will be in breach of its obligations to the Depositary. Under Russian law, the Depositary would have a claim against the Custodian for the Custodian's breach of its obligations under the custody agreement. The Depositary can remove the Custodian and appoint a substitute or additional custodians and may exercise such rights if it deems necessary.

Failure to deliver cash

If the Custodian fails to deliver cash to the account of the Depositary at the Account Bank as required under the custody agreement or otherwise engages in a default for which it would be liable under the custody agreement, the Custodian will be in breach of its contractual obligations. Under Russian law the Depositary would have a claim against the Custodian for the Custodian's breach of its contractual obligations. The Depositary can also remove the Custodian and appoint a substitute or additional custodian and may exercise such rights if it deems necessary.

The Depositary's liability

The Depositary is only liable to GDS Holders for loss incurred by GDS Holders as a result of default by the Custodian if such loss arises from the negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

The Depositary's obligations

The Depositary has no obligation to pursue a claim for breach of obligations against the Custodian on behalf of GDS Holders. The Depositary is not responsible for and will incur no liability in connection with or arising from default by the Custodian due to any act or omission to act on the part of the Custodian, except to the extent that there is loss or damage which arises from the negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

Applicable law

The custody agreement is governed by Russian law.

Insolvency of the Custodian

Applicable insolvency law

If the Custodian becomes insolvent, Russian law will apply to the insolvency proceedings.

Effect of applicable insolvency law in relation to non-cash assets

In the event of the Custodian's bankruptcy, the Deposited Shares (along with any other securities held by the Custodian on behalf of the Depositary) would not form part of the Custodian's general insolvent estate. It is expected, instead, that the Depositary would be recognized as the owner of the Deposited Shares (and such other securities, if any).

Under Russian law and according to the charter of the Company, dividends may be paid either in cash or "in kind". There are no specific restrictions as to types of non-cash assets that can be used to pay dividends in kind, but they may include securities, participatory interests or goods. Russian law is silent as to the treatment of assets other than cash and securities held in custody on the insolvency of the Custodian. There is therefore a risk that, if the Company pays dividends in kind, such assets (other than securities) would be treated as being part of the Custodian's general insolvent estate.

Effect of applicable insolvency law in relation to cash

Cash held in the Custodian's name on account with the Russian Central Bank gives the Depositary an unsecured claim against the Custodian in case of the Custodian's bankruptcy. Under Russian law, any cash held for the Depositary by the Custodian at the time of the Custodian's bankruptcy would become part of the general insolvent estate.

The Depositary's liability

The Depositary is only liable to GDS Holders for loss incurred by GDS Holders as a result of the Custodian's insolvency if such loss arises from the negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

The Depositary's obligations

The Depositary has no obligation to pursue a claim in the Custodian's insolvency on behalf of the GDS Holders. The Depositary has no responsibility for, and will incur no liability in connection with or arising from, the insolvency of any custodian. In the event of the insolvency of the Custodian, the GDS Holders have no direct recourse to the Custodian under the GDS Deposit Agreements or the Depositary's agreement with the Custodian, though the Depositary can also remove the Custodian and appoint a substitute or additional custodians and may exercise such rights if it deems necessary.

The Account Bank

Information relating to the Account Bank

Cash payments from the Company (which are expected to be denominated in RUB and pass initially through the Custodian's cash account held with the Russian Central Bank as described above) will be received by the Depositary into a cash account held with Raiffeisenbank (the "**Account Bank**") in Russia in the Depositary's name. Subject to Russian law, amounts received from the Company by the Depositary will then be exchanged for U.S. dollars in accordance with the GDS Deposit Agreements and the U.S. dollars will be received by the Depositary in New York. After deduction of any fees and expenses of the Depositary, the U.S. dollars will then be credited to the appropriate accounts of the GDS Holders.

Default of the Account Bank

Failure to deliver cash

If the Account Bank fails to deliver cash to the Depositary as required under the account bank agreement or otherwise engages in a default for which it would be liable under the account bank agreement, the Account Bank will be in breach of its contractual obligations. Under Russian law, the Depositary would have a claim against the Account Bank for the Account Bank's breach of its contractual obligations. The Depositary can also remove the Account Bank and appoint a substitute or additional account bank and may exercise such rights if it deems necessary.

The Depositary's obligations

The Depositary has no obligation to pursue a claim for breach of obligations against the Account Bank on behalf of GDS Holders. The Depositary is not responsible for and shall incur no liability in connection with or arising from default by the Account Bank due to any act or omission to act on the part of the Account Bank, except to the extent that loss arises from the negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

Applicable law

The account bank agreement is governed by Russian law.

Insolvency of the Account Bank

Applicable insolvency law

If the Account Bank becomes insolvent, Russian law will apply to the insolvency proceedings.

Effect of applicable insolvency law in relation to cash

Cash held by the Account Bank on account with the Account Bank gives the Depositary an unsecured claim against the Account Bank in case of the Account Bank's bankruptcy. Under Russian law, any cash held for the Depositary by the Account at the time of the Account Bank's insolvency would become part of the general insolvent estate.

The Depositary's liability

The Depositary is only liable to GDS Holders for loss incurred by GDS Holders as a result of the Account Bank's insolvency if such loss arises from the wilful default, negligence or fraud of the Depositary or that of its agents, officers, directors or employees.

The Depositary's obligations

The Depositary has no obligation to pursue a claim in the Account Bank's insolvency on behalf of the GDS Holders. The Depositary has no responsibility for, and will incur no liability in connection with or arising from, the insolvency of the Account Bank. In the event of the insolvency of the Account Bank, the GDS Holders have no direct recourse to the Account Bank under the GDS Deposit Agreement or the Depositary's agreement with the Account Bank, though the Depositary can remove the Account Bank and appoint substitute or additional account banks and may exercise such rights if it deems necessary.

TAXATION

The following is a general discussion of certain considerations relating to the Shares and the GDSs and does not purport to be a comprehensive discussion of the tax treatment of the Shares and the GDSs. Each prospective holder should consult its own tax advisor as to the particular tax consequences to such holder of the purchase, ownership and disposition of the Shares and the GDSs, including but not limited to the consequences of receipt of dividends on the Shares and the GDSs.

Russian Federation Tax Considerations

General

The following is an overview of certain Russian tax considerations relating to the taxation of the Shares and the GDSs.

This overview is based upon the laws of the Russian Federation in effect as at the date hereof (where these laws are subject to potential changes, which could occur frequently, at short notice and may have retroactive effect). The information and analysis contained within this section are limited to taxation issues, and prospective holders should not apply any information or analysis set out below to other issues, including (but not limited to) the legality of transactions involving the Shares and the GDSs.

The overview neither seeks to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal authorities of the Russian Federation or tax implications arising for the prospective holders applying special tax regimes available under Russian tax legislation, nor does the overview seek to address the availability of double tax treaty relief in respect of the Shares and the GDSs, or practical difficulties involved in claiming and obtaining such double tax treaty relief. Prospective holders should consult their own advisors regarding the tax consequences of investing in the Shares and the GDSs. No representations with respect to the Russian tax consequences of purchase, ownership and disposition of the Shares and the GDSs to any particular holder are made hereby. The overview set out herein does not include any comments on tax implications which could arise for the holders of the Shares and the GDSs in connection with entering into repo or stock lending transactions with the Shares and the GDSs or into term deals, derivatives or any similar types of transactions with the Shares and the GDSs.

The provisions of the Russian Tax Code applicable to holders of and transactions involving the Shares and the GDSs are ambiguous and lack interpretive guidance. Both the substantive provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more inconsistencies and subject to more rapid and unpredictable changes (possibly with retroactive effect) than in jurisdictions with more developed capital markets or more developed taxation systems. In practice, the interpretation and application of tax laws and regulations by different tax inspectorates may be inconsistent or contradictory and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates. Furthermore, in the absence of binding precedents, court rulings on tax or other related matters by different Russian courts relating to the same or similar circumstances may also be inconsistent or contradictory.

Prospective investors should consult their own tax advisors regarding the tax consequences of investing in the Shares and the GDSs, which may arise in their own particular circumstances in the respective jurisdictions. No representations with respect to the Russian tax consequences relevant to any particular Holder are made hereby.

For the purposes of this overview, the term "**Resident Holder**" means the following person that purchases, holds and disposes of the Shares and the GDSs:

- (i) a Russian legal entity, (ii) a legal entity or an organization established under a non-Russian law, which purchases, holds and disposes of the Shares and the GDSs through its permanent establishment in the Russian Federation (and such Shares and such GDSs are attributed to such a permanent establishment) or (iii) a non-Russia legal entity or organization recognized as a Russian tax resident in accordance with the requirements set out in the Russian Tax Code (the "**Resident Holder-Legal Entity**"). A non-Russia legal entity or organization will be deemed to be a tax resident of the Russian Federation for the purposes of the Russian Tax Code if (1) it is deemed to be a tax resident of the Russian Federation in accordance with an applicable double tax treaty or (2) its place of management is in the Russian Federation unless a different conclusion follows from an applicable double tax treaty; or

- an individual who satisfies the criteria for being a Russian tax resident (the "**Resident Holder-Individual**"). A "Russian tax resident" is an individual who is actually present in the Russian Federation for an aggregate period of 183 calendar days or more in any period comprised of 12 consecutive months. Presence in the Russian Federation for Russian personal income tax residency purposes is not considered interrupted if an individual departs from the Russian Federation for short periods of time (less than six months) for medical treatment, education purposes or completion of employment or other duties related to work (rendering services) at offshore hydrocarbon fields.

For the purposes of this overview, a "Non-Resident Holder" means the following person that purchases, hold and disposes of the Shares and the GDSs:

- a legal entity or an organization not organized under Russian law which purchases, holds and disposes of the Shares and the GDSs otherwise than through its permanent establishment in the Russian Federation and does not satisfy the criteria for being a Russian tax resident as defined above (the "**Non-Resident Holder – Legal Entity**"); or
- an individual who does not satisfy the criteria for being a Russian tax resident as defined above (the "**Non-Resident Holder – Individual**").

For the purposes of this overview, the definitions of "Resident Holder" and "Non-Resident Holder" in respect of individuals are taken at face value based on the wording of Russian tax law as written as at the date of this Prospectus. In practice, however, the application of the above formal residency definition may differ based on the position of the Russian tax authorities. As at the date of this Prospectus, the law is worded in a way that allows for that individuals are able to be tax resident in Russia for only part of a calendar year. However, both the Russian Ministry of Finance and the Russian tax authorities have expressed the view that an individual should be either tax resident or non-resident in the Russian Federation for the full calendar year and, consequently, even where the travel pattern dictates differing tax residency status for part of the tax year, the application of the Russian personal income residency tax rate may in practice be disallowed.

Tax residency rules and Russia's rights with regard to taxation may be affected by an applicable double tax treaty.

Taxation of the Shares and the GDSs

Taxation of Holders – Legal Entities

Taxation of the Acquisition of the Shares and the GDSs

No Russian tax implications should arise for Holders – Legal Entities upon the acquisition of the Shares and the GDSs.

Taxation of Dividends: Resident Holders – Legal Entities

Dividends paid to Resident Holders – Legal Entities should generally be subject to Russian withholding income tax at a rate of 13 per cent. The effective tax rate may be lower than 13 per cent as the amount of tax should be determined as the product of the tax rate and the difference between (1) the amount of dividends to be distributed by the Company and (2) the amount of dividends received by the Company in the current and previous periods.

The Russian Tax Code provides for participation exemption rules, pursuant to which dividends received by a Resident Holder – Legal Entity could be taxed at a zero tax rate if, as of the day of the adoption of the decision to pay dividends, such Resident Holder – Legal Entity has continuously owned for at least 365 days not less than 50 per cent of the Company's share capital or depositary receipts conferring the right to receive dividends in an amount equal to not less than 50 per cent of the total amount of dividends payable by the Company. If the above conditions are not met, the dividends received by the Resident Holder – Legal Entity would be taxed in Russia at a rate not exceeding 13 per cent as stated above. These participation exemption rules could not be applied if the Shares and the GDSs (on which the dividends are paid) are accounted for on the Special Depositary Accounts (as defined below).

The Russian Tax Code states that a 15 per cent withholding tax rate should be applied to dividends paid to the holder of shares that is a permanent establishment of a foreign legal entity (or organization) in Russia (the "**Special Holder**"). The Special Holder is entitled to pay this tax to the Russian budget on its own behalf (*i.e.*, without withholding of the tax by a Russian entity distributing the dividends to such Special Holder) if such Special Holder provides the Russian entity distributing the dividends (and acting as the Russian tax agent) with special documentary evidence confirming the fact that this dividend income is attributable to a permanent establishment of such Special Holder in Russia. This evidence includes (a) a notarized copy of the form confirming registration of the holder with the Russian tax authorities and (b) notification from the Special Holder that such dividend income is attributable to the office of the Special Holder in the Russian Federation. The Russian Tax Code does not provide any formal guidance as to the required format of this notification.

Moreover, letters issued by the Russian tax authorities state that dividends attributed to a Russian permanent establishment of a foreign legal entity or organization are subject to withholding tax at the rate established for the Russian legal entities (*e.g.*, 13 per cent tax rate). This local tax rate could be applied to such holders of the shares if the applicable double tax treaty between the Russian Federation and the country of the tax residence of such holder contains the non-discrimination provisions relating to taxation of tax residents of such country as compared to Russian tax residents. However, as the Russian Tax Code does not specifically provide for the application of the reduced (*i.e.*, local) tax rate, no assurance can be given that the application of a 13 per cent tax rate on dividends paid to the Non-Resident Holder — Legal Entity holding the Shares and the GDSs through a permanent establishment in Russia would not be challenged by the Russian tax authorities in the future and that the Russian tax agent would apply Russian withholding tax at 15 per cent tax rate with respect to dividends paid to such Holder.

The procedure of taxation of the dividends on the Shares and the GDSs which are accounted for on the Special Depositary Accounts is described in "*Application of the Russian Withholding Tax on Dividends paid on the Shares and the GDSs Accounted for on the Special Depositary Accounts*" below.

Each Resident Holder — Legal Entity should consult its own tax advisors with respect to the tax consequences of the receipt of dividend income with respect to the holding of the Shares and the GDSs in its particular circumstances.

<u>Taxation of Dividends: Non-Resident Holders – Legal Entities</u>

In general, dividends paid to Non-Resident Holders – Legal Entities are subject to Russian withholding income tax at a rate of 15 per cent. Such Russian withholding tax may be subject to reduction pursuant to the terms of an applicable double tax treaty between the Russian Federation and the country of tax residence of the Non-Resident Holder – Legal Entity to the extent such Non-Resident Holder – Legal Entity is the beneficial owner of the dividends received and is entitled to benefit from the relevant double tax treaty.

The procedure for obtaining tax treaty relief is described in "*Tax Treaty Relief*" below. The procedure of taxation of dividends on the Shares and the GDSs which are accounted for in the Special Depositary Accounts is described in "*Application of the Russian Withholding Tax on Dividends paid on the Shares and the GDSs Accounted for on the Special Depositary Accounts*" below.

Each Non-Resident Holder – Legal Entity should consult its own tax advisors with respect to the tax consequences of the receipt of dividend income with respect to the holding of the Shares and the GDSs in its particular circumstances.

Taxation of Disposal of Shares and GDSs: Resident Holders – Legal Entities

Resident Holders – Legal Entities are subject to all applicable Russian taxes and any documentation requirements that may be prescribed by law or practice in respect of capital gains arising from any sale (or other disposal) of the Shares and the GDSs.

Resident Holders – Legal Entities should generally be subject to Russian profits tax at a rate of 20 per cent on the capital gain (with certain exemptions). Such gain is generally determined as the gross proceeds from the sale (or other disposal) of the Shares and the GDSs less the cost of acquisition of such Shares and such GDSs and less expenses incurred by such Holder related to the acquisition, holding and sale of the Shares and the GDSs (provided that the cost of acquisition of the Shares and the GDSs and other expenses are supported by documentation).

Generally, the financial result from the sale (or other disposal) of securities which are treated as traded on an organized securities market for Russian tax purposes should be recognized in the taxpayer's general tax base where the other income and expenses of such taxpayer are recognized.

Each Resident Holder — Legal Entity should consult its own tax advisors with respect to the tax consequences relating to the sale (or other disposal) of the Shares and the GDSs in its particular circumstances.

Taxation of Disposal of Shares and GDSs: Non-Resident Holders – Legal Entities

Gains arising from the sale (or other disposal) of Shares and GDSs by Non-Resident Holders – Legal Entities should not be subject to Russian withholding tax to the extent immovable property located in Russia constitutes (directly or indirectly) not more than 50 per cent of the entire asset base of the Company.

The Company believes that immovable property located in Russia does not currently constitute (directly or indirectly) more than 50 per cent of its assets and it should continue to be the case in the future. Since the procedure of calculation of the percentage of immovable property located in Russia in the entire asset base of a taxpayer is not clearly established by the Russian Tax Code and this procedure is inherently factual and is made on an on-going basis, there can be no assurance that the immovable property located in Russia does not currently, or will not, constitute (directly or indirectly) more than 50 per cent of the assets of the Company.

If more than 50 per cent of the Company's assets consist (directly or indirectly) of immovable property located in Russia, the Non-Resident Holders — Legal Entities should be subject to Russian withholding income tax at a rate of 20 per cent on the capital gain from the sale (or other disposal) of the Shares and the GDSs, provided that the Non-Resident Holder — Legal Entity has provided the payer of the income with the documentation confirming the basis cost of the Shares and the GDSs sold (or disposed) (including, but not limited to, the purchase/subscription price of the Shares and the GDSs, and associated transaction costs). Otherwise, the gross proceeds, rather than the amount of capital gain, will be subject to Russian withholding income tax.

There is a risk that persons who are obliged to act as the Russian tax agent in respect of Russian withholding income tax on capital gains may not have sufficient information regarding the Company's asset base composition to be in a position to determine the percentage of the immovable property located in Russia and may therefore conservatively seek to apply Russian withholding income tax to the amount of consideration paid to the Non-Resident Holder — Legal Entity.

Notwithstanding the above, the Russian Tax Code provides for a special exemption for capital gains realised by foreign legal entities or organizations, otherwise than through their permanent establishment in Russia, on the sale (or other disposal) of shares that qualify as securities traded on an organized securities market as defined in the Russian Tax Code. Therefore, as long as the Shares and the GDSs qualify as securities traded on the organized securities market, capital gains arising from the sale (or other disposal) of the Shares and the GDSs by Non-Resident Holders – Legal Entities should not be subject to Russian income tax withholding in Russia.

Russian withholding income tax may be reduced or eliminated under an applicable double tax treaty for entities qualifying for the relevant treaty benefits.

Each Non-Resident Holder — Legal Entity should consult its own tax advisors with respect to the tax consequences relating to the sale (or other disposal) of the Shares and the GDSs in its particular circumstances.

Taxation of Holders – Individuals

Taxation of the Acquisition of the Shares and the GDSs

Acquisition of the Shares and the GDSs by Holders – Individuals may constitute a taxable event for Russian personal income tax purposes pursuant to provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of the acquisition of securities. In particular, if the acquisition price of the Shares and the GDSs is below the lower margin of the fair market value of the Shares and the GDSs, calculated based on a specific procedure for the determination of market prices of securities for Russian personal income tax purposes, the difference may become subject to Russian personal income tax at the rate of 13 per cent (or such other tax rate as may be effective at the time of acquisition) for Resident Holders – Individuals and, if deemed to be Russian-source income, 30 per cent (or such other tax rate as may be effective at the time of acquisition) for Non-Resident Holders – Individuals, which may in the latter case, arguably, be subject to reduction or elimination under an applicable double tax treaty.

Under Russian tax law, the taxation of income of Non-Resident Holders – Individuals will depend on whether this income is qualified as having been received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, in practice the Russian tax authorities may infer that such income should be considered to be Russian source income if the Shares and the GDSs are purchased "in Russia." In the absence of any guidance as to what should be considered a purchase of Shares and GDSs "in Russia," the Russian tax authorities may apply various criteria in order to determine the source of the related material benefit, including looking at the place of conclusion of the acquisition transaction, the location of the issuer, or other similar criteria. There is no assurance, therefore, that any material benefit received by Non-Resident Holders – Individuals in connection with the acquisition of the Shares and the GDSs will not become taxed in Russia.

Taxation of Dividends: Resident Holders – Individuals

Dividends paid to Resident Holders – Individuals should generally be subject to Russian tax withholding at a rate of 13 per cent or lower (depending on the amount of dividends to be distributed by the Company and the amount of dividends received by the Company).

The procedure of taxation of dividends on Shares and GDSs which are accounted for on the Special Depositary Accounts is described in "*Application of the Russian Withholding Tax on Dividends paid on the Shares and the GDSs Accounted for on the Special Depositary Accounts*" below.

Taxation of Dividends: Non-Resident Holders – Individuals

Dividends paid to Non-Resident Holders – Individuals should generally be subject to Russian withholding tax at a 15 per cent rate, subject to reduction based on the applicable double tax treaty.

The procedure of application for double tax treaty benefit (exemption or withholding at a reduced tax rate in Russia) is described in "*Tax Treaty Relief*" below.

The procedure of taxation of dividends on the Shares and the GDSs which are accounted for in the Special Depositary Accounts is described in "*Application of the Russian Withholding Tax on Dividends paid on the Shares and the GDSs Accounted for on the Special Depositary Accounts*" below.

Taxation of Disposal of Shares and GDSs: Resident Holders – Individuals

To be read in conjunction with the Section "Holders – Individuals (general provisions applicable to both Resident and Non-Resident Individuals)"

Under Russian tax law, capital gains arising from the sale, exchange or other disposal of Shares and GDSs by Resident Holders – Individuals are subject to personal income tax at a rate of 13 per cent.

If the tax is not withheld, the Resident Holder – Individuals would be liable to file a tax return individually, report the amount of income realised to the Russian tax authorities and apply for a deduction of the acquisition price and other expenses related to the acquisition, holding and disposition of the Shares and the GDSs, confirmed by supporting documentation.

Under certain circumstances, losses incurred by a Resident Holder – Individual as a result of the disposition of the Shares and the GDSs may be carried forward for ten years and applied against future gains on operations with securities or derivatives.

Resident Holders – Individuals should consult their own tax advisors with respect to the tax consequences of the receipt of proceeds from a sale, exchange or other disposal of the Shares and the GDSs and the possibility to benefit from any double tax treaty relief or to obtain the refund of any taxes withheld.

Taxation of Disposal of Shares and GDSs: Non-Resident Holders – Individuals

According to Russian tax law, the taxation of capital gains realised on a sale, exchange or other disposal of Shares and GDSs by Non-Resident Holder – Individuals will depend on whether this income is considered as having been received from Russian or non-Russian sources. If the income is considered received from a non-Russian source, it is not subject to taxation in Russia.

The Russian Tax Code does not contain any clear guidance as to when the income from the sale, exchange or other disposition of Shares and GDSs should be deemed to be received from Russian sources, other than that such income should be considered Russian source income if the Shares and the GDSs are sold or disposed of "in Russia". In absence of any additional guidance as to what should be considered a sale, exchange or other disposition of securities "in Russia", the Russian tax authorities may apply various criteria in order to determine the source of the sale, exchange or other disposition, including looking at the place of the conclusion of the transaction, the location of the Issuer, or other similar criteria. Regarding the sale, exchange or other disposition of the Shares and the GDSs, the Ministry of Finance expressed an opinion in its letters that when determining the source of such income, the main criterion is the location of the register where the transfer of title takes place.

In practice, it is unlikely that the tax authorities would impose tax when the sale, exchange or other disposal of the Shares and the GDSs is made outside of Russia by non-residents. If, however, income from the sale, exchange or other disposal of the Shares and the GDSs by a Non-Resident Holder – Individual is considered to be received from a Russian source, it would be subject to tax at a rate of 30 per cent (unless any benefit under an applicable double taxation treaty is available) on the difference between the sale proceeds and expenses incurred for the acquisition, ownership and disposal of the Shares and the GDSs. If the sale, exchange or other disposal is made through a tax agent, the latter should withhold the tax if the income is deemed to be received from a Russian source. The tax agent would be required to report to the Russian tax authorities the income realized by the Non-Resident Holder – Individual and tax withheld upon the sale, exchange or other disposal of the Shares and the GDSs. If the Shares and the GDSs are not sold via a tax agent, generally no Russian personal income tax should be withheld at source. If the tax is not withheld, the Non-Resident Holder – Individual could be liable to file a tax return individually, report the amount of Russian-sourced income realised to the Russian tax authorities and apply for a deduction of the acquisition price and other expenses related to the acquisition, holding and sale, exchange or other disposal of the Shares and the GDSs, confirmed by supporting documentation, or apply for a benefit under an applicable double taxation treaty (see "*Tax Treaty Procedures*").

Please also refer to the Section "*Taxation of Disposal of Shares and GDSs: Holders – Individuals (general provisions applicable to both Resident and Non-Resident Individuals)*".

Non-Resident Holders – Individuals should consult their own tax advisors with respect to the tax consequences of the receipt of proceeds from a sale, exchange or other disposal of the Shares and the GDSs and the possibility to benefit from any double tax treaty relief or to obtain the refund of any taxes withheld.

<u>Taxation of Disposal of Shares and GDSs: Holders – Individuals (general provisions applicable to both Resident and Non-Resident Individuals)</u>

The tax base in respect of a sale, exchange or other disposal of Shares and GDSs by an individual is calculated as the disposal proceeds less documentary confirmed expenses related to the acquisition, ownership and disposal of such Shares and such GDSs.

The redemption of depositary receipts when the underlying securities are received by Holders – Individuals and the transfer of underlying shares upon the placement of depositary receipts certifying rights in underlying shares do not constitute a sale or other disposal of securities for Russian personal income tax purposes.

In case of the sale, exchange or other disposal of the underlying shares upon redemption of depositary receipts, to calculate the taxable income Holders – Individuals may reduce the amount of disposal proceeds by the amount of expenses associated with the acquisition of depositary receipts and the sale (or other disposal) of the underlying shares. In this respect, where an individual acquires depositary receipts when they were placed, subject to the transfer of the underlying securities, the acquisition price of those depositary receipts will be determined on the basis of the expenses associated with the acquisition of the underlying securities and expenses associated with the transfer of the underlying securities.

Accordingly, in the case of the sale or other disposal of depositary receipts received as a result of their placement, to calculate taxable income Holders – Individuals may reduce the amount of disposal proceeds by the amount of expenses associated with the acquisition of the underlying shares, expenses associated with their transfer and sale (or other disposal) of the depositary receipts. In this respect, where an individual acquires underlying shares upon the redemption of depositary receipts, the acquisition price of those underlying shares will be determined on the basis of the expenses associated with acquisition of the depositary receipts and expenses associated with the redemption of the depositary receipts.

The special provisions of the tax law addressing the deductible expenses in the case of the sale of the underlying shares upon redemption of the depositary receipts or the sale of depositary receipts issued for acquired shares do not directly mention expenses associated with ownership. Although, deduction of such expenses should in principle be allowed under the general rules of taxable base calculation with respect to income from transactions with securities, the risk of challenge by the tax authorities of the deductibility of expenses incurred with respect to ownership may not be excluded in such situation.

If the disposal is made by a Holder through a Russian tax agent which is defined as a Russian asset manager or a Russian broker acting under an asset management agreement, a brokerage agreement, an agency agreement, a commission agreement or a commercial mandate agreement, such tax agent should withhold the applicable tax after taking into account documented expenses related to the acquisition, ownership and a disposition of such securities. If the Shares and the GDSs are not sold via a Russian tax agent, generally no Russian personal income tax should be withheld at source.

Under certain circumstances gains received and losses incurred by a Holder – Individual as a result of disposition of the Shares and the GDSs may be aggregated with gains and losses incurred as a result of disposition of other securities or derivatives in the same year which would affect the tax on income realised from the disposition of the Shares and the GDSs.

With respect to transactions with respect to the Shares and the GDSs traded on an organized stock market conducted by individuals, any such losses resulting from such operations reducing taxable base of operations with the securities traded on an organized stock market should be subject to limitations established by the Russian Tax Code.

Since capital gains and deductible expenses for Russian tax purposes are calculated in roubles, the taxable base could be affected by changes in the rouble exchange rates.

Tax Treaty Relief

The Russian Federation has concluded double taxation treaties with a number of countries and honors some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double taxation treaties may contain provisions that allow recipients to reduce or eliminate Russian income tax due with respect to income received by Non-Resident Holders from Russian sources, including income relating to the acquisition, holding, sale and disposal of the Shares and the GDSs (if this income is treated as income from Russian sources). To the extent double tax treaty benefits are available, in order to apply for such benefits, Non-Resident Holders must comply with the certification, information and reporting requirements in force in the Russian Federation (relating, in particular, to the confirmation of the entitlement and eligibility to treaty benefits).

In order to claim the double tax treaty benefits, a Non-Resident Holder – Legal Entity which has the actual right to receive income (*i.e.*, who qualifies as a "beneficial owner of income") should provide the tax agent with a tax residency certificate before the date of the income payment. Starting from 1 January 2017, there is an obligation for a non-resident income recipient to provide the tax agent with confirmation that it has an actual right to receive the income in order to enjoy the double tax treaty benefits.

In order to apply for tax exemption or payment of tax at a reduced tax rate under a double tax treaty, a Non-Resident Holder – Individual should provide to the tax agent (i) a passport of a foreign jurisdiction in order to prove his/her tax residency status in the foreign jurisdiction, or (ii) another document envisaged by any applicable federal law or recognized as a personal identity document of a foreign resident in accordance with an international treaty. If this document is not sufficient to prove the residency status, the tax agent may request the Non-Resident Holder – Individual to provide a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes. It is not clear whether, under the new law, Russian citizens may enjoy exemption from taxation at source under the respective double tax treaty. It is not clear from the law how the tax agent will determine whether a passport is sufficient to confirm the individual's eligibility for double tax treaty benefits.

Within 30 days upon payment of income, subject to tax exemption or withholding at a reduced tax rate under a double tax treaty, the tax agent is obliged to submit information to the Russian tax authorities on foreign individuals (passport details and citizenship) and income (type of income, amount of income and date of payment).

The procedure of elimination of double taxation of Non-Resident Holders – Individuals in the case of absence of a tax agent is not explicitly indicated in the Russian Tax Code.

The procedure for obtaining double tax treaty relief with respect to Russian withholding tax on dividends paid on Shares and GDSs accounted for on the Special Depositary Accounts is described in "*Application of the Russian Withholding Tax on Dividends paid on the Shares and the GDSs Accounted for in the Special Depositary Accounts*".

Non-Resident Holders should consult their own tax advisors regarding the possibility of obtaining tax treaty benefit and the procedures required to be fulfilled for obtaining such benefit with respect to any Russian taxes imposed in respect of income received in connection with the acquisition, holding and the sale or other disposal of the Shares and the GDSs.

Refund of Tax Withheld

If Russian withholding tax on income derived from Russian sources by a Non-Resident Holder – Legal Entity was withheld at source, a claim for a refund of the Russian income tax that was excessively withheld at source can be filed by that Non-Resident Holder – Legal Entity with the Russian tax authorities within three years following the year in which the tax was withheld, provided that such Non-Resident Holder – Legal Entity is entitled to the benefits of an applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income. There is no assurance that such refund will be possible in practice.

If Russian personal income tax applicable to income derived from Russian sources by a Non-Resident Holder – Individual, for whom double tax treaty relief is available, was withheld at source despite the right of such Non-Resident Holder – Individual to be able to rely on the benefits from an applicable double tax treaty allowing the individual not to pay the tax in Russia or allowing the individual to pay the tax at the reduced tax rate in relation to such income, a claim for a refund of Russian personal tax which was excessively withheld at source and an application of the benefits of the applicable double tax treaty, together with a passport for the foreign individual/tax residency certificate issued by the competent authorities in his/her country of residence may be filed by that Non-Resident Holder – Individual with the tax agent within three years following the tax year in which the corresponding income was received. In the absence of a tax agent who withheld the Russian personal income tax under consideration (for instance, in the case of a liquidation of the tax agent), such an application for a refund may be filed with the Russian tax authorities within the same period (three years from the date when the tax was paid) accompanied by the Russian tax return, a tax residency certificate and documentation proving the tax withholding to the Russian tax authorities. There can be no assurance that the tax agent and/or the Russian tax authorities will refund this tax in practice.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information which has to be provided by a foreign person to the Russian tax authorities for tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming the right of a Non-Resident Holder to obtain tax relief available under an applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may depend on the position of local representatives of the tax inspectorates.

Obtaining a refund of Russian taxes that were excessively withheld at source is likely to be a time consuming process and no assurance can be given that such refund will be granted to a Non – Resident Holder in practice.

The procedure for obtaining a Russian withholding tax refund with respect to the Russian withholding tax on dividends paid on the Shares and the GDSs accounted for in the Special Depositary Accounts is described in "*Application of the Russian Withholding Tax on Dividends paid on the Shares and the GDSs Accounted for in the Special Depositary Accounts*".

Non-Resident Holders should consult their own tax advisors regarding the possibility of obtaining a tax refund and the procedures required to be fulfilled in order to apply for a refund of tax withheld in excess.

Application of the Russian Withholding Tax on Dividends paid on the Shares and the GDSs Accounted for in the Special Depositary Accounts *(applies to both Holders – Individuals and Holders – Legal Entities)*

The Russian depositaries are responsible for calculating and withholding the Russian withholding tax due on the income paid on the (i) state securities of the Russian Federation, state securities of the constituent territories of the Russian Federation and municipal securities with mandatory centralized safekeeping, (ii) issuance securities with mandatory centralized safekeeping issued by the Russian organizations which were registered or were assigned with ISIN after 1 January 2012, and (iii) other issuance securities issued by Russian organizations, excluding the securities with mandatory centralized safekeeping which were registered or were assigned with ISIN before 1 January 2012, if those securities are recorded in the following depositary accounts (the "**Special Depositary Accounts**"):

- depositary account of a foreign nominee holder;
- depositary account of a foreign authorized holder;
- depositary account of a depositary program.

The Shares and the GDSs meet the abovementioned requirements with respect to the types of securities and if the Shares and the GDSs (partly or fully) are accounted for in the Special Depositary Accounts, the

Russian depositary will act as the Russian tax agent with respect to the payment of dividends on the Shares and the GDSs accounted for in the Special Depositary Accounts.

The Russian depositary acting as a tax agent with respect to payment of dividends on the Shares and the GDSs should withhold tax at a reduced rate under the provisions of a relevant double tax treaty on the basis of the "aggregate" reporting (as described below) if the application of the reduced rate on dividends is not subject to any special requirements envisaged by the relevant double tax treaty (such as the value of investment and/or ownership percentage in the share capital). If the application of the reduced rate with respect to dividends on Shares and GDSs is subject to special requirements envisaged by the relevant double tax treaty (*i.e.*, the value of investment and/or ownership percentage in the share capital), the Russian depositary acting as a tax agent should nevertheless withhold tax at the maximum double tax treaty rate, which is not subject to special requirements, established by the respective double tax treaty.

The Russian depositary acting as a tax agent should be provided with the aggregate information on persons exercising their rights concerning the Shares and the GDSs and who are the beneficial owners of income payable on the Shares and the GDSs, including the data on the amount of the Shares and the GDSs belonging to such persons, and the jurisdictions of tax residence of such persons and applicable tax rates (based on the Russian Tax Code (with respect to the Resident Holders) or the relevant double tax treaty (with respect to the Non-Resident Holders)).

In case the aggregate information was not duly provided to the Russian depositary acting as a tax agent, the dividends on the Shares and the GDSs should be subject to Russian withholding tax at source at 15 per cent tax rate irrespective of the category of the Holders.

The refund of the excessively withheld tax could be claimed by the Holders (including Resident Holders and Non-Resident Holders) from the Russian tax authorities; the tax refund will require the provision by the relevant Holder of information and documents confirming the right to a reduced tax rate. Although the Russian Tax Code arguably contains an exhaustive list of documents and information which has to be provided to the Russian tax authorities for tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming the right of the Holder to obtain tax relief available under the applicable double tax treaty or the Russian Tax Code. Such documentation may not be explicitly required by the Russian Tax Code and may depend on the position of local representatives of the tax inspectorates. Obtaining a refund of Russian taxes that were excessively withheld at source is likely to be a time consuming process and no assurance can be given that such refund will be granted to the Holder in practice.

The Russian Tax Code explicitly states that the Russian depositary acting as a tax agent is not liable for the tax unduly withheld due to the misstatements in the aggregate reporting received. It remains unclear who is liable for tax which was not withheld. Although currently there is no requirement and mechanism in Russian tax legislation for foreign income recipients which are the legal entities to self-assess and pay the tax to the Russian revenue, there can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients, including the Non-Resident Holders – Legal Entities.

Holders should consult their own tax advisors regarding the procedures required to be fulfilled in order to obtain treaty relief in practice (or apply the reduced tax rate based on the provisions of the Russian Tax Code) with respect to any Russian taxes or obtain a refund of excessively withheld tax on income received by the Holder in the form of dividends on the Shares and the GDSs accounted for in the Special Depositary Accounts.

Stamp Duty

No Russian stamp duty should be payable by the Holders upon a purchase or a sale of the Shares and the GDSs discussed in this section of this Prospectus.

United Kingdom Tax Considerations

The following is a general summary of certain United Kingdom tax considerations relating to the purchase, ownership and disposition of the GDSs. It is based upon UK tax law as applied in England and published H.M. Revenue & Customs ("HMRC") practice as of the date of this Prospectus as well as the provisions of the 1994 double taxation treaty between the United Kingdom and Russia, each of which is subject to change, possibly with retrospective effect.

This summary applies only to persons who are resident (and in the case of individuals, resident and domiciled) in the United Kingdom for tax purposes, who are not resident for tax purposes in any other jurisdiction and do not have a permanent establishment or fixed base in any other jurisdiction with which the holding of the GDSs is connected. Except where noted, the discussion relates only to the position of holders of the GDSs who hold the GDSs as investments and are the absolute beneficial owners thereof (and, consequently, do not hold the GDSs in connection with any trade). This discussion does not include consideration of the UK tax consequences of an investment in the Shares. This summary may not apply to persons in special situations, such as those benefitting from certain reliefs or exemptions, financial institutions, investment funds, trustees or persons who are or become connected with the Company or Group other than through their holding of the GDSs.

The discussion does not constitute legal or tax advice and, accordingly, prospective investors are urged to consult their own tax advisors prior to investing with respect to their own particular circumstances and the particular tax considerations applicable to them relating to the purchase, ownership and position of the GDSs.

Taxation of Dividends

Withholding tax

Dividend payments in respect of the GDSs may be made without withholding or deduction for or on account of United Kingdom income tax. As discussed in "*—Russian Federation Tax Considerations—Taxation of Dividends*", amounts in respect of such dividends will be subject to Russian withholding taxes.

Currency of Dividends

Holders of the GDSs that are resident in the United Kingdom for tax purposes should note that their liability to UK tax in respect of dividends paid by the Company will be determined by reference to the amount of the dividend in the currency in which it is paid, which may not be the same as the U.S. dollar amount received by such holders from the Depositary in respect of such dividend.

UK Resident Individuals

Dividends received by a UK resident individual for UK tax purposes, will generally be subject to UK income tax on the gross amount of any dividend paid on the GDSs (before the deduction of any Russian withholding tax). Credit may be given for Russian tax withheld, subject to the UK tax rules regarding calculation and availability of such credit. UK resident individual holders of the GDSs should generally be entitled to a tax-free dividend nil rate band of £5,000 on the total amount of dividend income received by the individual in the tax year. The UK Government has announced that the dividend nil rate band will be reduced to £2,000 in the 2018/19 year. Amounts received in excess of this allowance are subject to UK income tax at the relevant dividend rates. The current rate of UK income tax which is chargeable on dividends received by (i) additional rate taxpayers is 38.1%, (ii) higher rate taxpayers is 32.5%, and (iii) basic rate taxpayers is 7.5%. An individual's dividend income is treated as the top slice of their total income which is chargeable to UK income tax. On 8 March 2017, the UK Government announced that the dividend nil rate band would be reduced from £5,000 to £2,000. In light of the recent General Election, it is uncertain whether the reduction that was announced will be implemented.

Corporation Tax

Holders of the GDSs which are companies within the charge to UK corporation tax (by reason of being resident in the UK for tax purposes or carrying on a trade through a permanent establishment in the UK to which the GDSs are attributable) should generally be entitled to exemption from UK corporation tax in respect of dividend payments. If the conditions for exemption are not satisfied, or a Holder of the GDSs elects for a dividend to be taxable, UK corporation tax will be chargeable on the gross amount of any dividends received from the Company (before deduction of any Russian withholding tax), subject to any applicable credit for Russian withholding tax. If potential investors are in any doubt as to their position, they should consult their own professional tax advisors.

Credit for Russian Tax

Credit may be given for Russian tax withheld from dividends, subject to general rules regarding the calculation and availability of such credit, including a requirement to take all reasonable steps to minimize the amount of Russian tax on such dividends, including obtaining relief at source and any available refunds. Where a dividend paid by the Company is treated as exempt from UK corporation tax, a UK resident company will not be entitled to claim relief by way of credit in the United Kingdom in respect of any Russian tax paid by such holder, either directly or by deduction, in respect of that dividend.

United Kingdom information reporting

Any persons in the United Kingdom through whom payments derived from the GDSs are made or who receive (or would be entitled to receive) such payments relating to the GDSs on behalf of others may be required to provide information in relation to the payment to HMRC pursuant to certain domestic and international reporting and transparency regimes. The information that is disclosed may include (but is not limited to) information relating to the beneficial owners of the GDSs or the persons for whom such securities are held, details of the persons to whom payments derived from the GDSs are or may be paid and information and documents in connection with transactions relating to the GDSs. These provisions will apply whether or not the payments that derive from the GDSs have been subject to withholding or deduction for or on account of UK tax and whether or not the holder is resident in the United Kingdom for UK tax purposes. In certain circumstances, HMRC may communicate this information to the tax authorities of certain other jurisdictions.

Disposals of the GDSs

For the purposes of UK taxation on chargeable gains, the disposal or deemed disposal of the GDSs by a UK resident individual holder of the GDSs may, depending on his or her individual circumstances, give rise to a chargeable gain or to an allowable loss for the purpose of UK capital gains tax. The principal factors that will determine the capital gains tax position on a disposal of GDSs are the extent to which the holder realizes any other capital gains in the tax year in which the disposal is made, the extent to which the holder has incurred capital losses in that or any earlier tax year and the level of the annual allowance of tax-free gains in that tax year (the "**Annual Exemption**"). The current Annual Exemption is £11,300. Upon the disposal or deemed disposal of the GDSs and after all allowable deductions, a UK resident individual holder of the GDSs' taxable chargeable gains would currently be taxed at (i) 10 per cent; or (ii) 20 per cent, where the taxable income for the year of the relevant holder exceeds the basic rate income tax limit.

An individual holder of the GDSs who ceases to be resident in the United Kingdom for a period of five years or less and who disposes of his or her GDSs during that period of temporary non-residence may be liable to UK capital gains tax on a chargeable gain accruing on such disposal on his or her return to the United Kingdom (subject to available exemptions and reliefs).

An individual holder of the GDSs who is neither resident nor ordinarily resident in the UK for UK tax purposes and who does not return to the United Kingdom within five tax years of disposal of the GDSs will not normally be liable for UK tax on gains realised on the disposal of such GDSs unless, at the time of disposal, such holder carries on a trade, profession or vocation in the UK through a branch or agency to which the GDSs are attributable.

A disposal of the GDSs by a corporate holder which is resident in the UK for the purposes of UK tax, may give rise to a chargeable gain or an allowable loss for the purposes of UK corporation tax. Such a holder should be entitled to an indexation allowance, which (broadly) applies to reduce capital gains to the extent that such gains arise due to inflation. The allowance may reduce a chargeable gain but will not create an allowable loss.

Stamp Duty and Stamp Duty Reserve Tax

No liability to stamp duty or stamp duty reserve tax ("**SDRT**") should generally arise on the issue of the GDSs.

No UK stamp duty or SDRT will be payable on any transfer of the GDSs once they are issued into DTC, Euroclear or Clearstream, Luxembourg (as applicable), where such transfer is effected in electronic book-entry form in accordance with the procedures of DTC, Euroclear or Clearstream, Luxembourg (as applicable).

The transfer on sale of GDSs (or an agreement to transfer an equitable interest only in GDSs) may give rise to a liability to UK stamp duty at a rate of 0.5 per cent of the amount or value of the consideration given for the sale or agreement to transfer. However, assuming that no document effecting a transfer of, or containing an agreement to transfer an equitable interest only in, the GDSs is either (i) executed in the United Kingdom or (ii) relates to any property situated, or to any matter or thing done or to be done, in the United Kingdom (the term "matter or thing" is very wide and may include the involvement of a UK bank account in payment mechanics), then no UK stamp duty should be payable on such a document. No UK SDRT should be payable in respect of any agreement to transfer the GDSs.

Inheritance Tax

Since it is not intended that the GDSs will be registered in any register kept in the United Kingdom, the GDSs should constitute assets located outside the UK for the purposes of UK inheritance tax. As a result, on the death of an individual UK investor, inheritance tax could be payable if, but only if, the individual UK investor is domiciled or deemed domiciled in the UK for such purposes at the time of death. Inheritance tax may also be payable in certain circumstances in relation to GDSs held in trust if the settlor of the trust is so domiciled or deemed domiciled.

U.S. Federal Income Tax Considerations for U.S. Holders

The following is a discussion of certain U.S. federal income tax considerations relating to the purchase, ownership and disposition of the GDSs by U.S. Holders (as defined below) that purchase such GDSs pursuant to the Offering by the Selling Shareholders and hold such GDSs as capital assets for U.S. federal income tax purposes. This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), U.S. Treasury regulations promulgated or proposed thereunder, administrative and judicial interpretations thereof and the income tax treaty between the United States of America and the Russian Federation (the "**Tax Treaty**"), all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect, or to different interpretation. This discussion does not address all of the U.S. federal income tax considerations that may be relevant to specific U.S. Holders in light of their particular circumstances or to U.S. Holders subject to special treatment under U.S. federal income tax law (such as banks, insurance companies, dealers in securities or other U.S. Holders that generally mark their securities to market for U.S. federal income tax purposes, tax-exempt entities, retirement plans, regulated investment companies, real estate investment trusts, certain former citizens or residents of the United States, U.S. Holders that hold the GDSs as part of a straddle, hedge, conversion or other integrated transaction, U.S. Holders that have a "functional currency" other than the U.S. dollar, U.S. Holders that own (or are deemed to own) 10% or more (by voting power) of the Company's stock or U.S. Holders that receive the GDSs as compensation). This discussion does not address any U.S. state or local or non-U.S. tax considerations or any U.S. federal estate, gift or alternative minimum tax considerations.

As used in this discussion, the term "U.S. Holder" means a beneficial owner of a GDS that, for U.S. federal income tax purposes, is (i) an individual who is a citizen or resident of the United States, (ii) a corporation created or organized in or under the laws of the United States, any state thereof, or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source or (iv) a trust (x) with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (y) that has in effect a valid election under applicable U.S. Treasury regulations to be treated as a U.S. person.

If an entity treated as a partnership for U.S. federal income tax purposes invests in a GDS, the U.S. federal income tax considerations relating to such investment will depend in part upon the status and activities of such entity and the particular partner. Any such entity should consult its own tax advisor regarding the U.S. federal income tax considerations applicable to it and its partners relating to the purchase, ownership and disposition of a GDS.

Except as discussed below under "—*Passive Foreign Investment Company Considerations*", this discussion assumes that the Company is not and will not be a passive foreign investment company for U.S. federal income tax purposes.

EACH PERSON CONSIDERING AN INVESTMENT IN A GDS SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE U.S. FEDERAL, STATE AND LOCAL AND NON-U.S. TAX CONSIDERATIONS RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF A GDS IN LIGHT OF SUCH PERSON'S PARTICULAR CIRCUMSTANCES.

Treatment of the GDSs

A U.S. Holder of a GDS generally should be treated for U.S. federal income tax purposes as the owner of such U.S. Holder's proportionate interest in the Shares held by the Depositary (or its custodian) that are represented and evidenced by such GDS. Accordingly, any deposit or withdrawal of the Shares by a U.S. Holder in exchange for a GDS generally should not result in the realization of gain or loss to such U.S. Holder for U.S. federal income tax purposes. This discussion assumes that a U.S. Holder will be treated for U.S. federal income tax purposes as the owner of such U.S. Holder's proportionate interest in the Shares held by the Depositary (or its custodian) that are represented and evidenced by such GDS.

Distributions

A U.S. Holder that receives a distribution of cash or other property (other than certain distributions of the Company's stock or rights to acquire the Company's stock) with respect to a GDS generally will be required to include the amount of such distribution in gross income as a dividend (without reduction for any non-U.S. tax withheld from such distribution) to the extent of the Company's current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). To the extent the amount of such distribution exceeds such current and accumulated earnings and profits, it generally will be treated first as a non-taxable return of capital to the extent of such U.S. Holder's adjusted tax basis in such GDS and then as gain (which will be treated in the manner described below under "*Sale, Exchange or Other Disposition of the GDSs*"). The Company has not maintained and does not plan to maintain calculations of earnings and profits for U.S. federal income tax purposes. As a result, a U.S. Holder may need to include the entire amount of any such distribution in income as a dividend.

The amount of any distribution on a GDS made in roubles is the U.S. dollar value of the amount distributed translated at the spot rate of exchange on the date such distribution is received by the Depositary. Such U.S. Holder generally will have a basis in such roubles equal to the U.S. dollar value of such roubles on the date of such receipt. Any gain or loss on a conversion or other disposition of such roubles generally will be treated as ordinary income or loss from sources within the United States.

A distribution on a GDS that is treated as a dividend generally will constitute income from sources outside the United States and generally will be categorized for U.S. foreign tax credit purposes as "passive category income" or, in the case of some U.S. Holders, as "general category income". Such dividend will not be eligible for the "dividends received" deduction generally allowed to corporate shareholders with respect to dividends received from U.S. corporations. A U.S. Holder may be eligible to elect to claim a U.S. foreign tax credit against its U.S. federal income tax liability, subject to applicable limitations and holding period requirements, for any non-U.S. tax withheld from distributions received in respect of a GDS. A U.S. Holder that does not elect to claim a U.S. foreign tax credit for non-U.S. income tax withheld may instead claim a deduction for such withheld tax, but only for a taxable year in which the U.S. Holder elects to do so with respect to all non-U.S. income taxes paid or accrued by such U.S. Holder in such taxable year. If Russian tax is withheld at a rate in excess of the rate applicable to a U.S. Holder under the Tax Treaty, the U.S. Holder may not be entitled to a foreign tax credit for the excess amount. See "*Taxation—Russian Federation Tax Considerations—Application of the Russian Withholding Tax on Dividends paid on the Securities Accounted for on the Special Depositary Accounts*" above. The rules relating to U.S. foreign tax credits are very complex, and each U.S. Holder should consult its own tax advisor regarding the application of such rules.

A distribution on a GDS treated as a dividend that is received by an individual (or certain other non-corporate U.S. Holders) from a "qualified foreign corporation" generally qualifies for preferential rates of tax so long as (i) the distributing corporation is not a passive foreign investment company (as described below under "*—Passive Foreign Investment Company Considerations*") during the taxable year in which the distribution is made or the preceding taxable year and (ii) certain holding period and other requirements are met. Dividends paid on a GDS should qualify for the preferential rates of tax if the Company is treated as a qualified foreign corporation and the conditions in clauses (i) and (ii) above are met. A non-U.S. corporation generally will be considered to be a qualified foreign corporation if it is eligible for the benefits of a comprehensive income tax treaty with the United States that the U.S. Treasury determines is satisfactory for purposes of this provision and that includes an exchange of information program. The Tax Treaty as currently in effect meets these requirements. In order to be considered eligible for the benefits of the Tax Treaty, the Company must be a resident of the Russian Federation within the meaning of the Tax Treaty and satisfy any other requirements of the Tax Treaty, including the requirement under the limitation on benefits provision. The requirement under the limitation on benefits provision of the Tax Treaty would generally be satisfied if the shares of the Company are traded "on a substantial and regular basis on an officially recognized securities exchange" in the Russian Federation. It is unclear whether the Company will satisfy this requirement of the Tax Treaty. No assurance can be given that the Company will be treated as a qualified foreign corporation for these purposes and that such preferential rates of tax will apply to dividends paid on a GDS held by a U.S. Holder. Each U.S. Holder that is a non-corporate taxpayer should consult its own tax advisor regarding the possible applicability of the preferential rates of tax and the related restrictions and special rules.

Sale, Exchange or Other Disposition of the GDSs

A U.S. Holder generally will recognize gain or loss for U.S. federal income tax purposes upon the sale, exchange or other disposition of a GDS in an amount equal to the difference, if any, between the amount realized on the sale, exchange or other disposition and such U.S. Holder's adjusted tax basis in such GDS. Any gain or loss so recognized generally will be capital gain or loss and will be long-term capital gain or loss if such U.S. Holder has held such GDS for more than one year at the time of such sale, exchange or other disposition. Net long-term capital gain of certain non-corporate U.S. Holders generally is subject to preferential rates of tax. The deductibility of capital losses is subject to limitations. Such gain or loss generally will be from sources within the United States. As discussed above under "*Taxation—Russian Federation Tax Considerations—Taxation of the Securities*", gain realized on the sale, exchange or other disposition of a GDS by a U.S. Holder may be subject to Russian income tax. Each U.S. Holder should consult its own tax advisor regarding its ability to credit such Russian taxes against its U.S. federal income tax liability in its particular circumstances.

A U.S. Holder that receives non-U.S. currency from the sale, exchange or other disposition of a GDS generally will realize an amount equal to the U.S. dollar value of such non-U.S. currency translated at the spot rate of exchange on the settlement date of such sale, exchange or other disposition if (i) such U.S. Holder is a cash basis or electing accrual basis taxpayer and the GDS is treated as being "traded on an established securities market" or (ii) such settlement date is also the date of such sale, exchange or other disposition. Such U.S. Holder generally will have a basis in such non-U.S. currency equal to the U.S. dollar value of such non-U.S. currency on the settlement date. Any gain or loss on a conversion or other disposition of such non-U.S. currency by such U.S. Holder generally will be treated as ordinary income or loss from sources within the United States. Each U.S. Holder should consult its own tax advisor regarding the U.S. federal income tax consequences of receiving non-U.S. currency from the sale, exchange or other disposition of a GDS in cases not described in the first sentence of this paragraph.

Passive Foreign Investment Company Considerations

The Company believes that it was not in 2016, and it does not currently expect to become, a passive foreign investment company ("**PFIC**") for U.S. federal income tax purposes. However, because this determination is made annually at the end of each taxable year and is dependent upon a number of factors, some of which are beyond the Company's control, such as the value of its assets (including goodwill) and the amount and type of its income, there can be no assurance that the Company will not be a PFIC in any taxable year or that the Internal Revenue Service (the "**IRS**") will agree with the Company's conclusion regarding its PFIC status in any taxable year. If the Company is a PFIC in any taxable year, U.S. Holders could suffer materially adverse consequences as discussed below.

In general, a corporation organized outside the United States will be treated as a PFIC in any taxable year in which either (i) at least 75 per cent of its gross income is "passive income" or (ii) on average at least 50 per cent of the value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes, among other things, dividends, interest, royalties, rents, and gains from commodities transactions and from the sale or exchange of property that gives rise to passive income. In determining whether a non-U.S. corporation is a PFIC, a proportionate share of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25 per cent interest (by value) generally is taken into account. Income from the sale of commodities is generally passive income. However, a special rule treats active business gains from the sale of commodities as non-passive income provided certain requirements are met. While it is not free from doubt, we intend to apply this special rule when determining whether the Company is a PFIC.

If the Company is a PFIC in any taxable year during which a U.S. Holder owns a GDS, such U.S. Holder could be liable for additional taxes and interest charges upon certain distributions by the Company or upon a sale, exchange or other disposition of a GDS at a gain, whether or not the Company continues to be a PFIC. The tax would be determined by allocating such distributions or gain ratably to each day of such U.S. Holder's holding period. The amount allocated to the current taxable year and any holding period of such U.S. Holder prior to the first taxable year in which the Company is a PFIC would be taxed as ordinary income (rather than capital gain) earned in the current taxable year. The amount allocated to other taxable years would be taxed at the highest marginal rates applicable to ordinary income for each such taxable year, and an interest charge would also be imposed on the amount of taxes so derived for each such taxable year. In addition, a person who acquires a GDS from a deceased U.S. Holder who held such GDS in a taxable year in which the Company was a PFIC generally would be denied the step-up of the tax basis in such GDS for U.S. federal income tax purposes to the fair market value of such GDS at the date of such deceased U.S. Holder's death. Instead, such person would have a tax basis in such GDS equal to the lower of such fair market value or such deceased U.S. Holder's tax basis in such GDS.

The tax consequences that would apply if the Company were a PFIC would be different from those described above if a "mark-to-market" election were available and a U.S. Holder validly made such an election as of the beginning of such U.S. Holder's holding period. If such election were made, (i) such U.S. Holder generally would be required to take into account the difference, if any, between the fair market value of, and its adjusted tax basis in, a GDS at the end of each taxable year in which the Company was a PFIC as ordinary income or, to the extent of any net mark-to-market gains previously included in income, ordinary loss, and to make corresponding adjustments to the tax basis in such GDS and (ii) any gain from a sale, exchange or other disposition of such GDS in a taxable year in which the Company was a PFIC would be treated as ordinary income, and any loss from such sale, exchange or other disposition would be treated first as ordinary loss (to the extent of any net mark-to-market gains previously included in income) and thereafter as capital loss. A mark-to-market election would be available to a U.S. Holder if the GDS is considered "marketable stock". Generally, stock is considered marketable stock if it is "regularly traded" on a "qualified exchange" within the meaning of the applicable U.S. Treasury regulations. A class of stock is regularly traded during any calendar year during which such class of stock is traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. A non-U.S. securities exchange constitutes a qualified exchange if it is regulated or supervised by a governmental authority of the country in which the securities exchange is located and meets certain trading, listing, financial disclosure and other requirements set forth in U.S. Treasury regulations. No assurance can be given that the GDS will be considered marketable stock for these purposes.

The tax consequences that would apply if the Company were a PFIC would also be different from those described above if a U.S. Holder were eligible for and timely made a valid "qualified electing fund" ("**QEF**") election. If a QEF election were made, such U.S. Holder generally would be required to include in income on a current basis its *pro rata* share of the Company's ordinary income and net capital gains in each taxable year in which the Company is a PFIC. In order for a U.S. Holder to be able to make a QEF election, however, the Company would be required to provide such U.S. Holder with certain information. As the Company does not expect to provide U.S. Holders with the required information, prospective investors should assume that a QEF election would not be available.

If the Company is a PFIC in any taxable year during which a U.S. Holder owns a GDS, such U.S. Holder (i) may also suffer adverse tax consequences under the PFIC rules described above with respect to any other PFIC in which the Company has a direct or indirect equity interest and (ii) generally will be required to file annually a statement setting forth certain information with its U.S. federal income tax returns.

Prospective investors should consult their own tax advisors regarding the U.S. federal income tax consequences of an investment in a PFIC, including the potential extension of the period of limitations on assessment and collection of U.S. federal income taxes arising from a failure to file the statement described in the preceding paragraph.

Medicare Taxes

In addition to regular U.S. federal income tax, certain U.S. Holders that are individuals, estates or trusts are subject to a 3.8 per cent tax on all or a portion of their "net investment income," which may include all or a portion of their income arising from a distribution with respect to a GDS and net gain from the sale, exchange or other disposition of a GDS.

Information Reporting and Backup Withholding

Under certain circumstances, information reporting to the IRS and/or backup withholding may apply to U.S. Holders with respect to payments made on or proceeds from the sale, exchange or other disposition of a GDS, unless an applicable exemption is satisfied. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against a U.S. Holder's U.S. federal income tax liability if the required information is furnished by the U.S. Holder on a timely basis to the IRS.

Reportable Transactions

A U.S. Holder that participates in any "reportable transaction" (as defined in U.S. Treasury regulations) must attach to its U.S. federal income tax return a disclosure statement on IRS Form 8886. U.S. Holders should consult their own tax advisors as to the possible obligation to file IRS Form 8886 with respect to the sale, exchange or other disposition of any non-U.S. currency received as a distribution on a GDS or as proceeds from the sale, exchange or other disposition of a GDS.

Disclosure Requirements for Specified Foreign Financial Assets

Individual U.S. Holders (and certain U.S. entities specified in U.S. Treasury guidance) who, during any taxable year, hold any interest in any "specified foreign financial asset" generally will be required to file with their U.S. federal income tax returns certain information on IRS Form 8938 if the aggregate value of all such assets exceeds certain specified amounts. "Specified foreign financial asset" generally includes any financial account maintained with a non-U.S. financial institution and may also include a GDS if it is not held in an account maintained with a financial institution. Substantial penalties may be imposed, and the period of limitations on assessment and collection of U.S. federal income taxes may be extended, in the event of a failure to comply with these reporting requirements. U.S. Holders should consult their own tax advisors as to the possible application to them of this filing requirement.

Considerations under FATCA

Under the Foreign Account Tax Compliance Act provisions of the Code and related U.S. Treasury guidance ("**FATCA**"), a withholding tax of 30 per cent will be imposed in certain circumstances on (i) payments of certain U.S. source income (including interest and dividends) and gross proceeds from any sale or other disposition of property that can produce U.S. source interest or dividends ("**withholdable payments**") and (ii) payments that are "attributable" to withholdable payments ("**foreign passthru payments**") made by "foreign financial institutions" (such as banks, brokers, investment funds or certain holding companies). It is uncertain at present when payments will be treated as "attributable" to withholdable payments.

It is possible that, in order to comply with FATCA, the Company or the Depositary (or if a GDS is held through a financial institution, such financial institution) may be required, pursuant to an "FFI Agreement" with the United States or under applicable law (including pursuant to the terms of any applicable intergovernmental agreement relating to FATCA entered into between the United States and another jurisdiction (an "**IGA**")) to request certain information from the holders or beneficial owners of the GDS, which information may be provided to the IRS. In addition, it is possible that the Company or the Depositary or such other financial institution may be required to apply the FATCA withholding tax to any portion of any payment with respect to a GDS treated as a foreign passthru payment made after December 31, 2018 (or, if later, the date on which the final U.S. Treasury regulations that define "foreign passthru payments" are published) if such information is not provided or if payments are made to certain financial institutions that have not agreed to comply with an FFI Agreement with the United States (and are not otherwise required to comply with the FATCA regime under applicable law (including pursuant to the terms of any applicable IGA)).

Each holder and beneficial owner of a GDS should consult its own tax advisor regarding the application of FATCA to a GDS.

TRANSFER RESTRICTIONS

As a result of the following restrictions, GDS holders and purchasers of the Offer Shares are advised to contact legal counsel prior to making any resale, pledge or transfer of the Offer Shares or GDSs or the Shares represented thereby. The Level I ADSs are generally not subject to any transfer restrictions.

The Offering is being made in accordance with Rule 144A and Regulation S. The Offer Shares and the GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and, accordingly, may not be offered or sold within the United States except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and to persons outside the United States in offshore transactions in accordance with Regulation S. Terms used in this section that are defined in Rule 144A or Regulation S are used herein as so defined.

Rule 144A

Each purchaser of Offer Shares or GDSs within the United States pursuant to Rule 144A, by accepting delivery of this Prospectus and the Offer Shares or GDSs, will be deemed to have represented, agreed and acknowledged that:

(1) the Offer Shares and Rule 144A GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to restrictions on transfer;

(2) it is (i) a QIB, (ii) aware, and each beneficial owner of such Offer Shares or Rule 144A GDSs has been advised, that the sale of such Offer Shares or Rule 144A GDSs to it is being made in reliance on Rule 144A under the Securities Act and (iii) acquiring such Offer Shares or Rule 144A GDSs for its own account or for the account of a QIB;

(3) it agrees (or, if it is acting for the account of another person, such person has confirmed to it that such person agrees) that it (or such person) will not offer, resell, pledge or otherwise transfer such Offer Shares or GDSs except: (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction (as such term is defined in Regulation S under the Securities Act) in accordance with Rule 903 or 904 of Regulation S or (c) in accordance with Rule 144 under the Securities Act (if available), in each case in accordance with any applicable securities laws of any state of the United States. The purchaser will, and each subsequent holder is required to, notify any subsequent purchaser from it of those Offer Shares or Rule 144A GDSs of the resale restrictions referred to above;

(4) the Offer Shares or Shares underlying the Rule 144A GDSs may not be deposited into any unrestricted depositary facility established or maintained by a depositary bank (including The Bank of New York Mellon), unless and until such time as those Shares are no longer "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act;

(5) the Company, the Selling Shareholders, the Joint Bookrunners, the Depositary and their respective affiliates will rely upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs. If it is acquiring Offer Shares or Rule 144A GDSs for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and

(6) it understands that the Rule 144A GDRs will bear a legend substantially to the following effect:

"NEITHER THE RULE 144A GLOBAL DEPOSITARY SHARES EVIDENCED HEREBY NOR THE ORDINARY SHARES OF PUBLIC JOINT STOCK COMPANY POLYUS ("**SHARES**") REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), AND THOSE

SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT 1) TO A PERSON WHOM THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, 2) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, OR 3) IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT.

IT IS EXPECTED THAT SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF PUBLIC JOINT STOCK COMPANY POLYUS IN THE NAME OF THE DEPOSITARY OR ITS NOMINEE OR OF THE CUSTODIAN OR ITS NOMINEE. OWNERS AND HOLDERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA’S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES CERTAIN RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN THE UNITED STATES OR EUROPEAN UNION SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY, IN CERTAIN CIRCUMSTANCES DESCRIBED IN THE DEPOSIT AGREEMENT.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNISE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

Prospective purchasers are hereby notified that sellers of the Offer Shares or GDSs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S

Each purchaser of Offer Shares or GDSs outside the United States pursuant to Regulation S, by accepting delivery of this Prospectus and the Offer Shares or Regulation S GDSs, will be deemed to have represented, agreed and acknowledged that:

(1) it is aware that (a) the sale of the Offer Shares and Regulation S GDSs to it is being made pursuant to and in accordance with Rule 903 or 904 of Regulation S, (b) it is, or at the time such Offer Shares or Regulation S GDSs are purchased will be, the beneficial owner of those Offer Shares or Regulation S GDSs and (c) it is purchasing such Offer Shares or Regulation S GDSs in an offshore transaction meeting the requirements of Regulation S;

(2) it understands that the Offer Shares and Regulation S GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are being offered outside the United States; and

(3) it acknowledges that the Company, the Selling Shareholders, the Joint Bookrunners, the Depositary and their respective affiliates will rely upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs.

(4) it understands that the Regulation S GDRs will bear a legend substantially to the following effect and it agrees to comply with it:

THE REGULATION S GLOBAL DEPOSITARY SHARES EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY ("**SHARES**") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), AND THOSE SECURITIES MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD (DEFINED AS 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF THE GLOBAL DEPOSITARY SHARES OF THE RELEVANT CLASS) EXCEPT (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (2) TO A PERSON WHOM THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A; PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (2) ABOVE, THE TRANSFEROR SHALL, PRIOR TO THE SETTLEMENT OF THAT SALE, WITHDRAW THE SHARES IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT AND INSTRUCT THAT THOSE SHARES BE DELIVERED TO THE CUSTODIAN UNDER THE RULE 144A GDS DEPOSIT AGREEMENT FOR ISSUANCE IN ACCORDANCE WITH THE TERMS AND CONDITIONS THEREOF, OF RULE 144A GLOBAL DEPOSITARY SHARES TO OR FOR THE ACCOUNT OF THAT QUALIFIED INSTITUTIONAL BUYER.

UPON THE EXPIRATION OF THE RESTRICTED PERIOD, THE REGULATION S GLOBAL DEPOSITARY SHARES EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND IF, AT THE TIME OF SUCH EXPIRATION, THE OFFER AND SALE OF THE REGULATION S GLOBAL DEPOSITARY SHARES EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE OF THE UNITED STATES.

IT IS EXPECTED THAT SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF PUBLIC JOINT STOCK COMPANY POLYUS IN THE NAME OF THE DEPOSITARY OR ITS NOMINEE OR OF THE CUSTODIAN OR ITS NOMINEE. OWNERS AND HOLDERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES CERTAIN RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN THE UNITED STATES OR EUROPEAN UNION SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY, IN CERTAIN CIRCUMSTANCES DESCRIBED IN THE DEPOSIT AGREEMENT.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNISE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

Other Provisions Regarding Transfers of the GDSs

Interests in the Rule 144A GDSs may be transferred to a person whose interest in such GDSs is subsequently represented by a Regulation S GDR only upon receipt by the depositary of written certifications (in the forms provided in the GDS Deposit Agreements) from the transferor and the transferee to the effect that, among other things, such transfer is being made in accordance with Regulation S. Interests in Regulation S GDSs may be transferred to a person whose interest in such GDSs is subsequently represented by a Rule 144A GDR only upon receipt by the depositary of written certifications from the transferor and the transferee (in the forms provided in the GDS Deposit Agreements) to the effect that, among other things, such transfer is being made in accordance with Rule 144A. Any interest in GDSs represented by one of the GDRs that is transferred to a person whose interest in such GDSs is subsequently represented by the other GDR will, upon transfer, cease to be an interest in the GDSs represented by such first GDR and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in GDSs represented by such other GDR for so long as it remains such an interest.

In accordance with Article 16 of the Securities Market Law, the circulation of issued securities of a Russian issuer abroad (including following an offering of foreign-issued depositary receipts representing the Russian issuer's securities) is subject to approval by the CBR. On 26 June 2006, the FSFM granted the FSFM DS Approval for the circulation of up to 66,719,711 Shares, including the Shares already in circulation outside of the Russian Federation, which constituted approximately 35 per cent of the Company's share capital. The capacity remaining under the FSFM DS Approval (taking into account the Company's existing Level I ADS program) is sufficient for the deposit of up to 12,020,442 Shares offered in the Offering (amounting to up to 9.4 per cent of the total number of the outstanding Shares) in the DS facilities. Under Russian law, any deposit of Shares in excess of the number set forth in the FSFM DS Approval would require additional CBR approval. The FSFM DS Approval permits the deposit of up to 66,719,711 Shares in the DS facilities. However, if the CBR in the future seeks to apply the 25 per cent threshold to previously issued approvals, including the FSFM DS Approval, the Depositary may refuse to deposit additionally issued Shares in the DS facilities in excess of such threshold. See "*Risk Factors – Risks Relating to the Securities and the Trading Market – It may not be possible to deposit Shares in the GDS or Level I ADS facilities in order to receive GDSs or Level I ADSs, and changes in Russian regulatory policy with respect to the circulation of the Shares outside Russia in the form of DSs or otherwise may negatively affect the market for the Shares*".

PLAN OF DISTRIBUTION

The Offering consists of (i) an offering of GDSs and Shares in the United States to certain QIBs in reliance on Rule 144A, or another transaction exempt from, or not subject to, the registration requirements of the Securities Act; (ii) an offering of GDSs and Shares to institutional investors outside the United States and the Russian Federation in reliance on Regulation S; and (iii) an offering of Shares in the Russian Federation including through a Russian licensed broker in reliance on Regulation S.

The Selling Shareholders and the Joint Bookrunners have entered into an underwriting agreement, providing for, inter alia, the underwriting of the Offering of GDSs (the "**GDS Underwriting Agreement**") and into an underwriting agreement providing for, inter alia, the underwriting of the Offering of Offer Shares (the "**Share Underwriting Agreement**" and collectively with the GDS Underwriting Agreement, the "**underwriting agreements**"). Subject to the satisfaction of certain conditions set out in the respective underwriting agreements, each of the Joint Bookrunners has agreed, severally but not jointly, to use its reasonable endeavours to procure purchasers, or, failing which, itself to purchase, such number of Shares and GDSs respectively, as are set forth opposite its name in the following table:

Joint Bookrunners	*Number of Shares*	*Number of GDSs*
Goldman Sachs International	692,712	3,156,057
J.P. Morgan Securities plc	692,712	3,156,057
JSC "Sberbank CIB"/SIB (Cyprus) Limited	692,712	3,156,057
VTB Capital Plc	692,712	3,156,057
Morgan Stanley & Co. International plc	288,631	1,315,025
Bank GPB International S.A.	288,631	1,315,025
BMO Capital Markets Limited	288,631	1,315,025
Total	3,636,735	16,569,296

The GDSs will be represented by a Master Rule 144A GDS and a Master Regulation S GDS and will be subject to certain restrictions as further discussed in "*Terms and Conditions of the Regulation S GDSs and Rule 144A GDSs*".

The offer price is US$66.50 per Share and US$33.25 per GDS. The Joint Bookrunners will receive total fees and commissions of approximately US$9.5 million (assuming full exercise of the Over-allotment Option). In addition, at the sole discretion of the Company, the Joint Bookrunners may be entitled to an additional incentive fee of approximately up to US$11.7 million.

The Company has also agreed to reimburse the Joint Bookrunners for certain of their expenses in connection with the Offering. Including these amounts, our estimated expenses in relation to the Offering, other than fees and commissions of the Joint Bookrunners, are approximately US$5.1 million.

In the underwriting agreements, the Selling Shareholders have made certain customary representations and warranties, including with respect to the Company's business, the Shares and the GDSs and the contents of this Prospectus and, in the case of the Selling Shareholders, in relation to their title to the respective Shares they are each selling in the Offering and with respect to the use of proceeds therefrom. The Company and the Selling Shareholders have also agreed to provide indemnification to the several Joint Bookrunners against certain liabilities, including liability under the Securities Act, pursuant to the underwriting agreements.

The Company has also entered into a listing agreement with the Joint Bookrunners (the "**Listing Agreement**") pursuant to which it has undertaken certain obligations to the Joint Bookrunners in connection with seeking admission to listing of the Shares and GDSs on MOEX and the London Stock Exchange respectively and has made certain customary representations and warranties, including with respect to the Company's business and provided indemnification to the several Joint Bookrunners against certain liabilities.

The Joint Bookrunners are offering the Shares and the GDSs when, as and if delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Shares and the GDSs and other conditions contained in the underwriting agreements, such as the receipt by the Joint Bookrunners of officers' certificates and legal opinions.

The underwriting agreements provide that, upon the occurrence of certain events, such as the suspension of, or occurrence of material limitations of trading on the London Stock Exchange, MOEX or certain other stock exchanges or a material adverse change in our financial condition or business, and on certain other conditions, the Joint Bookrunners have the right, collectively but not individually, to withdraw from the Offering before delivery of Shares or GDSs and to terminate the respective underwriting agreements.

Over-allotment Option

PGIL has granted the Stabilising Manager an Over-allotment Option, exercisable within 30 days after the announcement of the offer price, to purchase up to 10 per cent of the aggregate of Offer Shares and New Shares and up to 10 per cent of the GDSs, being offered in the Offering, at the offer price solely to cover over-allotments.

The Joint Bookrunners may also sell GDSs in excess of the Over-allotment Option up to a maximum of five per cent of the total number of Shares and GDSs being offered, creating a market short position. The Joint Bookrunners must close out any such market position by purchasing Shares or GDSs in the open market.

Open Subscription

In connection with the Offering, the Company will issue up to 28,594,162 New Shares to be placed through an open subscription pursuant to Russian law (the "**Open Subscription**"). Holders of Shares as of 26 December 2016 (the "**Record Date**") had statutory pre-emptive rights to subscribe for the New Shares *pro rata* to their holdings of Shares on the Record Date. The Company has received applications from eligible shareholders (other than PGIL, which held 116,999,862 existing Shares on the Record Date) to subscribe in aggregate for 1,046 New Shares (the "**Pre-emption Shares**") at the offer price for Shares (the "**Share Offer Price**").

In addition to the Pre-emption Shares, the Company is offering in the Open Subscription (i) 98,809 New Shares through the facilities of Public Joint Stock Company "Moscow Exchange MICEX-RTS", a part of the Moscow Exchange Group ("**MOEX**") to certain Russian institutional investors and other investors at the Share Offer Price (the "**MOEX Offering**"), and 250 New Shares subscribed for by an investor outside of the facilities of MOEX (together, the "**Russian Offering**") and (ii) up to 5,915,979 New Shares at the Share Offer Price to Polyus Gold (the "**Committed Shares**") pursuant to a subscription application submitted by Polyus Gold. Any New Shares which are not subscribed for as Pre-emption Shares, the Committed Shares or pursuant to the Russian Offering will be cancelled.

Application will be made to list and admit the New Shares to trading on MOEX. The New Shares are expected to be traded on MOEX under the symbol "PLZL".

Lock-up Arrangements

Each of the Company and each of the Selling Shareholders has agreed that neither it nor any of its subsidiaries, affiliates nor any person acting on its or their behalf (other than the Joint Bookrunners) will issue (in the case of the Company only), offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option right or warrant to purchase, over or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Shares, including Shares represented by GDSs, or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Shares, including Shares represented by GDSs, or any security or financial product whose value is determined directly or indirectly by reference to the price of the relevant Shares, including Shares represented by GDSs, or any other such securities, including equity swaps, forward sales and options representing the right to receive any such securities except for the offer and sale of the Securities pursuant to the Underwriting Agreements; or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of any Shares, including Shares represented by GDSs; or enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above, whether any such transaction described above is to be settled by delivery of Shares, GDSs or such other securities, in cash or otherwise from the date hereof until 180 days after the closing date of this Offering, without the prior written consent of the Joint Global Coordinators. The foregoing undertaking is subject to certain exemptions, including, without limitation, (i) the offer and sale of the Shares or GDSs in connection with this Offering and the Share issue; (ii) the transfer of Shares pursuant to the Securities Lending Agreement; (iii) pledging or otherwise giving security over the Shares or GDSs in connection with any financing arrangement, provided that the relevant shareholder, as applicable, will ensure that no such pledge or other security interest will be enforced prior to the expiration of the lock-up period; (iv) participating in a buy back by the Company of the Shares or GDSs or a takeover offer made to all holders on identical terms; (v) transfers to affiliates provided such transferee agrees to be bound by the same lock-up terms; (vi) transactions, including the granting of any option over the Shares or GDSs in connection with an employee share scheme or plan of the Selling Shareholders, the Company, or their affiliates; (vii) completion of the transaction described in "*Principal and Selling Shareholders—PGIL Agreement to Sell Shares in the Company*"; (viii) actions resulting in the conversion of Shares into GDSs and vice versa; (ix) the sale of Shares or GDSs to a strategic investor in the amount of up to 5 per cent of the share capital of the Company in the aggregate, provided such purchaser agrees to be bound in writing not to sell such Shares or GDSs, as applicable, until the expiration of the 180 day lock-up period; and (x) any sale or transfer of up to 5 per cent of the Shares or GDSs in the aggregate for the purposes of merger and acquisition transactions, provided such transferee agrees to be bound in writing not to sell such Shares or GDSs, as applicable, until the expiration of the 180 day lock-up period.

Stabilization

In connection with the Offering, the Stabilizing Manager, may over-allot or effect transactions intended to enable it to satisfy any over-allocations or which stabilize, maintain, support or otherwise affect the market price of the Shares and GDSs at a level higher than that which might otherwise prevail in the open market. Such transactions may commence on or after the announcement of the offer price and will end no later than 30 calendar days thereafter. Such transactions may be effected on the London Stock Exchange and any other securities market, over the counter market, stock exchange or otherwise. There is no assurance that such transactions will be undertaken and, except as required by law, the Stabilizing Manager does not intend to disclose the extent of allotments and/or stabilization transactions in connection with the Offering.

Other relationships

In connection with the Offering, each of the Joint Bookrunners or any of their respective affiliates, acting as investors for their own account(s), may subscribe for or purchase Shares and GDSs and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for its or their own accounts in such Shares and GDSs and other securities of the Company or related investments in connection with the Offering or otherwise. Accordingly, references in the Prospectus, once published, to the Shares and GDSs being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, placing or dealing by, each of the Joint Bookrunners or any of their respective affiliates acting as an investor for its or their own account(s). None of the Joint Bookrunners or any of their respective affiliates intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

Each of the Joint Bookrunners and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services for the Company and certain of its respective affiliates, for which they would have received customary fees. Each of the Joint Bookrunners and any of their respective affiliates may provide such services to the Company and any of its respective affiliates in the future. In addition, certain of the Joint Bookrunners and any of their respective affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which such Joint Bookrunners (or their affiliates) may from time to time acquire, hold or dispose of Shares and GDSs.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDSs

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg, DTC and NSD to facilitate the initial issue of the GDSs and cross-market transfers of the GDSs associated with secondary market trading.

The Clearing Systems

DTC

The Rule 144A GDSs have been accepted in the book-entry settlement system of The Depository Trust Company ("**DTC**"). Any Rule 144A GDSs that are not held through DTC's book-entry settlement system would be administered by the Depositary, which would deliver definitive certificates to the relevant holders of such GDSs upon request.

DTC has advised as follows: DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerized book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. The address for DTC is P.O. Box 5020, New York, NY 10274, United States of America.

Holders of book-entry interests in the Rule 144A GDSs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the Rule 144A GDSs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the Rule 144A GDSs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the Rule 144A GDSs, may be limited.

Euroclear and Clearstream, Luxembourg

The GDSs (both Rule 144A GDSs and Regulation S GDSs) will be eligible for holding and settlement through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg. DTC participants act as depositories for Euroclear and Clearstream, Luxembourg, enabling the holding and settlement of Rule 144A GDSs through those clearing systems.

Euroclear and Clearstream, Luxembourg each hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDSs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Registration and Form

Book-entry interests in GDSs held through Euroclear and Clearstream, Luxembourg will be evidenced by Regulation S GDRs registered in the name of a nominee for The Bank of New York Mellon as the common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in Rule 144A GDSs will be evidenced by Rule 144A GDRs registered in the name of Cede & Co., as nominee for DTC, which will be held by The Bank of New York Mellon in New York as custodian for DTC.

The aggregate holdings of book-entry interests in the GDSs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDSs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDSs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDSs registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from the Company in respect of Regulation S GDSs are credited to Euroclear or Clearstream, Luxembourg, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from the Company in respect of Rule 144A GDSs are received by DTC.

The Company will not impose any fees in respect of the GDSs; however, holders of book-entry interests in the GDSs may incur fees payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the GDS Deposit Agreements. See "*Description of GDSs*".

Trading between DTC participants

Secondary market sales of book-entry interests in the GDSs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

General

Although the foregoing sets out the procedures of DTC in order to facilitate the transfers of interests in the GDSs among participants of DTC, DTC is not under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by DTC or its respective participants of their respective obligations under the rules and procedures governing their operations.

Global Clearing and Settlement Procedures

Initial Settlement

The GDSs will be in global form evidenced by global GDRs. Purchasers electing to hold GDSs through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold Rule 144A GDSs through DTC will follow the delivery practices applicable to depositary receipts.

Transfer Restrictions

For a description of the transfer restrictions relating to the GDSs, see "*Transfer Restrictions*".

Trading between Euroclear and Clearstream, Luxembourg Participants

Secondary market sales of GDSs held through Euroclear or Clearstream, Luxembourg to purchasers of GDSs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Seller and Euroclear / Clearstream, Luxembourg Purchaser

When Rule 144A GDSs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment or a delivery versus payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be on the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be.

Trading between Clearstream, Luxembourg / Euroclear Seller and DTC Purchaser

When Rule 144A GDSs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment or a delivery versus payment instruction at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such GDSs free of payment or versus payment, as applicable, to the relevant account of the DTC participant.

Trading between NSD Seller and Euroclear / Clearstream, Luxembourg Purchaser

When GDSs are to be transferred from the account of an NSD participant to the account of a Euroclear or Clearstream, Luxembourg participant, the NSD participant must submit a delivery free of payment or a delivery versus payment instruction to the NSD at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the NSD participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, NSD will debit the account of its participant, and Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, and will credit the account of its participant, and will deliver such GDSs free of payment or versus payment to the relevant account of the Euroclear or Clearstream, Luxembourg participant.

Trading between Euroclear / Clearstream, Luxembourg Seller and NSD Purchaser

When Rule 144A GDSs are to be transferred from the account of an NSD participant to the account of a DTC participant, the NSD participant must submit a delivery free of payment or a delivery versus payment instruction to the NSD at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the NSD participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, NSD will debit the account of its participant, and Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, and will instruct DTC to deliver such Rule 144A GDSs free of payment or versus payment to the relevant account of the DTC participant.

Trading between NSD Seller and DTC Purchaser

When GDSs are to be transferred from the account of an NSD participant to the account of a DTC participant, the NSD participant must submit a delivery free of payment or a delivery versus payment instruction to the NSD at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the NSD participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, NSD will debit the account of its participant, and Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such GDSs free of payment or versus payment to the relevant account of the DTC participant.

Trading between DTC Seller and NSD Purchaser

When GDSs are to be transferred from the account of a DTC participant to the account of an NSD participant, the DTC participant must send a delivery free of payment or a delivery versus payment instruction to DTC at least one business day prior to the settlement date. DTC will, in turn, transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, and Euroclear or Clearstream, Luxembourg, as the case may be, will transmit it to NSD on the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the DTC participant and the NSD participant. On the settlement date, DTC will debit the account of its participant and will instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, for further credit to the relevant NSD participant.

Clearing and Settlement of Level I ADSs

The Level I ADSs are accepted in the book-entry settlement system of DTC. Level I ADSs that are not traded through DTC's book-entry settlement system are administered by the Depositary and will be evidenced by separate ADRs.

Holders of Level I ADSs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to the Level I ADSs from the Depositary through DTC and DTC participants.

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge Level I ADSs to persons or entities that do not participate in DTC, or otherwise take actions with respect to the Level I ADSs, may be limited.

Trading between DTC Participants

Secondary market sales of Level I ADSs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg, DTC and NSD in order to facilitate the transfers of GDSs and Level I ADSs among participants of Euroclear, Clearstream, Luxembourg, DTC and NSD, none of Euroclear, Clearstream, Luxembourg, DTC or NSD is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Joint Bookrunners, the Depositary, the Custodian or its or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg, DTC or NSD or their respective participants of their respective obligations under the rules and procedures governing their operations.

Settlement of the GDSs

Payment for the GDSs is expected to be made in U.S. dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream, Luxembourg on or about the GDS Closing Date. Regulation S GDSs held through Euroclear or Clearstream, Luxembourg will be evidenced by Regulation S GDRs registered in the name of a nominee for DTC. Rule 144A GDSs held through DTC will be evidenced by Rule 144A GDRs registered in the name of a nominee for DTC. Except in limited circumstances described herein, investors may hold GDSs only through DTC, Euroclear or Clearstream, Luxembourg, as applicable.

Transfers within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system.

Settlement of the Offer Shares

Delivery of and payment for the Offer Shares in the Offering is expected to commence on or about 5 July 2017. Investors in the Offer Shares must indicate their settlement currency during the bookbuilding process. In order to take delivery of the Offer Shares, an investor should either have a direct account with the Registrar or a "depo" account opened with NSD or any other depositary that has an account with NSD. Investors may at their own expense choose to hold the Offer Shares through a direct account with the Registrar. However, directly-held Offer Shares are ineligible for trading on MOEX. Only Offer Shares deposited with NSD (or held through another depositary having an account at NSD) can be traded on MOEX.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Department of Financial Services. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Mellon Corporation, a Delaware bank holding company. The principal office of the Depositary is located at 225 Liberty Street, New York, New York 10286. Its principal administrative offices are located at 101 Barclay Street, New York, New York 10286. A copy of the Depositary's Articles, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the principal office of the Depositary located at 225 Liberty Street, New York, NY 10286 and at The Bank of New York Mellon, One Canada Square, London E14 5AL.

LEGAL MATTERS

Certain legal matters with respect to the Offering will be passed upon for the Company in respect of the laws of England, the Russian Federation (other than Russian tax laws) and the United States by Debevoise & Plimpton LLP. Certain legal matters with respect to the Offering will be passed upon for the Joint Bookrunners in respect of the laws of England, the Russian Federation and the United States by Clifford Chance LLP.

INDEPENDENT AUDITORS

The consolidated financial statements of the Group as of and for the years ended 31 December 2016, 2015 and 2014 have been audited by ZAO Deloitte & Touche CIS of 5 Lesnaya Street, Moscow, 125047, Russia, independent auditors, as stated in their report appearing herein. ZAO Deloitte & Touche CIS is a member of the Audit Chamber of Russia.

The condensed consolidated interim financial statements of the Group as of and for the three months ended 31 March 2017 have been reviewed by ZAO Deloitte & Touche CIS of 5 Lesnaya Street, Moscow, 125047, Russia, independent auditors, as stated in their report appearing herein. ZAO Deloitte & Touche CIS is a member of the Audit Chamber of Russia.

GENERAL INFORMATION

(1) The Company was incorporated in the Russian Federation on 17 March 2006 as an open joint stock company for an unlimited duration, and it operates under the laws of the Russian Federation. On 26 January 2016, the Company amended its charter to bring it in compliance with the amendments to the Civil Code, which entered into force in September 2014, and changed its form to public joint stock company. The Company is registered at building 1, 15 Tverskoy Boulevard, Moscow 123104, Russian Federation, with state registration number 1068400002990. The Company's main administrative office and its registered office are located at building 1, 15 Tverskoy Boulevard, Moscow 123104, Russian Federation, and its telephone number is +7 (495) 641-3377.

(2) It is expected that the DSs will be admitted to the Official List on or about the Admission Date. Application has been made for the DSs to be traded on the LSE's regulated market for listed securities. Prior to admission to the Official List, however, dealings will be permitted by the LSE in accordance with is rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

(3) The Level I ADSs currently trade on the OTC and are quoted under the symbol OPYGY. For the Regulation S GDSs, the CUSIP is 73181M117, the ISIN is US73181M1172, the Common Code is 163383462 and the SEDOL Code is BYXL3S6. For the Rule 144A GDSs, the CUSIP is 73181M109, the ISIN is US73181M1099, the Common Code is 163383535 and the SEDOL Code is BYXL3P3. The ISIN for the Level I ADSs is US6781291074, the CUSIP is 678129107, the Common Code is 137626802 and the SEDOL is B14XJY8. The ISIN for the Shares is RU000A0JNAA8.

(4) The Company has obtained all consents, approvals and authorisations in Russia in connection with the Admission.

(5) There has been no significant change in the Group's financial or trading position since 31 December 2016 (the date of the latest audited financial statements).

(6) There has been no material change to the Group's mineral assets since 5 June 2017 (the date of the AMC Report).

(7) The Deposit Agreements, pursuant to which the DSs were issued, and all rights relating to the DSs, are governed by the laws of the State of New York. The DSs are denominated in U.S. dollars and have no nominal or par value.

(8) Holders of DSs may contact the Depositary at The Bank of New York Mellon, 101 Barclay Street, 22nd Floor, New York, NY 10286, Attention: American Depositary Receipt Administration (Fax: 001 (212) 571 3050).

(9) Save as otherwise disclosed in this Prospectus (see "*Business—Recent Litigation*"), there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) in the 12-month period preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the Company's and/or the Group's financial position or profitability.

(10) Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the Company's Head Office (building 1, 15 Tverskoy Boulevard, Moscow 123104, Russian Federation) from the date of publication of this Prospectus:

(i) this Prospectus;

(ii) the Company's charter (together with a direct and accurate English translation thereof);

(iii) the Deposit Agreements;

(iv) copies of the Financial Statements, together with the auditors' reports relating thereto, of the Group in respect of the financial years ended 31 December 2016, 2015 and 2014, and for the three months ended 31 March 2017 and 31 March 2016; and

(v) copies of the Competent Person's Report included in Exhibit A of this Prospectus.

GLOSSARY OF TECHNICAL TERMS

Term or expression	*Meaning*
Au	Gold
Au-Ag	Gold-Silver
Au-Cu	Gold-Copper
bio-leaching	Oxidation of sulphide minerals exposed to bacteria in an aqueous environment with metal extraction through desalination
CIL	carbon-in-leach, a process in which carbon is added to the solution following leaching in order to extract gold
Competent Person	as defined in the JORC Code, a "Competent Person" is a person who is a Member or Fellow of the Australasian Institute of Mining and Metallurgy or the Australian Institute of Geoscientists, or of a "Recognised Overseas Professional Organisation" ("**ROPO**") with a minimum of five years' experience which is relevant to the style of mineralization and type of deposit under consideration and the activity which that person is undertaking
cut-off grade	lowest grade of mineralized material considered economic, used in the calculation of ore reserves
cyanide leaching	a method of extracting exposed gold or silver from crushed or ground ore by dissolving them in a weak cyanide solution. It may be carried out in slurry in tanks or in large heaps of ore
deposit	the aggregation of a mineral on the surface of the Earth or in the Earth's crust, suitable in terms of quantity, quality and mode of occurrence for commercial mining
flotation	a mineral separation process in which valuable mineral particles are induced to become attached to bubbles and float as other particles sink
flotation concentrate	the product of flotation. The resultant gold concentrate is then filtered to form flotation concentrate
FSU Classification	the reserves and resources classification system of the former Soviet Union
FVTPL	fair value through profit or loss
gold doré	unrefined gold bullion bars, which will be further refined to almost pure metal (99.9 per cent gold)
grade	the quality of metal per unit mass of ore expressed as grams of gold per tonne of ore
gravitation	gold particles in slurry which are separated based on their specific gravity
g/t	grams per tonne
heap leaching	an ore processing technology used to process low-grade oxide ores, although it is the lowest-cost method of processing, recovery rates are only approximately 60 per cent.

ICMM	International Council on Mining and Metals
Indicated Mineral Resource	as defined in the JORC Code, that part of a Mineral Resource which has been sampled by drill holes, underground openings or other sampling procedures at locations that are too widely spaced to ensure continuity but close enough to give a reasonable indication of continuity and where geoscientific data are known with a reasonable degree of reliability. An Indicated Mineral Resource will be based on more data and therefore will be more reliable than an inferred mineral resource estimate
Inferred Mineral Resource	as defined in the JORC Code, is that part of a Mineral Resource for which the tonnage and grade and mineral content can be estimated with a low level of confidence. It is inferred from the geological evidence and has assumed but not verified geological and/or grade continuity. It is based on information gathered through the appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability
JORC	the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy and Australasian Institute of Geoscientists and Mineral Council of Australia
JORC Code	the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by JORC, effective from 20 December 2012 and mandatory from 1 December 2013
LBMA	the London Bullion Market Association
LTIFR	lost time injury frequency rate
Measured Mineral Resource	defined in the JORC Code, that part of a Measured Mineral Resource for which the resource has been intersected and tested by drill holes, underground openings or other sampling procedures at locations which are spaced closely enough to confirm continuity and where geoscientific data are reliably known. A Measured Mineral Resource estimate will be based on a substantial amount of reliable data, interpretation and evaluation which allows a clear determination to be made of the shapes, sizes, densities and grades
mine	an excavation from which valuable materials are recovered
mineable	portion of a mineralized deposit for which extraction is technically and economically feasible
mineral deposit	a body of mineralization that represents a concentration of valuable metals. The limits can be defined by geological contracts or assay cut-off grade criteria
mineral reserve	under the FSU Classification, the equivalent of the western ore reserve and mineral resource. Mineral reserves are subdivided into A, B, C1 and C2 categories depending on the level of definition and technological study
Mineral Resource	according to the JORC Code, a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such a form that there are reasonable prospects for the eventual

	economic extraction. The location, quantity, grade geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided in order of increasing confidence into Inferred Mineral Resources, Indicated Mineral Resources and Measured Mineral Resources
open pit	a mine that is entirely on the Earth's surface; also referred to as open-cut or open-cast mine
ore	natural mineral matter containing metals or metal compounds in quantities and in a form suitable for commercial extraction
ore body	a distinct naturally occurring agglomeration of ore defined structurally and geologically by a particular element or combination thereof
Ore Reserve	according to the JORC Code, the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could be reasonably justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves
P&P reserve	Proved and Probable Ore Reserve
Probable Ore Reserve	according to the JORC Code, the economically mineable part of a Measured and/or Indicated Mineral Resource. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified
Proved Ore Reserve	according to the JORC Code, the economically mineable part of a Measured Mineral Resource. It is estimated with a high level of confidence. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified
reserves	the part of a mineral deposit, extraction of which from the Earth's crust is economically and legally feasible at the time the reserves are identified
ROPO	Recognised Overseas Professional Organisation

SPPP	Strategic Price Protection Program
stripping	activities undertaken to remove waste material and gain access to a specific section of the ore body
tailings	material that remains after all metals/minerals considered economic have been removed from the ore
Tier 1 assets	long-life (a life-of-mine of more than 15 years), large-scale (an average life-of-mine production rate of not less than 0.3 moz) and low-cost (an average life-of-mine TCC of less than US$600/oz) assets
TOP	Total Optimization Program
tonne	1,000 kilogrammes
underground mining	extraction of minerals from the Earth's crust using a system of underground mine workings
vein	a tabular deposit of mineralized rock

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS OF PJSC POLYUS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS OF PJSC POLYUS AS AT AND FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF PJSC POLYUS AS AT AND FOR THE THREE MONTHS ENDED 31 MARCH 2017 (UNAUDITED)

PJSC "Polyus"

Consolidated financial statements for the year ended 31 December 2016

Responsibility statement

Directors of Public Joint Stock Company "Polyus" (the "Company") and its subsidiaries (the "Group") are responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2016, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

Directors are also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved by Directors on 20 February 2017.

By order of the Board of Directors,

Chief Executive Officer and Director

Pavel Grachev

Deloitte.

ZAO Deloitte & Touche CIS
5 Lesnaya Street
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Russia

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of Public Joint Stock Company "Polyus" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Potential impairment of fixed assets (Notes 4 and 8) The carrying value of the Group's non-current assets associated with Natalka mine amounted to $1,477 million as at 31 December 2016 (2015: $1,053 million). Prior impairment analyses of Natalka assets revealed sensitivity of its results to certain key macroeconomic assumptions. A decline in the gold spot rates in the last quarter of 2016 coupled with appreciation of the Rouble lead management to conclude that their assessment of recoverable amount of these assets needs to be updated. Management has completed a value in use calculation based on a life of mine model, and using specialist input on key operational assumptions. Following the downgrade of the estimate in reserves identified during 2014 management undertook a detailed technical review to optimise Natalka mining plan, which has been substantially completed by the end of 2016. The discounted cash flow value determined by management, which reflected the revised operational plans for the mining asset, was significantly higher than the carrying value, and accordingly no impairment was recorded. Given the size of the carrying value Natalka asset and significant judgement inherent in preparation of the discounted cash flow model on Natalka, we considered the test for impairment to be a key audit matter.	We challenged management's significant assumptions regarding the Natalka impairment test by: • Using our internal mining specialists who have extensive valuation experience to analyse management's long term mining plans which form the basis of their recoverable value model; • Reviewing the validity of key assumptions used in the model; • Assessing the long term gold price forecast methodology and benchmarking the long term gold price forecasts to other external forecasts; • Considering the discount rates used by recalculation and comparison to other gold producers; • Running a range of sensitivity tests to confirm that no impairment was required if a range of less optimistic assumptions were adopted instead of the forecasted gold price, discount and exchange rates are applied; • Discussing the plans with the Directors and Senior Operational Management as well as discussing assumptions used in the mining plan with the independent experts used by Management; and • Assessing whether the accounts disclose the key assumptions and the sensitivity of the model to their changes.
Valuation and hedge accounting for financial instruments (Note 13) The Group entered into a number of different derivative contracts to mitigate exposure to gold price, currency fluctuations and reduce interest rate exposure. The valuation of these contracts is based on management's judgements and estimates which could significantly affect the amounts recognised in the consolidated financial statements. The most complex of these instruments is a commodity hedge known as the "Revenue Stabiliser" to hedge the gold price. The Group uses hedge accounting for certain tranches of these instruments. The key assumptions underlying their valuations are around the credit risk	We completed the following procedures in respect of derivative financial instruments: • We involved internal financial instruments specialists to perform an independent valuation on a sample of these transactions, including the process for deriving the gold price and exchange rate applied; • We reviewed management's methodology for assessment of credit risk against the requirements set out in IFRS 13; • We assessed the appropriateness of applying hedge accounting to the Revenue Stabiliser; • We assessed the allocation of changes in fair values of derivatives between

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
calculation of the Group and its counterparties, i.e. probability of default and recovery rate. In addition, as at 31 December 2016 the Group has a liability of $434 million (2015: $509 million) recognised for cross currency swaps and there are other derivative financial instruments which are not hedge accounted. The valuation of these, which reflect debit valuation adjustments in respect of own credit risk required by the relevant accounting standards, involve management judgement.	other comprehensive income and profit or loss, as appropriate; and • Reviewed the disclosures required by IFRS 7 in the Group accounts as appropriate.

Other Information

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

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

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

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

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

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

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

Michael Raikhman,
Engagement partner

Deloitte

20 February 2017

The Entity: Public Joint Stock Company "Polyus"

Primary State Registration Number: 1068400002990

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

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

Audit Firm: ZAO "Deloitte & Touche CIS"

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

Primary State Registration Number: 1027700425444

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

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

PJSC "POLYUS"

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
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PJSC “POLYUS”

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

	Notes	2016	2015
Gold sales	5	2,429	2,159
Other sales		29	29
Total revenue		**2,458**	**2,188**
Cost of gold sales	6	(891)	(876)
Cost of other sales		(28)	(25)
Gross profit		**1,539**	**1,287**
Selling, general and administrative expenses	7	(151)	(143)
Other (expenses) / income, net		(27)	20
Operating profit		**1,361**	**1,164**
Finance costs, net	9	(145)	(45)
Interest income		40	69
Gain / (loss) on derivative financial instruments and investments, net	10	119	(125)
Foreign exchange gain, net		396	149
Profit before income tax		**1,771**	**1,212**
Income tax expense	11	(326)	(191)
Profit for the year		**1,445**	**1,021**
Profit for the year attributable to:			
Shareholders of the Company		1,420	987
Non-controlling interests		25	34
		1,445	**1,021**
Weighted average number of ordinary shares’000	17		
- for basic earnings per share		140,765	190,628
- for dilutive earnings per share		140,774	190,628
Earnings per share (US Dollar)			
- basic		10.09	5.18
- dilutive		10.09	5.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

(in millions of US Dollars)

		2016	2015
Profit for the year		**1,445**	**1,021**
Other comprehensive income / (loss) for the year			
Items that may be subsequently reclassified to profit or loss:			
(Decrease) / increase in revaluation of cash flow hedge reserve on revenue stabiliser	13	(65)	126
(Decrease) / increase in revaluation of cash flow hedge reserve on gold forward	13	(12)	18
Deferred tax relating to change in revaluation of cash flow hedge reserve		15	(35)
		(62)	**109**
Items that will not be subsequently reclassified through profit or loss:			
Effect of translation to presentation currency		**(80)**	**(554)**
Items that have been reclassified through profit or loss:			
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser	13	(53)	(91)
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward	13	(8)	(25)
Deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss		12	22
		(49)	**(94)**
Other comprehensive loss for the year		**(191)**	**(539)**
Total comprehensive income for the year		**1,254**	**482**
Total comprehensive income for the year attributable to:			
Shareholders of the Company		1,215	469
Non-controlling interests		39	13
		1,254	**482**

PJSC "POLYUS"

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

	Notes	2016	2015
Assets			
Non-current assets			
Property, plant and equipment	12	2,938	2,023
Derivative financial instruments and investments	13	57	411
Inventories	14	264	184
Deferred tax assets	20	75	46
Other non-current assets		37	8
		3,371	**2,672**
Current assets			
Inventories	14	369	296
Derivative financial instruments and investments	13	10	205
Deferred expenditures		10	13
Trade and other receivables		58	23
Advances paid to suppliers and prepaid expenses		19	17
Taxes receivable	15	89	59
Cash and cash equivalents	16	1,740	1,825
		2,295	**2,438**
Total assets		**5,666**	**5,110**
Equity and liabilities			
Capital and reserves			
Share capital	17	7	7
Additional paid-in capital	17	2,288	2,273
Treasury shares	17	(3,712)	–
Cash flow hedge revaluation reserve		12	123
Translation reserve		(2,720)	(2,623)
Retained earnings		3,617	2,196
Equity attributable to shareholders of the Company		**(508)**	**1,976**
Non-controlling interests		94	71
		(414)	**2,047**
Non-current liabilities			
Site restoration, decommissioning and environmental obligations		38	32
Borrowings	18	4,698	2,151
Derivative financial instruments	13	456	509
Deferred revenue	19	76	–
Deferred tax liabilities	20	182	133
Other non-current liabilities		32	20
		5,482	**2,845**
Current liabilities			
Borrowings	18	283	38
Trade and other payables	21	222	151
Taxes payable	22	93	29
		598	**218**
Total liabilities		**6,080**	**3,063**
Total equity and liabilities		**5,666**	**5,110**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER

(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 interests	Total
Balance at 31 December 2014		**190,628**	**7**	**2,266**	**–**	**108**	**(2,090)**	**1,425**	**1,716**	**83**	**1,799**
Profit for the year		–	–	–	–	–	–	987	**987**	34	**1,021**
Increase in cash flow hedge revaluation reserve		–	–	–	–	15	–	–	**15**	–	**15**
Effect of translation to presentation currency		–	–	–	–	–	(533)	–	**(533)**	(21)	**(554)**
Total comprehensive income / (loss)		**–**	**–**	**–**	**–**	**15**	**(533)**	**987**	**469**	**13**	**482**
Equity-settled share-based payment plans (LTIP)	17	–	–	7	–	–	–	–	**7**	–	**7**
Increase of ownership in subsidiaries		–	–	–	–	–	–	(216)	**(216)**	(14)	**(230)**
Declared dividends		–	–	–	–	–	–	–	**–**	(11)	**(11)**
Balance at 31 December 2015		**190,628**	**7**	**2,273**	**–**	**123**	**(2,623)**	**2,196**	**1,976**	**71**	**2,047**
Profit for the year		–	–	–	–	–	–	1,420	**1,420**	25	**1,445**
Decrease in cash flow hedge revaluation reserve		–	–	–	–	(111)	–	–	**(111)**	–	**(111)**
Effect of translation to presentation currency		–	–	–	–	–	(94)	–	**(94)**	14	**(80)**
Total comprehensive (loss) / income		**–**	**–**	**–**	**–**	**(111)**	**(94)**	**1,420**	**1,215**	**39**	**1,254**
Equity-settled share-based payment plans (LTIP)	17	–	–	15	–	–	–	–	**15**	–	**15**
Increase of ownership in subsidiaries		–	–	–	–	–	–	(2)	**(2)**	(1)	**(3)**
Buy-back of treasury shares	17	(60,519)	–	–	(3,443)	–	–	–	**(3,443)**	–	**(3,443)**
Settlement of issued loans by own shares	17	(4,477)	–	–	(269)	–	–	–	**(269)**	–	**(269)**
Release of translation reserve due to disposal of subsidiary		–	–	–	–	–	(3)	3	**–**	–	**–**
Declared dividends		–	–	–	–	–	–	–	**–**	(15)	**(15)**
Balance at 31 December 2016		**125,632**	**7**	**2,288**	**(3,712)**	**12**	**(2,720)**	**3,617**	**(508)**	**94**	**(414)**

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

	Notes	2016	2015
Operating activities			
Profit before income tax		**1,771**	**1,212**
Adjustments for:			
Reversal of impairment	8	(4)	(22)
Finance costs, net	9	145	45
Interest income		(40)	(69)
(Gain) / loss on derivative financial instruments and investments, net	10	(119)	125
Depreciation and amortisation		148	128
Foreign exchange gain, net		(396)	(149)
Other		26	5
		1,531	**1,275**
Movements in working capital			
Inventories		(42)	42
Deferred expenditures		(1)	(3)
Trade and other receivables		(47)	(6)
Advances paid to suppliers and prepaid expenses		(10)	(11)
Taxes receivable		(27)	(8)
Trade and other payables		13	27
Other non-current liabilities		(1)	5
Taxes payable		23	(1)
Cash flows from operations		**1,439**	**1,320**
Income tax paid		(261)	(217)
Net cash generated from operating activities		**1,178**	**1,103**
Investing activities[1]			
Purchases of property, plant and equipment		(405)	(326)
Advance paid for the participation in the auction for the Sukhoi Log	12	(138)	–
Proceeds from government grants		76	–
Interest received		50	62
Increase in bank deposits		–	(74)
Proceeds from redemption of bank deposits		–	340
Payment for currency collars		–	(494)
Loans issued		–	(190)
Proceeds from repayment of loans issued		124	–
Proceeds from disposal of subsidiary, net of cash disposed of		10	–
Other		3	6
Net cash utilised in investing activities		**(280)**	**(676)**
Financing activities[1]			
Interest paid		(245)	(124)
Commission paid		(51)	(6)
Proceeds from sales and leaseback transactions		2	–
Lease payments		(1)	–
Net proceeds on exchange of interest payments under interest and cross currency rate swaps	9	44	52
Payment for buy-back of treasury shares	17	(3,443)	–
Dividends paid to non-controlling interests		(16)	(10)
Proceeds from borrowings		3,432	627
Repayment of borrowings		(734)	(89)
Cash used to increase of ownership in subsidiaries		(3)	(230)
Net cash (utilised in) / generated from financing activities		**(1,015)**	**220**
Net (decrease) / increase in cash and cash equivalents		**(117)**	**647**
Cash and cash equivalents at beginning of the year	16	**1,825**	**1,213**
Effect of foreign exchange rate changes on cash and cash equivalents		32	(35)
Cash and cash equivalents at end of the year	16	**1,740**	**1,825**

[1] Significant non-cash transactions in regard of investing and financing activities are disclosed in note 17 to these consolidated financial statements.

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 26.

The shares of the Company are “level one” listed at Moscow Exchange. The controlling shareholder of the Company is Polyus Gold International Limited (“PGIL”), a public limited company registered in Jersey, which, until delisting from the London Stock Exchange’s premium listed market in December 2015, was the primary reporting entity for the group of companies that included the Company and its controlled entities. Prior to 2016, PGIL prepared and published its consolidated financial statements, which complied with International Financial Reporting Standards (“IFRS”) as adopted by the European Union. As of 31 December 2016 and 31 December 2015, the ultimate controlling party of the Company was Mr. Said Kerimov.

2. BASIS OF PREPARATION AND PRESENTATION

Going concern

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

Compliance with the International Financial Reporting Standards

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

Basis of presentation

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

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

(in millions of US Dollars)

IFRS standards update

The following is a list of standards that have been adopted during the year ended 31 December 2016 and new or amended IFRS standards that have been issued by the IASB:

Title	Subject
IFRS 14	Regulatory deferral accounts
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception
Amendments to IAS 1	Disclosure initiative
Annual Improvements to IFRSs 2012–2014 Cycle	Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34
Amendments to IAS 27	Equity method in separate financial statements
Amendments to IAS 16 and IAS 41	Agriculture: bearer plants
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to IFRS 11	Accounting for acquisition of interests in joint operations

Adoption of the new and revised standards and interpretation as mentioned above had no effect on the amounts presented in consolidated financial statements for the year ended 31 December 2016 or overall presentation and disclosures.

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

Title	Subject	Effective for annual periods beginning on or after	Expected effect on the consolidated financial statements
Amendments to IAS 7	Statement of Cash Flows	1 January 2017	No effect
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses	1 January 2017	No effect
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	Under review
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	Date will be determined later	No effect
Amendments to IFRS 12	Disclosure of Interests in Other Entities	1 January 2017	Under review
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	Under review

Management is currently considering the potential impact of the adoption of these standards and amendments. However, it is not practicable to provide a reasonable estimate of their effect until a detailed review has been completed.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

Subsidiaries

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

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

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

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

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

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

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

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

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

(in millions of US Dollars)

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

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

Functional currency

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

3.2 Presentation currency

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

- all assets, liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting date;
- starting from 1 January 2016 all income and expenses are translated at the monthly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions. All income and expenses for the year ended 31 December 2015 are translated at the quarterly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions;
- resulting exchange differences are included in equity and presented as *Effect of translation to presentation currency* within the *Translation reserve* (on disposal of such entities this *Translation reserve* is reclassified into the consolidated statement of profit or loss); and
- in the statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. Starting from 1 January 2016 all cash flows are translated at the monthly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions. Cash flows for the year ended 31 December 2015 are translated at the quarterly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions.

Individually significant items continue to be translated at exchange rate on the date of transaction.

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

	31 December	
Russian Rouble/US Dollar	**2016**	**2015**
Year-end rate	60.66	72.88

3.3 Foreign currencies

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

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

3.4 Revenue recognition

Gold sales revenue

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

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

Revenue from gold sales is recognised at the time of shipment from the refining plant when the Group has received confirmation of sale from the third party. Revenue from gold-bearing products is recognised when the goods have been delivered to a contractually agreed location. Gold sales are stated at their invoiced value net of value-added tax.

Other revenue

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

3.5 Income tax

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

Current tax

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

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements of the separate legal entities and the corresponding tax bases used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

Current and deferred tax for the year

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

3.6 Leasing

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

The Group as lessee

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

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

3.7 Dividends

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

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

3.8 Property, plant and equipment

Mineral rights

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

Fixed assets

Fixed assets are recorded at cost less accumulated depreciation. Fixed assets include the cost of acquiring and developing mining properties, pre-production expenditure and mine infrastructure,

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

Blagodatnoye	15 years
Olimpiada	12 years
Verninskoye	11 years
Kuranakh	7 years
Titimukhta	1 years

Stripping activity asset

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

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

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

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

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

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

Capital construction in progress

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

Capital construction in progress is not depreciated.

Mine under development

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

3.9 Finance costs directly attributable to the construction of qualifying assets

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

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

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

3.10 Impairment of long-lived tangible assets

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

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

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

Impairment of exploration and evaluation assets

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

- acquisition of rights to explore potentially mineralised areas;
- topographical, geological, geochemical and geophysical studies;
- exploratory drilling;
- trenching;
- sampling; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting gold resource.

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

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

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

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

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

3.11 Financial instruments

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

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

Financial assets

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

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

- financial assets at FVTPL; and
- loans and receivables.

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

Financial assets at FVTPL

Financial assets are classified as a FVTPL where the financial asset is either held for trading or it is designated as a FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as a FVTPL upon initial recognition if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any dividend or interest earned on the financial asset and is included in the *Gain/(loss) on derivative financial instruments and investments, net* line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 13.

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

Derecognition of financial assets

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

Effective interest method

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

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

Financial liabilities

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any interest paid on the financial liability and is included in the *Gain/(loss) on derivative financial instruments and investments, net* line item in the income statement.

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

Derecognition of financial liabilities

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

Derivative financial instruments

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

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

The Group designates certain derivative financial instruments as cash flow hedges.

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

3.12 Cash flow hedges

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

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

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

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

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

3.13 Inventories

Refined gold, ore stockpiles and gold-in-process

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

Stores and materials

Stores and materials consist of consumable stores and are stated at the lower of cost or net realisable value. Costs of stores and materials are determined on a weighted average cost basis.

Net realisable value represents the expected estimated selling price for stores and materials less all costs necessary to make the sale.

3.14 Deferred expenditures

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

3.15 Cash and cash equivalents

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

3.16 Provisions

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

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

3.17 Site restoration, decommissioning and environmental obligations

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

Ongoing restoration costs are expensed when incurred.

3.18 Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate partially or fully. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire property, plant and equipment are recognised as deferred revenue in the consolidated statement of financial position and amortised (transferred) to profit or loss on a systematic and rational basis over the useful lives of property, plant and equipment to which it relates. Amortisation of deferred revenue starts at the moment when items of property, plant and equipment are put into the operations and is presented as deduction of depreciation and amortisation charge in the statement of profit or loss.

3.19 Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 17.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Critical judgements in applying accounting policies

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

- justification of the economic useful lives of property, plant and equipment;
- depreciation method for property, plant and equipment;
- borrowing costs capitalisation;
- determination of functional currency; and
- cash flow hedge designation.

4.1 Economic useful lives of property, plant and equipment

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

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

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

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

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

4.2 Depreciation method for property, plant and equipment

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

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

4.3 Borrowing costs capitalisation

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Capitalisation commences when the Group undertakes activities that are necessary to prepare the asset for its intended use or sale and it ceases once the asset is complete and available for use. Interest is then charged to the income statement as a depreciation expense over the life of the relevant asset. However, capitalisation is suspended for the extended periods of inactivity. Determination of the time period for which the borrowing costs need to be capitalised may require significant judgement.

Capitalisation of the borrowings costs relating to Natalka mine development was discontinued in December 2014 following the Group's decision to review its approach to the project and substantially reduce construction activities. Significant development activities were resumed by the Group in the second half of 2015. Accordingly, capitalisation of Natalka borrowing costs was continued starting from 1 July 2015.

4.4 Determination of functional currency

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

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

4.5 Cash flow hedge designation

The Group applies its judgement in identification of the forecast selling price of the expected gold sale for the purpose of calculation of the intrinsic value of the options designated as a cash flow hedge and for hedge effectiveness testing.

Key sources of estimation uncertainty

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

- recoverability of the exploration and evaluation assets;
- impairment of the tangible assets;
- determination and valuation of the stripping activity asset;
- carrying value of stockpiles, gold in process and product inventories;
- estimation of the site restoration, decommissioning and environmental obligations; and
- interpretation of the tax legislation in accounting for income taxes.

4.6 Exploration and evaluation assets

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

4.7 Impairment of long-lived assets

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

Factors which could impact the underlying cash flows include:

- commodity prices and exchange rates;
- timelines of granting of licences and permits;
- capital and operating expenditure; and
- available reserves and resources and future production profile.

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

4.8 Stripping activity asset

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

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

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

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

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

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

4.10 Site restoration, decommissioning and environmental obligations

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

4.11 Income taxes

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

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

5. SEGMENT INFORMATION

For management purposes the Group is organised by separate business segments identified on a combination of operating activities and geographical area bases with the separate financial information available and reported regularly to the chief operating decision maker ("CODM"). The following is a description of operations of the Group's seven identified reportable segments and those that do not meet the quantitative reporting threshold for reporting:

- ***Krasnoyarsk business unit*** (Krasnoyarsk region of the Russian Federation) – mining (including initial processing) and sale of gold from the Olimpiada, Blagodatnoye and Titimukhta mines, as well as research, exploration and development work at the Olimpiada and Blagodatnoye deposits;
- ***Irkutsk alluvial business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from several alluvial deposits;
- ***Irkutsk ore business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from the Verninskoye mine, research, exploration and development works at the Smezhny and Medvezhy Zapadny deposits;
- ***Yakutia Kuranakh business unit*** (Sakha Republic of the Russian Federation) – mining (including initial processing) and sale of gold from the Kuranakh mines;
- ***Magadan business unit*** (Magadan region of the Russian Federation) – represented by JSC "Matrosova Mine" which performs development works at the Natalka deposit;
- ***Exploration business unit*** (Krasnoyarsk region, Irkutsk region, Amur region, and others) – research and exploration works in several regions of the Russian Federation;
- ***Capital construction unit*** – represented by LLC "Polyus Stroy", JSC "TaigaEnergoStroy" and JSC "VitimEnergoStroy" which perform construction works at Natalka, Verninskoye, Olimpiada and other deposits;
- ***Unallocated*** – the Group does not allocate segment results of companies that perform management, investing activities and certain other functions. Neither standalone results nor the aggregated results of these companies are required to be disclosed as operating segments because quantitative thresholds are not met.

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

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

Business segment assets and liabilities are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements. The Group does not allocate the results of companies that perform management, investing activities and certain other administrative functions within its internal reporting.

	Gold sales	Ounces of gold sold in thousands	Adjusted EBITDA	TCC (USD per ounce)	Capital expenditures
For the year ended 31 December 2016					
Business units					
Krasnoyarsk	1,773	1,396	1,170	367	120
Irkutsk alluvial	220	169	90	598	16
Irkutsk ore	232	186	146	389	24
Yakutia Kuranakh	199	160	107	499	33
Exploration	5	4	1	1,010	10
Magadan	–	–	(2)	–	215
Capital construction	–	–	1	–	43
Unallocated	–	–	23	–	7
	2,429	**1,915**	**1,536**	**389**	**468**
Advances paid for the participation in the auction for the Sukhoi Log	–	–	–	–	138
Total	**2,429**	**1,915**	**1,536**	**389**	**606**
For the year ended 31 December 2015					
Business units					
Krasnoyarsk	1,611	1,293	1,007	399	58
Irkutsk alluvial	191	168	76	582	5
Irkutsk ore	189	161	115	417	21
Yakutia Kuranakh	165	144	70	598	10
Exploration	3	2	3	694	7
Magadan	–	–	–	–	113
Capital construction	–	–	1	–	53
Unallocated	–	–	6	–	1
Total	**2,159**	**1,768**	**1,278**	**424**	**268**

Gold sales reported above represent revenue generated from external customers (note 25). There were no inter-segment gold sales during the years ended 31 December 2016 and 2015. Included within gold sales in 2016 are realised gains on derivatives of USD 67 million (note 13) (2015: USD 116 million).

Gold sales

	Year ended 31 December	
	2016	**2015**
Refined gold	2,353	2,147
Other gold-bearing products	76	12
Total	**2,429**	**2,159**

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

	Year ended 31 December	
	2016	**2015**
Profit for the year	**1,445**	**1,021**
Income tax expense	326	191
Depreciation and amortisation	148	128
Finance costs, net (note 9)	145	45
Long term incentive plan (note 17)	19	7
Foreign exchange gain, net	(396)	(149)
(Gain)/loss on derivative financial instruments and investments, net (note 10)	(119)	125
Interest income	(40)	(69)
Reversal of impairment	(4)	(22)
Other	12	1
Adjusted EBITDA	**1,536**	**1,278**

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

	Year ended 31 December	
	2016	**2015**
Cost of gold sales	**891**	**876**
Adjusted for:		
Depreciation and amortisation (note 12)	(154)	(126)
Other non-cash items in cost of gold sales	8	(1)
TCC	**745**	**749**
Ounces of gold sold, in thousands	1,915	1,768
TCC per ounce of gold sold (USD per ounce)	**389**	**424**

Capital expenditures are primarily related to the following projects:

- ***Magadan business unit:*** ongoing construction in all major areas of the first stage of the Natalka mill project, the tendering process is finished and external contractors have been selected for the main process equipment of the mill, ongoing infrastructure construction.
- ***Krasnoyarsk business unit:*** finishing reconfiguration of the Titimukhta mill and preparations for connecting to the new Razdolinskaya-Taiga grid, ongoing upgrading and expanding of the Blagodatnoye mill, launching works to build new BIOX unit.
- ***Yakutia Kuranakh business unit:*** completing project to increase equipment productivity, launched construction works at heap leach project, completed grading and levelling, ongoing heap construction, contractors have been selected for the main process equipment.
- ***Construction business unit:*** finishing construction of the Razdolinskaya-Taiga electricity grid.
- ***Irkutsk ore business unit:*** completed installation of the main process equipment as part of the project to increase the mill capacity to 2.5 million tons ore per year within the same mill, consulting company AMC finalized the report with proposals of the strategy of further development of the Irkutsk hub strategy.

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

(in millions of US Dollars)

6. COST OF GOLD SALES

	Year ended 31 December	
	2016	**2015**
Consumables and spares	242	205
Labour	227	239
Tax on mining	134	140
Fuel	72	74
Power	22	35
Outsourced mining services	8	12
Refining costs	3	3
Other	55	57
Total cash operating costs	**763**	**765**
Depreciation and amortisation of operating assets (note 12)	154	126
Total cost of production	**917**	**891**
Increase in stockpiles, gold-in-process and refined gold inventories	(26)	(15)
Total	**891**	**876**

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2016	**2015**
Salaries	105	100
Taxes other than mining and income taxes	12	12
Professional services	10	12
Depreciation and amortisation (note 12)	5	3
Other	19	16
Total	**151**	**143**

8. IMPAIRMENT TEST

Following a decline in the gold spot rates in the last quarter of 2016, appreciation of the Rouble and a revision of the model for the Natalka project's mining and processing operations an impairment test for carrying value of the associated costs capitalised in the balance sheet principally within *Mine under development* was performed as of 31 December 2016. A detailed discounted cash flow model has been used to consider whether the value held is impaired which concluded that no impairment was required.

There are a number of subjective factors that are necessarily incorporated into such a review, both operational and financial, using the best evidence available. The values derived are particularly sensitive to the assumptions regarding the planned mining operations and flowsheet and the financial assumptions for the RUB to USD exchange rate, gold price and discount rates. The operational considerations reflect the most likely and optimal updated mining plan developed using the revised JORC reserves estimate and with the advice of the mining consultants. The financial assumptions include significant judgements associated with forecast gold prices determined at a volatile time for our markets.

The key long-term assumptions that were used in the impairment testing were a weighted average long-term gold price of USD 1,327 per ounce, exchange rate of 65.7 RUB for 1 USD and a post-tax discount rate of approximately 8.8%. The assumptions are provided in real terms.

A 20% appreciation of the Russian Rouble against the US dollar or decrease in the price of gold does not cause the impairment of Natalka's assets.

(in millions of US Dollars)

9. FINANCE COSTS, NET

	Year ended 31 December	
	2016	2015
Interest on borrowings	281	132
Unwinding of discounts on site restoration, decommissioning and environmental liabilities	3	4
Gain on exchange of interest payments under cross currency swap (note 13)	(34)	(39)
Gain on exchange of interest payments under interest rate swaps (note 13)	(10)	(13)
Other	2	2
Sub-total finance cost	**242**	**86**
Interest included in the cost of qualifying assets	(97)	(41)
Total	**145**	**45**

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

	Year ended 31 December	
	2016	2015
Revaluation gain / (loss) on cross currency swaps (note 13)	172	(198)
Gain on disposal of subsidiary	18	–
Revaluation (loss) / gain on revenue stabiliser under Tranche 3 and 4 (note 13)	(58)	49
Revaluation (loss) / gain on interest rate swap (note 13)	(9)	4
Revaluation (loss) / gain on ineffective part of the revenue stabiliser under Tranches 1 and 2 (note 13)	(4)	19
Gain on currency collars (note 13)	–	2
Other	–	(1)
Total	**119**	**(125)**

11. INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
Current tax expense	297	198
Deferred tax		
Origination and reversal of temporary differences	28	(29)
Deferred tax released from other comprehensive income	12	22
Effect of the revision of income tax rate (see below)	(11)	–
	29	**(7)**
Total	**326**	**191**

On 11 May 2016, the Federal Law No. 144-FZ "On amendments to parts one and two of the Tax Code of the Russian Federation" (signed by the President of the Russian Federation on 23 May 2016) was adopted amending the regulation of the preferential tax treatment of "Regional Investment Project" (thereafter "RIP").

Entities that meet certain restrictive conditions, in particular:

- Place of location and implementation of the RIP is the territory of one of regions of the Russian Federation specified in item 1 clause 1 of article 25.8 of the Tax Code of the Russian Federation;
- The amount of capital investment is not less than RUB 500 million with the condition of investing within a period not exceeding 5 (five) years from the date of RIP commencement but not earlier than 1 January 2013; and

(in millions of US Dollars)

- Revenues from the sale of goods produced following RIP implementation are not less than 90% of all revenues considered in determining the taxable base for income tax (specific requirement applicable only in respect of income tax);

have the right to apply reduced Tax on mining rate and Income tax rate.

JSC “Pervenets”, a 100% subsidiary of JSC “Polyus”, meets the criteria set up for precious metals mining operations and has applied for accession to the RIP in respect of Tax on mining and intends to apply not later than 28 February 2017 for accession to the RIP in respect of Income Tax starting from 1 January 2017.

Thus, from 1 August 2016 to 31 July 2018, JSC “Pervenets” has the right to apply Tax on mining rate at 0%. Every two following years the rate will increase to 1.2% until reaching 6% as it was before the entrance into the RIP.

In addition, from 1 January 2017 to 31 December 2021, JSC "Pervenets” will have the right to apply Income Tax rate at 0%; from 1 January 2022 to 31 December 2026 – 10%. Thereafter, Income Tax rate will be 20%, as it was before the entrance into the RIP.

As a result of the RIP, deferred tax assets and liabilities were recalculated by applying expected income tax rates in the respective periods. As of 31 December 2016, the resulting difference in the amount of USD 11 million was recognised in profit and loss and presented in reconciliation below in the line *Effect of the revision of income tax due to RIP*.

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

	Year ended 31 December	
	2016	**2015**
Profit before income tax	**1,771**	**1,212**
Income tax at statutory rate applicable to principal entities (20%)	354	242
Effect of the revision of income tax due to RIP	(11)	–
Decrease in deductible temporary differences on revaluation of derivatives, for which no deferred tax was recognised and deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss	(15)	(37)
Income tax associated with intra-group sales of investments in subsidiary	8	–
Tax effect of non-deductible expenses and other permanent differences	(4)	(4)
Non-taxable income on disposals of subsidiary	(4)	–
Reversal of losses carried forward resulted from impairments	(1)	(6)
Income tax effect of impairment reversals	(1)	(4)
Income tax expense	**326**	**191**

(in millions of US Dollars)

12. PROPERTY, PLANT AND EQUIPMENT

	Fixed assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
Cost						
Balance at 31 December 2014	**1,538**	**1,134**	**203**	**199**	**307**	**3,381**
Additions	–	111	104	146	11	**372**
Transfers from capital construction in progress	134	–	–	(134)	–	**–**
Change in site restoration, decommissioning and environmental obligations	(6)	–	–	–	–	**(6)**
Disposals	(38)	(3)	–	(1)	–	**(42)**
Reclassifications	15	–	–	(3)	3	**15**
Effect of translation to presentation currency	(360)	(274)	(64)	(54)	(72)	**(824)**
Balance at 31 December 2015	**1,283**	**968**	**243**	**153**	**249**	**2,896**
Additions	–	215	55	227	154[1]	**651**
Transfers from capital construction in progress	133	–	–	(133)	–	**–**
Change in site restoration, decommissioning and environmental obligations	1	–	–	–	–	**1**
Disposals	(11)	(12)	–	(3)	–	**(26)**
Disposed on disposal of subsidiary	–	–	–	–	(105)	**(105)**
Reclassifications	27	(15)	–	12	(15)	**9**
Effect of translation to presentation currency	270	214	55	45	23	**607**
Balance at 31 December 2016	**1,703**	**1,370**	**353**	**301**	**306**	**4,033**
Accumulated amortisation, depreciation and impairment						
Balance at 31 December 2014	**(753)**	**(32)**	**(38)**	**(10)**	**(197)**	**(1,030)**
Charge	(134)	–	(21)	–	–	**(155)**
Disposals	36	–	–	–	–	**36**
Reversal of impairment	–	19	–	–	5	**24**
Effect of translation to presentation currency	188	4	14	3	43	**252**
Balance at 31 December 2015	**(663)**	**(9)**	**(45)**	**(7)**	**(149)**	**(873)**
Charge	(128)	–	(41)	–	–	**(169)**
Disposals	10	–	–	–	–	**10**
Disposed on disposal of subsidiary	–	–	–	–	105	**105**
Reclassifications	(9)	–	–	–	–	**(9)**
Reversal of impairment	–	3	–	1	–	**4**
Effect of translation to presentation currency	(148)	(1)	(13)	(2)	1	**(163)**
Balance at 31 December 2016	**(938)**	**(7)**	**(99)**	**(8)**	**(43)**	**(1,095)**
Net book value at						
31 December 2015	**620**	**959**	**198**	**146**	**100**	**2,023**
31 December 2016	**765**	**1,363**	**254**	**293**	**263**	**2,938**

[1] Additions for Exploration and evaluation assets include USD 138 million of advances paid to the Russian Federal Agency for Subsoil Use ("Rosnedra") on 21 December 2016 for the participation in the auction for the Sukhoi Log. Refer to note 27 for more details.

(in millions of US Dollars)

Mineral rights

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

	31 December 2016	31 December 2015
Mineral rights presented within fixed assets	49	46
Mineral rights presented within mine under development	34	28
Mineral rights presented within exploration and evaluation assets	159 [1]	15
Total	**242**	**89**

Exploration and evaluation assets

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

	31 December 2016	31 December 2015
Sukhoi Log	141 [1]	–
Chertovo Koryto	28	23
Razdolinskoye	24	16
Bamsky	18	11
Panimba	16	13
Smezhny	9	7
Blagodatnoye	7	6
Burgakhchan area	7	5
Olympiada	5	14
Medvezhy Zapadny	2	2
Other	6	3
Total	**263**	**100**

[1] As of 31 December 2016, advances in the amount of USD 141 million paid to the Russian Federal Agency for Subsoil Use ("Rosnedra") for the participation in the auction for the Sukhoi Log license was presented within Mineral rights as part of Exploration and evaluation assets. Refer to note 27 for more details.

Depreciation and amortisation charge is allocated as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Cost of gold sales	142	122
Depreciation in change in inventory	12	4
Total depreciation and amortisation within cost of production (note 6)	**154**	**126**
Capitalised within property, plant and equipment	13	27
Selling, general and administrative expenses (note 7)	5	3
Cost of other sales	1	3
Total depreciation and amortisation	**173**	**159**
Less: amortisation of other non-current assets	(4)	(4)
Total depreciation of property, plant and equipment	**169**	**155**

Capitalised borrowing costs

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

	Year ended 31 December 2016	Year ended 31 December 2015
Interest expenses	97	41
Foreign exchange (gain) / loss, net	(3)	1
Interest income on bank deposits	(10)	(5)
Total	**84**	**37**

(in millions of US Dollars)

13. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS

	31 December 2016	31 December 2015
Non-current assets		
Revenue stabiliser	32	200
Cross currency swaps	10	–
Interest rate swaps	7	11
Investment in joint venture	7	–
Loans issued	1	2
Loans issued to related parties	–	198
Total non-current assets	**57**	**411**
Current assets		
Revenue stabiliser	10	–
Loans issued to related parties	–	185
Gold forward	–	20
Total current assets	**10**	**205**
Total assets	**67**	**616**
Non-current liabilities		
Cross currency swaps	434	509
Revenue stabiliser	22	–
Total non-current liabilities	**456**	**509**

Strategic Price Protection Programme

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

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

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

Revenue stabiliser

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

The Group entered into revenue stabiliser agreements for Tranches 1 and 2 in 2014, Tranche 3 in 2015 and Tranche 4 during the year ended 31 December 2016. In 2015, the Group restructured Tranches 1 and 2 resulting in a partial close out of the fourth year options and lowering barriers on the remaining options for the first three years of each instrument.

(in 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**
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	**(825)**	(225)	(300)	(300)	—	—	—	—	—	—
Outstanding as of 31 December 2016	**495**	—	—	—	**75**	**315**	—	**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	**(300)**	(60)	(120)	(120)	—	—	—	—	—	—
Outstanding as of 31 December 2016	**420**	—	—	—	**60**	**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	**(280)**	—	—	(280)	—	—	—	—	—	—
Outstanding as of 31 December 2016	**1,400**	—	—	—	**280**	—	**280**	—	**840**	—
Tranche 4 (covering the period 1 April 2016 – 31 December 2020)										
Total as per options agreements	**600**	—	—	75	100	—	100	—	250	75
Exercised	**(75)**	—	—	(75)	—	—	—	—	—	—
Outstanding as of 31 December 2016	**525**	—	—	—	**100**	—	**100**	—	**250**	**75**
Total outstanding as of 31 December 2016	**2,840**	—	—	—	**515**	**495**	**380**	**285**	**1,090**	**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**
Leg 1 (put)									
Strike	1,378	1,377	1,314	1,277	—	1,242	—	1,271	—
Knock-out barrier	950	950	916	907	—	900	—	900	—
Leg 2 (call)									
Strike	1,498	1,491	1,422	1,386	—	1,350	—	1,350	—
Knock-in barrier	1,633	1,618	1,531	1,492	—	1,450	—	1,450	—
Leg 3 (put)									
Strike	—	—	—	—	1,105	—	1,103	977	1,000
Knock-out barrier	—	—	—	—	900	—	900	927	950
Leg 4 (call)									
Strike	—	—	—	—	1,533	—	1,519	1,388	1,420
Knock-in barrier	—	—	—	—	1,714	—	1,687	1,580	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**
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)									
First three years (put)									
Strike	1,383	1,383	1,383	1,383	–	–	–	–	–
Knock-out barrier	950	950	921	911	–	–	–	–	–
First three years (call)									
Strike	1,518	1,518	1,518	1,518	–	–	–	–	–
Knock-in barrier	1,662	1,655	1,634	1,634	–	–	–	–	–
Fourth year (put)									
Strike	–	–	–	–	1,107	–	1,107	–	–
Knock-out barrier	–	–	–	–	900	–	900	–	–
Fourth year (call)									
Strike	–	–	–	–	1,551	–	1,551	–	–
Knock-in barrier	–	–	–	–	1,750	–	1,750	–	–
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)									
First three years (put)									
Strike	1,359	1,359	1,359	1,359	–	–	–	–	–
Knock-out barrier	950	950	950	950	–	–	–	–	–
First three years (call)									
Strike	1,425	1,425	1,425	1,425	–	–	–	–	–
Knock-in barrier	1,525	1,525	1,525	1,525	–	–	–	–	–
Fourth year (put)									
Strike	–	–	–	–	1,100	–	1,100	–	–
Knock-out barrier	–	–	–	–	900	–	900	–	–
Fourth year (call)									
Strike	–	–	–	–	1,500	–	1,500	–	–
Knock-in barrier	–	–	–	–	1,650	–	1,650	–	–
Tranche 3 (covering the period 1 January 2016 – 31 December 2019)									
First three years (put)									
Strike	–	–	1,232	1,232	–	1,232	–	–	–
Knock-out barrier	–	–	900	900	–	900	–	–	–
First three years (call)									
Strike	–	–	1,350	1,350	–	1,350	–	–	–
Knock-in barrier	–	–	1,450	1,450	–	1,450	–	–	–
Fourth year (put)									
Strike	–	–	–	–	–	–	–	971	–
Knock-out barrier	–	–	–	–	–	–	–	921	–
Fourth year (call)									
Strike	–	–	–	–	–	–	–	1,391	–
Knock-in barrier	–	–	–	–	–	–	–	1,591	–
Tranche 4 (covering the period 1 April 2016 – 31 December 2020)									
First three years (put)									
Strike	–	–	1,271	1,271	–	1,271	–	1,271	–
Knock-out barrier	–	–	900	900	–	900	–	900	–
First three years (call)									
Strike	–	–	1,300	1,300	–	1,350	–	1,350	–
Knock-in barrier	–	–	1,433	1,450	–	1,450	–	1,450	–
Thereafter (put)									
Strike	–	–	–	–	–	–	–	1,000	1,000
Knock-out barrier	–	–	–	–	–	–	–	950	950
Thereafter (call)									
Strike	–	–	–	–	–	–	–	1,350	1,420
Knock-in barrier	–	–	–	–	–	–	–	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 300 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 1,444 per ounce for 225 thousand ounces, in which case the weighted average price is capped at USD 1,328 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.

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.

Tranches 1 and 2 of the revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity, whilst the remaining change in the fair value of USD 4 million loss is reflected in the consolidated statement of profit or loss (note 10) (2015: gain of USD 19 million). During the year ended 31 December 2016, under Tranches 1 and 2, a loss of USD 65 million was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity (2015: a gain of USD 126 million) and following the sale of the hedged

volume of gold and the exercise of certain options USD 53 million was subsequently reclassified to Gold sales within the consolidated statement of profit or loss (2015: USD 91 million).
Tranches 3 and 4 are accounted at fair value through profit and loss. The loss resulted from the change in their fair value totalled USD 58 million and is presented within the note 10 of the consolidated statement of profit or loss (2015: gain of USD 49 million) and following the sale of the hedged volume of gold and the exercise of certain options USD 6 million was subsequently reclassified to *Gold sales* within the consolidated statement of profit or loss (2015: nil).

Gold forward

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

There are no outstanding balances in regard of gold forward as of 31 December 2016. The gold forward contract was designated as a cash flow hedge.

Any change in the forward fair value was recognised in *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity. During the year ended 31 December 2016, a loss of USD 12 million was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity (2015: a gain of USD 18 million) and following the sale of the hedged amount of gold USD 8 million was reclassified from the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity into *Gold sales* within the consolidated statement of profit or loss (2015: USD 25 million).

The fair value was determined using the Black-Scholes valuation technique. Input data used in the valuation model (forward gold prices and volatility) corresponded to Level 2 of the fair value hierarchy in IFRS 13. The Group performed prospective and retrospective effectiveness testing for the instruments designated as a cash flow hedge at least at each reporting date.

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.

During the year 2016, the Group amended previous cross currency contracts and entered into new fixed rate swap, offsetting the floating swap, so that the following terms were in place as of 31 December 2016:

- 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.

(in millions of US Dollars)

Rusbonds

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 the year ended 31 December 2016 resulted in a revaluation gain of USD 172 million recognised in the consolidated statement of profit or loss (note 10) (2015: a loss of USD 198 million). The gain on the exchange of interest payments in amount of USD 34 million is recognised within the *Finance cost* (note 9) (2015: USD 39 million). The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

Interest rate swaps

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.

During the year ended 31 December 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.

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.

In 2016, the loss on changes in the fair value of the interest rate swaps in the amount of USD 9 million is recognised in the consolidated statement of profit or loss (note 10) (2015: gain USD 4 million). The gain on the exchange of interest payments in the amount of USD 10 million is recognised within the *Finance cost* (note 9) (2015: USD 13 million).

The fair value measurement is based on inputs (forward USD LIBOR rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

Loans issued to related parties

Loans issued to PGIL

During the year ended 31 December 2016, all loans previously issued to PGIL and outstanding as of 31 December 2015 were settled in full in advance of their maturity dates:

	Due date	Interest rate, %	31 December 2016	31 December 2015
Loan 1	03/11/16	2.40	–	185
Loan 2	01/04/17	3.89	–	198
Total (refer to note 23)			**–**	**383**

(in millions of US Dollars)

14. INVENTORIES

	31 December 2016	31 December 2015
Inventories expected to be recovered after 12 months		
Stockpiles	253	174
Gold-in-process	11	10
Sub-total	**264**	**184**
Inventories expected to be recovered in the next 12 months		
Stores and materials	253	188
Gold-in-process	54	59
Stockpiles	51	44
Refined gold	23	13
Less: obsolescence provision for stores and materials	(12)	(8)
Sub-total	**369**	**296**
Total	**633**	**480**

15. TAXES RECEIVABLES

	31 December 2016	31 December 2015
Reimbursable value added tax	73	43
Income tax prepaid	9	15
Other prepaid taxes	7	1
Total	**89**	**59**

16. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Bank deposits		
- USD	1,443	1,630
- RUB	82	71
Current bank accounts		
- USD	41	59
- RUB	82	33
Cash in the Federal Treasury (refer to note 19)	74	–
Other cash and cash equivalents	18	32
Total	**1,740**	**1,825**

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

Interest rates on bank deposits denominated in:	2016	2015
- USD	1.1−4.4%	1.0−6.0%
- RUB	8.4−10.2%	8.0−11.1%

(in millions of US Dollars)

17. SHARE CAPITAL

Authorised, issued and fully paid share capital of the Company comprised 190,627,747 ordinary shares at par value of RUB 1.

On 10 March 2016, the Board of Directors of the Company approved the distribution by LLC “Polyus-Invest”, a 100% indirect subsidiary of the Group, of an Information Memorandum to the holders of PJSC “Polyus” ordinary shares and ADRs in respect of the terms and conditions for the submission of applications to enter into securities purchase agreements. As a result of the completion of the above mentioned buy-back program, LLC “Polyus-Invest” purchased the following number of ordinary shares:

Name of shareholders submitted its shares for buy-back	Number of shares’000	Ownership*, as %	Price per 1 share, RUB	Consideration, USD million
PGIL	60,212	31.59%	4,041	3,423
Minority shareholders	307	0.16%	4,041	19
Buy-back direct expenses	–	–	–	1
Total	**60,519**	**31.75%**		**3,443**

* as of 10 March 2016, the date of buy back approval

Additionally, on 30 September 2016, a 100% subsidiary of the Company obtained from PGIL 4,477 thousands of the Company’s ordinary shares in exchange for an early settlement of the loans issued by the Group to PGIL and related accrued interest in the total amount of USD 269 million.

There were no dividends declared and paid for the year ended 31 December 2016 and 2015.

New dividend policy

On 7 October 2016, the Board of Directors (the “Board”) has approved the Company’s dividend policy, pursuant to which the Company will pay dividends on a semi-annual basis in an amount of 30% of the EBITDA of PJSC Polyus for the respective reporting period. Payment will be calculated on the basis of the consolidated financial statements of the Company in accordance with IFRS requirements, provided that the net debt/adjusted EBITDA (last 12 months) ratio based on the consolidated financial statements of PJSC Polyus is lower than 2.5x.

Should the net debt / adjusted EBITDA (for the last 12 months) ratio increase to higher than 2.5x, the Board will exercise discretion on dividends, considering the Company’s financial position, free cash flow, outlook and macro environment. The Board may consider the possibility of payment of special dividends, subject to the Company’s liquidity position, capex requirements, free cash flows and leverage.

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

During the year ended 31 December 2015, a long term incentive plan (“LTIP”) was approved by PGIL according to which the members of top management were entitled to a conditional award in the form of the PGIL’s ordinary shares linked to achieving a combination of financial and non-financial performance targets. The LTIP stipulated three three-year rolling performance periods, starting from 2015, 2016 and 2017. This plan was ended following a delisting of PGIL’s shares from the London Stock Exchange.

On 22 December 2016, the Board of Directors of PJSC “Polyus” approved a new long term incentive plan according to which the members of top management of the Group are entitled to a conditional award in the form of PJSC Polyus' ordinary shares which vest upon achievement of financial and non-financial performance targets. The LTIP stipulates three rolling performance periods: 2016-2017; 2016-2018; and 2017-2019. The total number of shares that may be distributed under the LTIP is up to 1.5% of the total share capital of the Company, which can be granted from newly issued ordinary shares or from treasury shares, if any.

Total expense for the reporting period arising from LTIP was immediately recognised in the consolidated statement of profit and loss within the line *Salaries* included within *Selling, general and administrative expenses* in the amount of USD 19 million (2015: 7 million).

(in millions of US Dollars)

Weighted average number of ordinary shares

The weighted average number of ordinary shares for the year ended 31 December 2016 and 2015 used in the calculation of basic and diluted earnings ("EPS") per share is presented below:

	Year ended 31 December	
	2016	**2015**
Ordinary shares'000 in issue at the beginning of the year'000	**190,628**	**190,628**
Treasury shares'000 (64,996 during period from 10 March 2016 to 30 September 2016)	(49,863)	–
Weighted average number of ordinary shares'000 – basic EPS	**140,765**	**190,628**
LTIP'000	9	–
Weighted average number of ordinary shares'000 – dilutive EPS	**140,774**	**190,628**

18. BORROWINGS

	Nominal rate %	31 December 2016	31 December 2015
Credit facilities with financial institutions nominated in USD with variable interest rates	USD LIBOR + margins ranging from 1.35% to 4.50%	2,513	785
PGIL USD-credit facilities with fixed interest rate (note 23)	4.799% — 5.725%	1,237	750
Credit facilities with financial institutions nominated in RUB with fixed interest rates	10.35%	541	461
Credit facilities with financial institutions nominated in USD with fixed interest rates	3.75% — 4.10%	331	–
Notes due in 2025 (Rusbonds) with noteholders' early repayment option in 2021	12.1%	253	137
Credit facilities with financial institutions nominated in RUB with variable interest rates	Central bank rate + 2.3%	81	18
Letters of credit with deferred payments terms with variable rates	Euribor +1.8%, USD LIBOR + 1.15%	19	38
Lease liabilities nominated in USD with fixed interest rate	5.1% — 7.5%	5	–
Lease liabilities nominated in RUB with fixed interest rate	15.6%	1	–
Sub-total		**4,981**	**2,189**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(283)	(38)
Long-term borrowings		**4,698**	**2,151**

The Company and subsidiaries of the Group from time to time obtain credit facilities from different financial institutions, raise financing from the lenders to fund its general corporate purposes and to finance its capital investment projects.

Unused committed credit facilities

During the year ended 31 December 2014, one of the companies of the Group, entered into a five year RUB 40,000 million credit line with a bank to fund its general corporate purposes. As of 31 December 2016 and 31 December 2015, the amount of unused credit facilities was RUB 40,000 million equivalent to USD 659 million and USD 549 million, respectively.

During the year ended 31 December 2015, one of the companies of the Group, entered into an eleven year RUB 6,054 million credit line with a bank to fund construction of Razdolinskaya-Taiga power grid. As of 31 December 2016 and 31 December 2015, the credit facilities in the amount of USD 18 million (RUB 1,072 million) and USD 65 million (RUB 4,707 million), respectively were unused. As of 31 December 2016 and 31 December 2015, all shares of AO "TES", a 100% subsidiary of the Group were pledged to secure credit line.

Other matters

JSC "Gold Mining Company Polyus", a 100% subsidiary of the Group, guaranteed liabilities of all the companies in the Group for all borrowings.

(in millions of US Dollars)

There were a number of covenants under several loan agreements in effect as of 31 December 2016 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;
- 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 covenants as of 31 December 2016.

Reclassification of Rusbonds to short-term borrowings

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. The bondholders must notify the issuer by 13 March 2017 to exercise their right. As a result, the full outstanding amount of Rusbonds was reclassified to short-term as of 31 December 2016.

Fair value

The fair value of the Notes due in 2021 are within Level 1 of the fair value hierarchy. Whilst measured at amortised cost, the fair value measurement of all of the Group's borrowings except for Notes due in 2021 is within Level 2 of the fair value hierarchy in accordance with IFRS 13. The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB interest rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value. The fair value of the borrowings as of 31 December 2016 was equal to USD 4,520 million (2015: USD 2,013 million).

19. DEFERRED REVENUE

On 13 September 2016, the Ministry for the Development of the Russian Far East (the "Minvostokrazvitiya") and JSC "Matrosova Mine" (the "Matrosova Mine"), a 100% subsidiary of the Group representing Magadan business unit, entered into an agreement under which Minvostokrazvitiya has to provide to Matrosova Mine government grant in the following maximum amounts:

During the year ended 31 December	**2016 (1)**
2016	76
2017	43
2018	45
Total	**164**

(1) All amounts were translated from RUB to USD at exchange rate as of 31 December 2016.

Under the agreement Matrosova Mine receives the government grant, cash from which should be used for the construction of: (i) electricity transmission line 220 kW "Ust'-Omchug – Omchak New", (ii) 220 kW distribution point and (iii) electric power substation for 220 kW "Omchak New". The construction is expected to be completed during the second quarter of the year ending 31 December 2019. Unutilised balance of the government grant will have to be returned to Minvostokrazvitiya. JSC "Gold Mining Company Polyus" is a guarantor under the agreement.

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

	2016
Carrying value at the beginning of the year	**–**
Received cash	76
Carrying value at the end of the year	**76**

(in millions of US Dollars)

20. DEFERRED TAX ASSETS AND LIABILITIES

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

	Year ended 31 December	
	2016	2015
Net deferred tax liability at beginning of the year	**87**	**103**
Recognised in the consolidated statement of profit or loss	29	(7)
Recognised in the consolidated statement of comprehensive income	(27)	13
Effect of translation to presentation currency	18	(22)
Net deferred tax liability at end of the year	**107**	**87**

Deferred taxation is attributable to tax losses carried-forward and the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

	31 December	
	2016	2015
Property, plant and equipment	213	155
Tax losses carried-forward	(160)	(106)
Inventory	61	43
Trade and other payables	(10)	(4)
Deferred expenditures	3	3
Other	–	(4)
Total	**107**	**87**

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

	31 December	
	2016	2015
Deferred tax assets	(75)	(46)
Deferred tax liabilities	182	133
Net deferred tax liabilities position	**107**	**87**

Unrecognised deferred tax asset

	31 December	
	2016	2015
Unrecognised deferred tax asset resulting from losses on derivative financial instruments	123	115
Unrecognized deferred tax assets resulted from impairments	12	33
Unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit	8	18
Total	**143**	**166**

Unrecognised deferred tax liability

	31 December	
	2016	2015
Taxable temporary differences associated with investments in subsidiaries	348	80

The deferred tax liability presented above was not recognised because the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

(in millions of US Dollars)

21. TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
Wages and salaries payable	77	56
Interest payable	58	31
Trade payables to third parties	34	25
Other accounts payable and accrued expenses	32	22
Accrued annual leave	21	16
Dividends payable to non-controlling interests	–	1
Total	**222**	**151**

The average credit period for trade payables at 31 December 2016 was 27 days (2015: 21 days). No interest was charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

22. TAXES PAYABLE

	31 December 2016	31 December 2015
Income tax payable	40	4
Value added tax	30	6
Tax on mining	11	10
Social taxes	6	5
Property tax	3	2
Other taxes	3	2
Total	**93**	**29**

23. RELATED PARTIES

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

Immediate shareholder

The Group entered into the following transactions with parent entity:

	Year ended 31 December 2016	Year ended 31 December 2015
Interest income	6	11
Interest received	7	–
Interest expense	4	21
Interest capitalised	45	25
Repayment of borrowing and interest accrued	46	47
Acquisition of treasury shares	3,423	–
Cash used for acquisition of non-controlling interest in subsidiaries	–	230
Loans issued	–	190
Proceeds from loans issued	124	–
Settlement of issued loans by own shares (refer to note 17)	269	–
Loans received	500	–
Commission paid	13	–

(in millions of US Dollars)

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

	31 December	
	2016	**2015**
Loans received (note 18)	1,237	750
Interest payable	12	9
Loans issued (note 13)	–	383
Interest receivable	–	10

Key management personnel

	Year ended 31 December	
	2016	**2015**
Short-term compensation of key management personnel	19	15
Long-term compensation of key management personnel (LTIP)	19	7[(1)]
Termination benefits to the former key management personnel	–	1
Total	**38**	**23**

[(1)] Accrual of costs related to the old LTIP which was ended due to delisting of PGIL. Refer to note 17 for more details.

24. COMMITMENTS AND CONTINGENCIES

Commitments

Capital commitments

The Group's capital expenditure commitments are as follows:

	31 December	
	2016	**2015**
Project Natalka	190	9
Other capital commitments	67	21
Total	**257**	**30**

Operating leases: Group as a lessee

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

	31 December	
	2016	**2015**
Due within one year	3	4
From one to five years	9	18
Thereafter	20	17
Total	**32**	**39**

Contingencies

Litigations

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

Taxation contingencies in the Russian Federation

Commercial legislation in the Russian Federation, including tax legislation, is subject to varying interpretations and frequent changes. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed with additional taxes, penalties and interest. Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also, according to the clarification of the Russian Constitutional Court, the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayer has obstructed or hindered a tax inspection.

Management of the Group is confident that applicable taxes have all been accrued and, consequently, creation of provisions is not required. Under the Russian tax legislation, the authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by the authorities could affect the Group's previously submitted and assessed tax declarations. With regards to matters where practice concerning payment of taxes is unclear, management estimate that there were no tax exposures as of 31 December 2016 and 2015.

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 adapts its technology to meet more stringent standards.

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

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Rouble exchange rate.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. In the first quarter of 2015, international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook. The above mentioned events have led to reduced access of Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

(in millions of US Dollars)

25. FINANCIAL INSTRUMENTS RISK MANAGEMENT ACTIVITIES

Capital risk management

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

Major categories of financial instruments

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

	31 December	
	2016	**2015**
Financial assets		
Cash and cash equivalents	1,740	1,825
Trade and other receivables	58	23
Derivative financial instruments	59	231
Loan receivables	1	385
Total financial assets	**1,858**	**2,464**
Financial liabilities		
Borrowings	4,981	2,189
Derivative financial instruments	456	509
Account payables	201	135
Total financial liabilities	**5,638**	**2,833**

Derivative financial instruments are carried at fair value.

The main risks arising from the Group’s financial instruments are gold price, interest rate, foreign currency exchange rates, credit and liquidity risks.

Gold price risk

The Group is exposed to changes in the gold price due to its significant volatility. According to the approved hedging strategy the Group may hedge up to 1/2 of its annual gold sales. During 2014, the Group entered into a number of derivative transactions (revenue stabiliser and gold forward agreements) under a Strategic Price Protection Programme to limit its exposure to future possible fluctuations of gold price (as detailed further in note 13). Under the terms of the revenue stabiliser the Group ensures a minimum selling gold price in the case of declines in the gold price and at the same time may benefit from increases in the gold price until certain barrier prices are reached on the call options, at which point the sale price is capped.

If the gold price was 10% higher / lower during the year ended 31 December 2016 gold sales for the year would have increased / decreased by USD 111 million / USD 107 million, respectively (2015: USD 132 million / USD 132 million), other comprehensive income would have increased / decreased by USD 2 million / USD 5 million, respectively (2015: USD 2 million / USD 6 million).

Interest rate risk

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

(in millions of US Dollars)

Before 2016, the Group entered into a number of derivative transactions with leading Russian banks (note 13). During 2016, in order to mitigate negative effect from expected increases of LIBOR, the Group has economically switched USD floating interest rate under cross-currency and interest rate swaps into USD fixed interest rate (as detailed further in note 13).

If the interest rate was 0.5% higher / lower during the year ended 31 December 2016 interest expense excluding effect of change in fair value of interest rate and cross currency swaps for year ended 31 December 2016 would have increased / decreased by USD 17 million (2015: USD 8 million).

If interest rates used in calculations of fair values of interest rate and cross currency swaps as of 31 December 2016 were 0.5% higher / lower, the gain on revaluation would be USD 4 million lower / higher, respectively (2015: USD 39 million).

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

Foreign currency exchange rate risk

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

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

	31 December	
	2016	**2015**
Assets		
USD	1,585	2,134
EURO (presented in USD at closing exchange rate)	–	1
Total	**1,585**	**2,135**
Liabilities		
USD	4,642	2,084
EURO (presented in USD at closing exchange rate)	9	14
Total	**4,651**	**2,098**

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

If the USD or EURO exchange rate had increased by 25% for the year ended 31 December 2016 and year ended 31 December 2015 compared to RUB as of the end of respective year, the Group would have incurred the following losses / (gains):

	Year ended 31 December	
	2016	**2015**
Loss / (gain) (USD exchange rate increased compared to RUB)	764	(13)
Loss (EURO exchange rate increased compared to RUB)	2	3

(in millions of US Dollars)

Credit risk

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

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

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

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

Although the Group sells more than 90% of the total gold sales to 4 major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore the credit risk related to trade receivables is minimal.

As of 31 December 2016, trade receivables for gold sales was USD 36 million (31 December 2015: USD nil).

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

	Year ended 31 December	
	2016	**2015**
VTB Bank	906	493
Sberbank	647	651
Otkritie Bank	561	668
MDM Bank	72	166
Other	243	181
Total	**2,429**	**2,159**

Liquidity risk

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

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

(in millions of US Dollars)

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

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

Presented below is the maturity profile of the Group's financial liabilities as of 31 December 2015 based on undiscounted contractual payments, including interest payments:

	Borrowings		Account	
	Principal	Interest	payables	Total
Due in the first year	38	141	104	**283**
Due in the second year	258	138	–	**396**
Due in the third year	418	132	–	**550**
Due in the fourth year	578	90	–	**668**
Due in the fifth year	762	40	–	**802**
Due in the period between sixth to eight years	144	17	–	**161**
Total	**2,198**	**558**	**104**	**2,860**

Maturity of the derivative financial instruments in presented within note 13.

26. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

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

The basis of distribution of accumulated retained earnings for companies operating in the Russian Federation is defined by legislation as the current year net profit of the company, as calculated in accordance with Russian accounting standards. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for distributable profits and reserves in these consolidated financial statements.

26.2 Information about significant subsidiaries of the Group

		Effective % held[1] as of 31 December	
Subsidiaries	**Nature of business**	**2016**	**2015**
Incorporated in Russian Federation			
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"	Participation in the auction for the Sukhoi Log license	51	–

[1] Effective % held by the Company, including holdings by other subsidiaries of the Group.

(in millions of US Dollars)

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

	PJSC "Lenzoloto" 31 December		LLC "SL Gold" 31 December	
Summarised statements	**2016**	**2015**	**2016**	**2015**
Current assets	222	179	148	–
Non-current assets	60	51	141	–
Current liabilities	14	15	289	–
Non-current liabilities	12	11	–	–
Equity attributable to the shareholders of the subsidiary	188	136	–	–
Non-controlling interests	68	68	–	–

	PJSC "Lenzoloto" Year ended 31 December		LLC "SL Gold" Year ended 31 December	
Summarised statements	**2016**	**2015**	**2016**	**2015**
Revenue	224	197	–	–
Profit for the year	43	72	–	–
Profit attributable to non-controlling interests	13	15	–	–
Net cash inflow from operating activities	61	56	1	–
Net cash (outflow) / inflow from investing activities	(13)	70	(138)	–
Net cash (outflow) / inflow from financing activities	(13)	(12)	286	–
Dividends paid to non-controlling interests	13	12	–	–

27. EVENTS AFTER THE REPORTING DATE

Sukhoi Log

On 26 January 2017, the Russian Federal Agency for Subsoil Use ("Rosnedra") held an auction for the Sukhoi Log license, the largest undeveloped deposit globally and the biggest gold greenfield in Russia. According to the information available to the Company, LLC SL Gold ("SL Gold"), a company established by JSC Polyus and a Russian state-owned corporation Russian Technologies ("Rostec"), submitted the highest bid in the auction of USD 153 million (of which USD 138 million was advanced to Rosnedra for the participation in the auction for the Sukhoi Log and translated from RUB to USD at exchange rate as at 21 December 2016).

The Government of the Russian Federation on 17 February 2017 announced SL Gold as a winner of the auction. It may take up to three months or potentially longer for the Rosnedra to issue the license for Sukhoi Log to SL Gold.

Under a number of option agreements entered into between JSC Polyus and Rostec on 16 December 2016, JSC Polyus expects to increase its stake in SL Gold by 23.9 per cent of participation interest within the next five years (with the right to accelerate) at the following prices totalling approximately US$141 million (at the exchange rate as of the auction date):

To be paid	**Ownership, %**	**Amount, USD million**
First half of 2017	3.6	21
Beginning of 2019	4.8	28
Beginning of 2020	4.8	28
Beginning of 2021	4.8	28
Beginning of 2022	5.9	36
Total	**23.9**	**141**

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 Notes are guaranteed by JSC "Gold Mining Company Polyus", a 100% subsidiary of the Group. Group intends to borrow the net proceeds from the issue of the Notes and use primarily for debt refinancing and other general corporate purposes of the Group, including the financing of operating activities and development projects of the Group.

PJSC “Polyus”

Consolidated financial statements
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PJSC “POLYUS”

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

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PJSC "POLYUS"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 AND 2014

Management of Public Joint Stock Company "Polyus" and its subsidiaries (the "Group") are responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2015 and 2014, and the results of its operations, cash flows and changes in equity for the years then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs 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.

Management is also responsible for:

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

The consolidated financial statements of the Group for the years ended 31 December 2015 and 2014 were approved by management on 27 December 2016.

On behalf of management:

Grachev P.S.
General Director

Stiskin M.B.
Deputy General Director

Moscow, Russia
27 December 2016

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "Polyus" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statements of financial position as at 31 December 2015 and 2014 and the consolidated statements of profit or loss and consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for years then ended, and summaries of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

27 December 2016

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED 31 DECEMBER

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

	Notes	2015	2014
Gold sales	5	2,159	2,197
Other sales		29	42
Total revenue		**2,188**	**2,239**
Cost of gold sales	6	(876)	(1,174)
Cost of other sales		(25)	(33)
Gross profit		**1,287**	**1,032**
Selling, general and administrative expenses	7	(143)	(174)
Reversal of impairment	8	22	17
Other expenses, net		(2)	(22)
Operating profit		**1,164**	**853**
Finance costs, net	9	(45)	(26)
Interest income		69	31
Loss on derivative financial instruments and investments, net	10	(125)	(934)
Foreign exchange gain, net		149	123
Profit before income tax		**1,212**	**47**
Income tax expense	11	(191)	(222)
Profit / (loss) for the year		**1,021**	**(175)**
Profit / (loss) for the year attributable to:			
Shareholders of the Company		987	(216)
Non-controlling interests		34	41
		1,021	**(175)**
Weighted average number of ordinary shares’000	18	190,628	186,315
Earnings / (loss) per share (US Dollar), basic and diluted[1]		5.18	(1.16)

[1] There were no instruments or any other instances which could cause an dilutive effect on the earnings per share calculation.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER

(in millions of US Dollars)

	Notes	2015	2014
Profit / (loss) for the year		**1,021**	**(175)**
Other comprehensive income / (loss) for the year			
Items that may be subsequently reclassified to profit or loss:			
Increase in revaluation of cash flow hedge reserve on revenue stabiliser	13	126	132
Increase in revaluation of cash flow hedge reserve on gold forward	13	18	36
Deferred tax relating to increase in revaluation of cash flow hedge reserve		(35)	(26)
		109	**142**
Items that will not be subsequently reclassified through profit or loss:			
Effect of translation to presentation currency		(554)	(1,746)
Items that have been reclassified through profit or loss:			
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser	13	(91)	(35)
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward	13	(25)	(6)
Deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss		22	7
		(94)	**(34)**
Other comprehensive loss for the year		**(539)**	**(1,638)**
Total comprehensive income / (loss) for the year		**482**	**(1,813)**
Total comprehensive income / (loss) for the year attributable to:			
Shareholders of the Company		469	(1,812)
Non-controlling interests		13	(1)
		482	**(1,813)**

PJSC "POLYUS"

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

	Notes	2015	2014
Assets			
Non-current assets			
Property, plant and equipment	12	2,023	2,351
Derivative financial instruments and investments	13	411	172
Inventories	14	184	227
Deferred tax assets	20	46	47
Other non-current assets		8	3
		2,672	**2,800**
Current assets			
Inventories	14	296	440
Derivative financial instruments and investments	13	205	193
Deferred expenditures		13	13
Other receivables		23	10
Advances paid to suppliers and prepaid expenses		17	16
Taxes receivable	15	59	47
Bank deposits	16	–	269
Cash and cash equivalents	17	1,825	1,213
		2,438	**2,201**
Total assets		**5,110**	**5,001**
Equity and liabilities			
Capital and reserves			
Share capital	18	7	7
Additional paid-in capital	18	2,273	2,266
Cash flow hedge revaluation reserve		123	108
Translation reserve		(2,623)	(2,090)
Retained earnings		2,196	1,425
Equity attributable to shareholders of the Company		**1,976**	**1,716**
Non-controlling interests		71	83
		2,047	**1,799**
Non-current liabilities			
Site restoration, decommissioning and environmental obligations		32	49
Borrowings	19	2,151	1,728
Derivative financial instruments	13	509	423
Deferred tax liabilities	20	133	150
Other non-current liabilities		20	21
		2,845	**2,371**
Current liabilities			
Borrowings	19	38	90
Derivative financial instruments	13	–	547
Trade and other payables	21	151	158
Taxes payable	22	29	36
		218	**831**
Total liabilities		**3,063**	**3,202**
Total equity and liabilities		**5,110**	**5,001**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER

(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 interests	Total
Balance at 31 December 2013		**186,130**	**7**	**2,266**	**(262)**	**–**	**(386)**	**2,284**	**3,909**	**78**	**3,987**
(Loss) / profit for the year		–	–	–	–	–	–	(216)	**(216)**	41	**(175)**
Increase in cash flow hedge revaluation reserve		–	–	–	–	108	–	–	**108**	–	**108**
Effect of translation to presentation currency[1]		–	–	–	–	–	(1,704)	–	**(1,704)**	(42)	**(1,746)**
Total comprehensive income / (loss)		**–**	**–**	**–**	**–**	**108**	**(1,704)**	**(216)**	**(1,812)**	**(1)**	**(1,813)**
Sale of treasury shares		4,498	–	–	262	–	–	(167)	**95**	–	**95**
Decrease of ownership in subsidiaries		–	–	–	–	–	–	285	**285**	16	**301**
Loan provided to the controlling shareholder		–	–	–	–	–	–	(761)	**(761)**	–	**(761)**
Declared dividends		–	–	–	–	–	–	–	**–**	(10)	**(10)**
Balance at 31 December 2014		**190,628**	**7**	**2,266**	**–**	**108**	**(2,090)**	**1,425**	**1,716**	**83**	**1,799**
Profit for the year		–	–	–	–	–	–	987	**987**	34	**1,021**
Increase in cash flow hedge revaluation reserve		–	–	–	–	15	–	–	**15**	–	**15**
Effect of translation to presentation currency[1]		–	–	–	–	–	(533)	–	**(533)**	(21)	**(554)**
Total comprehensive income / (loss)		**–**	**–**	**–**	**–**	**15**	**(533)**	**987**	**469**	**13**	**482**
Equity-settled share-based payment plans (long term incentive plan)	18	–	–	7	–	–	–	–	**7**	–	**7**
Increase of ownership in subsidiaries	18	–	–	–	–	–	–	(216)	**(216)**	(14)	**(230)**
Declared dividends		–	–	–	–	–	–	–	**–**	(11)	**(11)**
Balance at 31 December 2015		**190,628**	**7**	**2,273**	**–**	**123**	**(2,623)**	**2,196**	**1,976**	**71**	**2,047**

[1] Following a decrease in exchange rate of the Russian Rouble against the US Dollar a translation loss of USD 554 million was recognised in other comprehensive income / (loss), mainly relates to property, plant and equipment (2014: translation loss of USD 1,746 million).

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

	Notes	2015	2014
Operating activities			
Profit before income tax		**1,212**	**47**
Adjustments for:			
Reversal of impairment	8	(22)	(17)
Finance costs, net	9	45	26
Interest income		(69)	(31)
Loss on derivative financial instruments and investments, net	10	125	934
Depreciation and amortisation	12	128	182
Foreign exchange gain, net		(149)	(123)
Other		5	10
		1,275	**1,028**
Movements in working capital			
Inventories		42	(121)
Deferred expenditures		(3)	(5)
Other receivables		(6)	3
Advances paid to suppliers and prepaid expenses		(11)	(2)
Taxes receivable		(8)	123
Trade and other payables		27	54
Other non-current liabilities		5	1
Taxes payable		(1)	(25)
Cash flows from operations		**1,320**	**1,056**
Income tax paid		(217)	(185)
Net cash generated from operating activities		**1,103**	**871**
Investing activities			
Purchases of property, plant and equipment		(326)	(570)
Interest received		62	30
Increase in bank deposits		(74)	(475)
Proceeds from redemption of bank deposits		340	248
Proceeds from derivatives		–	43
Payment for derivatives		(494)	(55)
Loans issued	23	(190)	(1,034)
Loans repaid	23	–	80
Other		6	6
Net cash utilised in investing activities		**(676)**	**(1,727)**
Financing activities			
Interest paid		(124)	(75)
Net proceeds on exchange of interest payments under interest and cross currency rate swaps	9	52	20
Dividends paid to non-controlling interests		(10)	(10)
Proceeds from borrowings		621	1,254
Repayment of borrowings		(89)	(232)
Proceeds from sale of treasury shares		–	95
Cash used to increase of ownership in subsidiaries		(230)	–
Proceeds from decrease of ownership in subsidiaries		–	301
Net cash generated from financing activities		**220**	**1,353**
Net increase in cash and cash equivalents		**647**	**497**
Cash and cash equivalents at beginning of the year	**17**	**1,213**	**792**
Effect of foreign exchange rate changes on cash and cash equivalents		(35)	(76)
Cash and cash equivalents at end of the year	**17**	**1,825**	**1,213**

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 26.

The Company is a subsidiary of Polyus Gold International Limited (“PGIL”). PGIL is an ex-public company which publishes its consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”). As of 31 December 2015 and 31 December 2014, the ultimate controlling party of the Company was Mr. Said Kerimov.

2. BASIS OF PREPARATION AND PRESENTATION

Going concern

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

Compliance with the International Financial Reporting Standards

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

Basis of presentation

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

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

(in millions of US Dollars)

IFRS standards update

The following is a list of standards that have been adopted during the year ended 31 December 2015 and new or amended IFRS standards that have been issued by the IASB:

Title	Subject	Effective for annual periods beginning on or after	Expected effect on the consolidated financial statements
IAS 19	Amendments to the standard	1 February 2015	No effect
Annual Improvements to IFRSs 2010 – 2012 Cycle (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38, IAS 24)	Amendments to the standards	1 February 2015	No effect
Annual Improvements to IFRSs 2011 – 2013 Cycle (IFRS 3, IFRS 13, IAS 40)	Amendments to the standards	1 January 2015	No effect

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

Title	Subject	Effective for annual periods beginning on or after	Expected effect on the consolidated financial statements
Amendments to IAS 7	Statement of Cash Flows	1 January 2017	No effect
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses	1 January 2017	No effect
Amendments to IFRS 2	Share-based payment	1 January 2018	To be determined
IFRS 9	Financial instruments	1 January 2018	To be determined
IFRS 14	Regulatory deferral accounts	1 January 2016	To be determined
IFRS 15	Revenue from contracts with customers	1 January 2018	To be determined
IFRS 16	Leases	1 January 2019	To be determined
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception	1 January 2016	To be determined
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	Date will be determined later	No effect
Amendments to IAS 1	Disclosure initiative	1 January 2016	To be determined
Annual Improvements to IFRSs 2012–2014 Cycle	Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	1 January 2016	To be determined
Amendments to IAS 27	Equity method in separate financial statements	1 January 2016	To be determined
Amendments to IAS 16 and IAS 41	Agriculture: bearer plants	1 January 2016	To be determined
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation	1 January 2016	To be determined
Amendments to IFRS 11	Accounting for acquisition of interests in joint operations	1 January 2016	To be determined

Management is currently considering the potential impact of the adoption of these standards and amendments. However, it is not practicable to provide a reasonable estimate of their effect until a detailed review has been completed.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

Subsidiaries

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

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

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

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

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

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

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

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

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

(in millions of US Dollars)

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

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

Functional currency

The individual financial statements of the Company and its subsidiaries are each prepared in their respective functional currencies. The functional currency of the Company and its subsidiaries is the Russian Rouble (“RUB”).

3.2 Presentation currency

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

- all assets, liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting date;
- starting from 1 January 2015 all income and expenses are translated at the average quarterly exchange rates, except for significant transactions that are translated at a rate on the date of each transaction. All income and expenses for the year ended 31 December 2014 are translated at the average exchange rates for the year presented; except for significant transactions that are translated at a rate on the date of each transaction;
- resulting exchange differences are included in equity and presented as *Effect of translation to presentation currency* within the *Translation reserve* (on disposal of such entities this *Translation reserve* is reclassified into the consolidated statement of profit or loss); and
- in the statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. Starting from 1 January 2015 all cash flows are translated at the average quarterly exchange rates, except for significant transactions that are translated at a rate on the date of each transaction. Cash flows for year ended 31 December 2014 are translated at the average exchange rate for the year, except for significant transactions that are translated at a rate on the date of transaction.

Exchange rates at the end of year presented in these consolidated financial statements were as follows:

	31 December	
	2015	**2014**
Russian Rouble/US Dollar		
rate	72.88	56.26

3.3 Foreign currencies

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

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

3.4 Revenue recognition

Gold sales revenue

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

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

Revenue from gold sales is recognised at the time of shipment from the refining plant when the Group has received confirmation of sale from the third party. Revenue from gold-bearing products is recognised when the goods have been delivered to a contractually agreed location. Gold sales are stated at their invoiced value net of value-added tax.

Other revenue

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

3.5 Income tax

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

Current tax

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

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements of the separate legal entities and the corresponding tax bases used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

Current and deferred tax for the year

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

3.6 Operating leases

The leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Costs for operating leases are recognised on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

3.7 Dividends

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

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

3.8 Property, plant and equipment

Mineral rights

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

Fixed assets

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

Fixed assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of the mines in accordance with the mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Depreciation is charged from the date a new mine reaches commercial production quantities and is included in the *Cost of production*. The estimated remaining useful lives of the Group's significant mines based on the mine operating plans are as follows:

Blagodatnoye	16 years
Olimpiada	13 years
Verninskoye	12 years
Kuranakh	8 years
Titimukhta	2 years

Stripping activity asset

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

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

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

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

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

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

Capital construction-in-progress

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

Capital construction-in-progress is not depreciated.

Mine under development

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

3.9 Finance costs directly attributable to the construction of qualifying assets

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

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

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

3.10 Impairment of long-lived tangible assets

Impairment of fixed assets, capital construction-in-progress and mine under development

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

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

A reversal of an impairment loss is recognised in the consolidated statement of profit or loss immediately.

Impairment of exploration and evaluation assets

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

- acquisition of rights to explore potentially mineralised areas;
- topographical, geological, geochemical and geophysical studies;
- exploratory drilling;
- trenching;
- sampling; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting gold resource.

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

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

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

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

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

3.11 Financial instruments

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

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

Financial assets

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

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

- financial assets at FVTPL; and
- loans and receivables.

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

Financial assets at FVTPL

Financial assets are classified as a FVTPL where the financial asset is either held for trading or it is designated as a FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as a FVTPL upon initial recognition if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any dividend or interest earned on the financial asset and is included in the *Loss on derivative financial instruments and investments, net* line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 13.

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

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

Loans and receivables

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of profit or loss.

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

Derecognition of financial assets

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

Effective interest method

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

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

Financial liabilities

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any interest paid on the financial liability and is included in the *Loss on derivative financial instruments and investments, net* line item in the income statement.

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

Derecognition of financial liabilities

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

Derivative financial instruments

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

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

The Group designates certain derivative financial instruments as cash flow hedges.

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

3.12 Cash flow hedges

The Group uses derivative financial instruments for hedge accounting as determined in accordance with IAS 39.

The Group applies hedge accounting for cash flow hedges against the risk of decline of the gold prices. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivative financial instruments used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At the inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

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

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

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

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

3.13 Inventories

Refined gold, ore stockpiles and gold-in-process

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

Stores and materials

Stores and materials consist of consumable stores and are stated at the lower of cost and net realisable value. Costs of stores and materials are determined on a weighted average cost basis.

Net realisable value represents the expected estimated selling price for stores and materials less all costs necessary to make the sale.

3.14 Deferred expenditures

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

3.15 Cash and cash equivalents

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

3.16 Provisions

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

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

3.17 Site restoration, decommissioning and environmental obligations

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

Ongoing restoration costs are expensed when incurred.

3.18 Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 18.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Critical judgements in applying accounting policies

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

- justification of the economic useful lives of property, plant and equipment;
- depreciation method for property, plant and equipment;
- borrowing costs capitalisation;
- determination of functional currency; and
- cash flow hedge designation.

4.1 Economic useful lives of property, plant and equipment

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

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

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

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

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

4.2 Depreciation method for property, plant and equipment

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

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

4.3 Borrowing costs capitalisation

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Capitalisation commences when the Group undertakes activities that are necessary to prepare the asset for its intended use or sale and it ceases once the asset is complete and available for use. Interest is then charged to the income statement as a depreciation expense over the life of the relevant asset. However, capitalisation is suspended for the extended periods of inactivity. Determination of the time period for which the borrowing costs need to be capitalised may require significant judgement.

Capitalisation of the borrowings costs relating to Natalka mine development was discontinued in December 2014 following the Group’s decision to review approach to the project and substantial reduction in construction activities. Significant development activities were resumed by the Group in the second half of 2015. Accordingly, capitalisation of Natalka borrowing costs was continued starting from 1 July 2015.

4.4 Determination of functional currency

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

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

4.5 Cash flow hedge designation

The Group applies its judgement in identification of the forecast selling price of the expected gold sale for the purpose of calculation of the intrinsic value of the options designated as a cash flow hedge and for hedge effectiveness testing.

Key sources of estimation uncertainty

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

- recoverability of the exploration and evaluation assets;
- impairment of the tangible assets;
- determination and valuation of the stripping activity asset;
- carrying value of stockpiles, gold in process and product inventories;
- estimation of the site restoration, decommissioning and environmental obligations; and
- interpretation of the tax legislation in accounting for income taxes.

4.6 Exploration and evaluation assets

Management’s judgement is involved in the determination of whether the expenditures which are capitalised as exploration and evaluation assets may be recouped by future exploitation or sale or should be impaired. Determining this, management estimates the possibility of finding recoverable ore reserves related to a particular area of interest. However, these estimates are subject to significant uncertainties. The Group is involved in exploration and evaluation activities and some of its licensed properties contain gold resources under the definition of the Russian Resource Reporting Code. A number of licensed properties have no mineral resource delineation.

Management assumes that all licences will be renewed. Many of the factors, assumptions and variables involved in estimating resources are beyond the Group’s control and may prove to be incorrect over time. Subsequent changes in gold resources estimates could impact the carrying value of exploration and evaluation assets.

4.7 Impairment of long-lived assets

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

Factors which could impact the underlying cash flows include:

- commodity prices and exchange rates;
- timelines of granting of licences and permits;
- capital and operating expenditure; and
- available reserves and resources and future production profile.

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

4.8 Stripping activity asset

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

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

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

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

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

4.10 Site restoration, decommissioning and environmental obligations

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

4.11 Income taxes

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

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

5. SEGMENT INFORMATION

For management purposes the Group is organised by separate business segments identified on a combination of operating activities and geographical area bases with the separate financial information available and reported regularly to the chief operating decision maker ("CODM"). The following is a description of operations of the Group's seven identified reportable segments and those that do not meet the quantitative reporting threshold for reporting:

- ***Krasnoyarsk business unit*** (Krasnoyarsk region of the Russian Federation) – mining (including initial processing) and sale of gold from the Olimpiada, Blagodatnoye and Titimukhta mines, as well as research, exploration and development work at the Olimpiada and Blagodatnoye deposits;
- ***Irkutsk alluvial business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from several alluvial deposits;
- ***Irkutsk ore business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from the Verninskoye mine, research, exploration and development works at the Smezhny and Medvezhy Zapadny deposits;
- ***Yakutia Kuranakh business unit*** (Sakha Republic of the Russian Federation) – mining (including initial processing) and sale of gold from the Kuranakh mines;
- ***Magadan business unit*** (Magadan region of the Russian Federation) – Represented by JSC "Matrosova Mine" which performs development works at the Natalka deposit;

- ***Exploration business unit*** (Krasnoyarsk region, Irkutsk region, Amur region, and others) – Research and exploration works in several regions of the Russian Federation;
- ***Capital construction unit*** - Represented by LLC "Polyus Stroy", JSC "TaigaEnergoStroy" and JSC "VitimEnergoStroy" which perform construction works at Natalka, Verninskoye, Olimpiada and other deposits;
- ***Unallocated*** – the Group does not allocate segment results of companies that perform management, investing activities and certain other functions. Neither standalone results nor the aggregated results of these companies are required to be disclosed as operating segments because quantitative thresholds are not met.

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

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

Business segment assets and liabilities are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements. The Group does not allocate the results of companies that perform management, investing activities and certain other administrative functions within its internal reporting.

	Gold sales	Ounces of gold sold in thousands	Adjusted EBITDA	Total cash cost per ounce of gold sold (USD per ounce)	Capital expenditures
For the year ended 31 December 2015					
Business units					
Krasnoyarsk	1,611	1,293	1,007	399	58
Irkutsk alluvial	191	168	76	582	5
Irkutsk ore	189	161	115	417	21
Yakutia Kuranakh	165	144	70	598	10
Exploration	3	2	3	694	7
Magadan	–	–	–	–	113
Capital construction	–	–	1	–	53
Unallocated	–	–	6	–	1
Total	**2,159**	**1,768**	**1,278**	**424**	**268**
For the year ended 31 December 2014					
Business units					
Krasnoyarsk	1,602	1,219	822	541	84
Irkutsk alluvial	234	190	70	735	17
Irkutsk ore	186	146	89	594	38
Yakutia Kuranakh	175	136	50	868	6
Exploration	–	–	(5)	–	6
Magadan	–	–	(5)	–	308
Capital construction	–	–	(3)	–	54
Unallocated	–	–	–	–	12
Total	**2,197**	**1,691**	**1,018**	**585**	**525**

Gold sales reported above represent revenue generated from external customers (note 25). There were no inter-segment gold sales during the years ended 31 December 2015 and 2014. Included within gold sales in 2015 are realised gains on derivatives of USD 116 million (note 13) (2014: USD 41 million).

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

	Year ended 31 December	
	2015	**2014**
Profit / (loss) for the year	**1,021**	**(175)**
Income tax expense	191	222
Depreciation and amortisation (note 12)	128	182
Loss on derivative financial instruments and investments, net (note 10)	125	934
Finance costs, net (note 9)	45	26
Long term incentive plan (note 18)	7	–
Foreign exchange gain, net	(149)	(123)
Interest income	(69)	(31)
Reversal of impairment	(22)	(17)
Other	1	–
Adjusted EBITDA	**1,278**	**1,018**

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

	Year ended 31 December	
	2015	**2014**
Cost of gold sales	**876**	**1,174**
Adjusted for:		
Depreciation and amortisation (note 12)	(126)	(174)
Other non-cash items in cost of gold sales	(1)	(11)
TCC	**749**	**989**
Ounces of gold sold, in thousands	1,768	1,691
TCC per ounce of gold sold (USD per ounce)	**424**	**585**

Capital expenditures are primarily related to the following projects:

- ***Magadan business unit:*** ongoing construction in all major areas of the first stage of the Natalka mill project, the tendering process is finished and external contractors have been selected for the main process equipment of the mill, ongoing infrastructure construction;
- ***Krasnoyarsk business unit:*** finishing reconfiguration of the Titimukhta mill and preparations for connecting to the new Razdolinskaya-Taiga grid, ongoing upgrading and expanding of the Blagodatnoye mill, launching works to build new BIOX unit;
- ***Yakutia Kuranakh business unit:*** completing project to increase equipment productivity, launched construction works at heap leach project, completed grading and levelling, ongoing heap construction, contractors have been selected for the main process equipment;
- ***Construction business unit:*** finishing construction of the Razdolinskaya-Taiga electricity grid;
- ***Irkutsk ore business unit:*** completed installation of the main process equipment and finishing installation of the auxiliary equipment as part of the project to increase the mill capacity to 2.5 million tons ore per year, consulting company AMC is finishing the current stage of the Irkutsk hub strategy development.

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

(in millions of US Dollars)

6. COST OF GOLD SALES

	Year ended 31 December	
	2015	**2014**
Labour	239	320
Consumables and spares	205	281
Tax on mining	140	154
Fuel	74	131
Power	35	44
Outsourced mining services	12	19
Refining costs	3	4
Other	57	67
Total cash operating costs	**765**	**1,020**
Depreciation and amortisation and of operating assets (note 12)	126	174
Total cost of production	**891**	**1,194**
Increase in stockpiles, gold-in-process and refined gold inventories	(15)	(20)
Total	**876**	**1,174**

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2015	**2014**
Salaries	100	121
Taxes other than mining and income taxes	12	22
Professional services	12	11
Depreciation and amortisation (note 12)	3	4
Other	16	16
Total	**143**	**174**

8. REVERSAL OF IMPAIRMENT

	Year ended 31 December	
	2015	**2014**
Mine under development (note 12)	19	(37)
Exploration and evaluation assets (note 12)	5	(1)
Fixed assets (note 12)	–	29
Stripping activity asset (note 12)	–	13
Capital construction-in-progress (note 12)	–	(6)
Long-term stockpiles	(2)	19
Total reversal of impairment	**22**	**17**

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

Impairment test was performed as of 31 December 2015.

(in millions of US Dollars)

There are a number of subjective factors that are necessarily incorporated into such a review, both operational and financial, using the best evidence available. The values derived are particularly sensitive to the assumptions regarding the planned mining operations and flowsheet and the financial assumptions for the RUB to USD exchange rate, gold price and discount rates. The operational considerations reflect the most likely and optimal updated mining plan developed using the revised JORC reserves estimate and with the advice of the mining consultants.

The financial assumptions include significant judgements associated with forecast gold prices determined at a volatile time for our markets.

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

- if the Rouble strengthened to below 59.6 RUB for 1 US Dollar; or
- if the gold price decreased below US Dollar 1,076 per oz; or
- if the discount rate increased above 15.3%.

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

9. FINANCE COSTS, NET

	Year ended 31 December	
	2015	**2014**
Interest on borrowings	132	100
Unwinding of discounts on site restoration, decommissioning and environmental liabilities	4	4
Gain on exchange of interest payments under cross currency swap (note 13)	(39)	(16)
Gain on exchange of interest payments under interest rate swaps (note 13)	(13)	(4)
Other	2	2
Sub-total finance cost	**86**	**86**
Interest capitalised in the cost of Mine under development	(41)	(60)
Total finance cost expensed	**45**	**26**

10. LOSS ON DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS, NET

	Year ended 31 December	
	2015	**2014**
Revaluation gain on ineffective part of the revenue stabiliser under Tranche 3 (note 13)	49	–
Revaluation gain on ineffective part of the revenue stabiliser under Tranches 1 and 2 (note 13)	19	15
Revaluation gain on interest rate swap (note 13)	4	9
Gain / (loss) on currency collars (note 13)	2	(594)
Gain on initial exchange of cross currency swaps (note 13)	–	34
Revaluation loss on cross currency swaps (note 13)	(198)	(403)
Other	(1)	5
Total	**(125)**	**(934)**

(in millions of US Dollars)

11. INCOME TAX EXPENSE

	Year ended 31 December 2015	Year ended 31 December 2014
Current tax expense	198	220
Deferred tax (benefit) / expense	(7)	2
Total	**191**	**222**

The corporate income tax rates in the countries where the Group has a taxable presence vary from 0% (British Virgin Islands) to 20% (in the Russian Federation).

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

	Year ended 31 December 2015	Year ended 31 December 2014
Profit before income tax	**1,212**	**47**
Income tax at statutory rate applicable to principal entities (20%)	242	9
Increase/(decrease) in deductible temporary differences on revaluation of derivatives, for which no deferred tax was recognised and deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss	(37)	185
Unrecognised deferred tax assets and write-off / (reversal) of losses carried forward resulted from impairments	(6)	19
Income tax effect of impairment reversals	(4)	(6)
Tax effect of non-deductible expenses and other permanent differences	(4)	15
Income tax expense	**191**	**222**

(in millions of US Dollars)

12. PROPERTY, PLANT AND EQUIPMENT

	Fixed assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
Cost						
Balance at 31 December 2013	**2,466**	**1,584**	**221**	**299**	**510**	**5,080**
Additions	–	308	109	205	12	**634**
Transfers from capital construction-in-progress	163	–	–	(163)	–	**–**
Change in site restoration, decommissioning and environmental obligations	8	1	–	–	–	**9**
Disposals	(19)	–	–	–	–	**(19)**
Effect of translation to presentation currency	(1,080)	(759)	(127)	(142)	(215)	**(2,323)**
Balance at 31 December 2014	**1,538**	**1,134**	**203**	**199**	**307**	**3,381**
Additions	–	111	104	146	11	**372**
Transfers from capital construction-in-progress	134	–	–	(134)	–	**–**
Change in site restoration, decommissioning and environmental obligations	(6)	–	–	–	–	**(6)**
Disposals	(38)	(3)	–	(1)	–	**(42)**
Reclassifications	15	–	–	(3)	3	**15**
Effect of translation to presentation currency	(360)	(274)	(64)	(54)	(72)	**(824)**
Balance at 31 December 2015	**1,283**	**968**	**243**	**153**	**249**	**2,896**
Accumulated amortisation, depreciation and impairment						
Balance at 31 December 2013	**(1,113)**	**(11)**	**(68)**	**(21)**	**(336)**	**(1,549)**
Charge	(214)	–	(16)	–	–	**(230)**
Disposals	17	–	–	–	–	**17**
Reversal of impairment / (impairment losses) (notes 8)	29	(37)	13	(6)	(1)	**(2)**
Effect of translation to presentation currency	528	16	33	17	140	**734**
Balance at 31 December 2014	**(753)**	**(32)**	**(38)**	**(10)**	**(197)**	**(1,030)**
Charge	(134)	–	(21)	–	–	**(155)**
Disposals	36	–	–	–	–	**36**
Reversal of impairment (notes 8)	–	19	–	–	5	**24**
Effect of translation to presentation currency	188	4	14	3	43	**252**
Balance at 31 December 2015	**(663)**	**(9)**	**(45)**	**(7)**	**(149)**	**(873)**
Net book value at						
31 December 2014	**785**	**1,102**	**165**	**189**	**110**	**2,351**
31 December 2015	**620**	**959**	**198**	**146**	**100**	**2,023**

(in millions of US Dollars)

Mineral rights

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

	31 December 2015	31 December 2014
Mineral rights presented within fixed assets	46	45
Mineral rights presented within mine under development	28	37
Mineral rights presented within exploration and evaluation assets	15	19
Total	**89**	**101**

Exploration and evaluation assets

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

	31 December 2015	31 December 2014
Chertovo Koryto	23	30
Razdolinskoye	16	18
Olympiada	14	16
Panimba	13	16
Bamsky	11	12
Smezhny	7	9
Blagodatnoye	6	6
Burgakhchan area	5	–
Medvezhy Zapadny	2	2
Other	3	1
Total	**100**	**110**

Depreciation and amortisation charge is allocated as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Cost of gold sales attributable to property, plant and equipment	122	174
Depreciation in change in inventory	4	–
Total depreciation within cost of production (note 6)	**126**	**174**
Capitalised within capital construction-in-progress	23	48
Selling, general and administrative expenses (note 7)	3	4
Cost of other sales	3	4
Total	**155**	**230**

Mine under development

Mine under development includes only the Natalka mine (Magadan business unit).

Included within *Mine under development* are capitalised borrowing costs consisted of the following:

	Year ended 31 December 2015	Year ended 31 December 2014
Interest expenses	41	60
Foreign exchange losses	1	33
Interest income on bank deposits	(5)	(7)
Total	**37**	**86**

(in millions of US Dollars)

Following temporary cessation of the active construction at Natalka during the year ended 31 December 2014 borrowing costs capitalisation has been suspended until 30 June 2015. Natalka mine construction has been restarted in the second half of the 2015 year, and, respectively, the Group commenced the capitalisation of the related borrowing costs starting from 1 July 2015.

13. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS

	31 December	
	2015	**2014**
Non-current assets		
Revenue stabiliser	200	132
Loans issued to related parties	198	1
Interest rate swaps	11	9
Loans issued	2	–
Gold forward	–	30
Sub-total	**411**	**172**
Current assets		
Loans issued to related parties	185	193
Gold forward	20	–
Sub-total	**205**	**193**
Total assets	**616**	**365**
Non-current liabilities		
Cross currency swaps	509	403
Revenue stabiliser	–	20
Sub-total	**509**	**423**
Current liabilities		
Currency collars	–	547
Total liabilities	**509**	**970**

Strategic Price Protection Programme

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

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

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

Revenue stabiliser

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

The Group entered into revenue stabiliser agreements for Tranches 1 and 2 in 2014, Tranche 3 in 2015. In 2015, the Group restructured Tranches 1 and 2 resulting in a partial close out of the fourth year options and lowering barriers on the remaining options for the first three years of each instrument. The allocation of volumes, strikes and barriers between years under the revenue stabiliser agreements after restructuring is presented below:

(in millions of US Dollars)

	Years ended 31 December								
	2014	2015	2016	2017		2018		2019	Total
Revenue stabiliser volumes under put and call option agreements (thousand ounces)									
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)									
Total as per options agreements	225	300	300	75	315	–	105	–	**1,320**
Exercised	(225)	(300)	–	–	–	–	–	–	**(525)**
Outstanding as of 31 December 2015	–	–	**300**	**75**	**315**	–	**105**	–	**795**
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)									
Total as per options agreements	60	120	120	60	180	–	180	–	**720**
Exercised	(60)	(120)	–	–	–	–	–	–	**(180)**
Outstanding as of 31 December 2015	–	–	**120**	**60**	**180**	–	**180**	–	**540**
Tranche 3 (covering the period 1 January 2016 – 31 December 2019)									
Total as per options agreements	–	–	280	280	–	280	–	840	**1,680**
Exercised	–	–	–	–	–	–	–	–	–
Outstanding as of 31 December 2015	–	–	**280**	**280**	–	**280**	–	**840**	**1,680**
Total outstanding as of 31 December 2015	–	–	**700**	**415**	**495**	**280**	**285**	**840**	**3,015**

(in millions of US Dollars)

	Years ended 31 December					
	2014	2015	2016	2017		2018
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)						
First three years (put)						
Strike	1,383	1,383	1,383	1,383	–	–
Knock-out barrier	950	950	921	911	–	–
First three years (call)						
Strike	1,518	1,518	1,518	1,518	–	–
Knock-in barrier	1,662	1,655	1,634	1,634	–	–
Fourth year (put)						
Strike	–	–	–	–	1,107	1,107
Knock-out barrier	–	–	–	–	900	900
Fourth year (call)						
Strike	–	–	–	–	1,551	1,551
Knock-in barrier	–	–	–	–	1,750	1,750
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)						
First three years (put)						
Strike	1,359	1,359	1,359	1,359	–	–
Knock-out barrier	950	950	950	950	–	–
First three years (call)						
Strike	1,425	1,425	1,425	1,425	–	–
Knock-in barrier	1,525	1,525	1,525	1,525	–	–
Fourth year (put)						
Strike	–	–	–	–	1,100	1,100
Knock-out barrier	–	–	–	–	900	900
Fourth year (call)						
Strike	–	–	–	–	1,500	1,500
Knock-in barrier	–	–	–	–	1,650	1,650

(in millions of US Dollars)

	Years ended 31 December							
	2014	2015	2016	2017		2018		2019
Tranche 3 (covering the period 1 January 2016 – 31 December 2019)								
First three years (put)								
Strike	–	–	1,232	1,232	–	1,232	–	971
Knock-out barrier	–	–	900	900	–	900	–	921
First three years (call)								
Strike	–	–	1,350	1,350	–	1,350	–	1,391
Knock-in barrier	–	–	1,450	1,450	–	1,450	–	1,591
Fourth year (put)								
Strike	–	–	–	–	–	–	–	971
Knock-out barrier	–	–	–	–	–	–	–	921
Fourth year (call)								
Strike	–	–	–	–	–	–	–	1,391
Knock-in barrier	–	–	–	–	–	–	–	1,591
Weighted average strikes for Tranches 1, 2 and 3								
Leg 1 (put)								
Strike	1,378	1,377	1,319	1,278	–	–	–	–
Knock-out barrier	950	950	918	909	–	–	–	–
Leg 2 (call)								
Strike	1,498	1,491	1,435	1,391	–	–	–	–
Knock-in barrier	1,633	1,618	1,542	1,494	–	–	–	–
Leg 3 (put)								
Strike	–	–	–	–	1,105	1,232	1,103	971
Knock-out barrier	–	–	–	–	900	900	900	921
Leg 4 (call)								
Strike	–	–	–	–	1,533	1,350	1,519	1,391
Knock-in barrier	–	–	–	–	1,714	1,450	1,687	1,591

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

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

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

The revenue stabiliser options are exercised quarterly in equal amounts.

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

Tranches 1 and 2 of the revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity, whilst the remaining change in the fair value of USD 19 million gain is reflected in the consolidated statement of profit or loss (note 10) (2014: gain of USD 15 million).

During the year ended 31 December 2015, under Tranches 1 and 2, USD 126 million was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity (2014: USD 132 million) and following the sale of the hedged volume of gold and the exercise of certain options USD 91 million was subsequently reclassified to Gold sales within the consolidated statement of profit or loss (2014: USD 35 million).

Tranche 3 is accounted at fair value through profit and loss. Gain resulted from the change in their fair value totalled USD 49 million and is presented within the note 10 of the consolidated statement of profit or loss.

(in millions of US Dollars)

Gold forward

During the year ended 31 December 2014, the Group has entered into financing contracts to sell a total of 310 thousand ounces of gold monthly in equal quantities over a period of two years starting from 1 July 2014 and ending on 30 June 2016 at a fixed price of USD 1,321 per ounce. The gold forwards (thousand ounces) are exercised in the following years:

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

The gold forward contract is designated as a cash flow hedge. Any change in the forward fair value is recognised in *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity. During the year ended 31 December 2015, USD 18 million was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity (2014: USD 36 million) and following the sale of the hedged amount of gold USD 25 million was reclassified from the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity into *Gold sales* within the consolidated statement of profit or loss (2014: USD 6 million). The remaining balance is expected to be evenly reclassified monthly to the consolidated statement of profit or loss through to 30 June 2016.

The fair value is determined using the Black-Scholes valuation technique. Input data used in the valuation model (forward gold prices and volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13. The Group performs prospective and retrospective effectiveness testing for the instruments designated as a cash flow hedge at least at each reporting date.

Currency collars

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

	2014	**2015**
Volume of option agreements (million USD)	400	1,500
Exchange rates for puts, RUB/USD	36.83	37.47
Exchange rates for calls, RUB/USD	40.06	40.38

During the year ended 31 December 2015, all remaining options matured and resulted in a gain of USD 2 million (the year ended 31 December 2014: loss USD 594 million). No currency collars options remained as of 31 December 2015.

The Group classified these contracts as financial instruments at FVTPL. The fair value was determined using the Black-Scholes valuation technique using the inputs (forward currency exchange rates and volatility) which were observable in the market and correspondently classified as Level 2 in accordance with the hierarchy of fair value.

Cross currency swaps

RUB denominated credit facilities with fixed interest rate

The revenue of the Group is linked to US dollars, because the gold price is denominated in US dollars. The Group entered into cross currency swaps with leading Russian banks to economically hedge interest payments and principal amounts exchange nominated in RUB.

(in millions of US Dollars)

According to the cross currency swap agreements the Group quarterly pays to the banks LIBOR + Margin 2.32% in USD and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group exchanges principal amounts paying USD 1,023 million and receiving RUB 35,999 million.

Rusbonds

The Group entered into cross currency swaps with leading Russian banks for a total amount of RUB 10 billion to economically hedge interest payments and principal amounts exchange for Rusbonds. According to the cross currency swap agreements the Group will semi-annually pay to the banks 6MLIBOR + Margin 4.45% in USD and receive from the banks 12.1% in RUB; and at maturity (16 July 2021) the Group will exchange principal amounts paying USD 173 million and receiving RUB 10 billion.

According to IAS 39 the swaps were not eligible to be designated as cash flow or fair value hedges. The Group accounted for these derivative financial instruments at fair value which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps for the year ended 31 December 2015 resulted in a revaluation loss of USD 198 million recognised in the consolidated statement of profit or loss (note 10) (2014: a loss of USD 403 million). The gain on the exchange of interest payments in amount of USD 39 million is recognised within the *Finance cost* (note 9) (2014: USD 16 million).

The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

Interest rate swaps

In 2014, the Group entered into an interest rate swap agreements with leading Russian banks, according to which the Group pays semi-annually and until 29 April 2020 LIBOR+3.55% in USD and receives 5.625% in USD in respect of a USD 750 million nominal amount. The purpose of this swap is to decrease the effective interest rate for the USD 750 million Eurobonds (note 19). According to IAS 39 the swaps were not eligible to be designated as either a cash flow or fair value hedge. The Group accounts for it at fair value which was determined using a discounted cash flow valuation technique.

In 2015, the gain on changes in the fair value of the interest rate swaps in the amount of USD 4 million is recognised in the consolidated statement of profit or loss (note 10) (2014: gain USD 9 million). The gain on the exchange of interest payments in amount of USD 13 million is recognised within the *Finance cost* (note 9) (2014: USD 4 million).

The fair value measurement is based on inputs (forward USD LIBOR rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

Loans issued to related parties

Loans issued to PGIL

As of 31 December 2015, the Group issued loan to PGIL in the amount of USD 185 million (31 December 2014: nil) for the twelve-month period and interest rate 2.4% p.a. As of 31 December 2015, the Group issued loan to PGIL in the amount of USD 198 million (31 December 2014: USD 193 million), including accrued and unpaid interest in the amount of USD 5 million (31 December 2014: nil). The loan was issued during the year ended 31 December 2014 for six-month period and interest rate 3.89% p.a. but later during the year ended 31 December 2015, repayment date was prolonged. Based on revised schedule of payment the loan has to be cash-settled in full at 1 April 2017.

	Due date	Interest rate, %	31 December 2015	31 December 2014
Loan 1	03/11/16	2.40	185	–
Loan 2	01/04/17	3.89	198	193
Total (refer to note 23)			**383**	**193**

(in millions of US Dollars)

14. INVENTORIES

	31 December 2015	31 December 2014
Inventories expected to be recovered after 12 months		
Stockpiles	174	224
Gold-in-process	10	3
Sub-total	**184**	**227**
Inventories expected to be recovered in the next 12 months		
Stores and materials	188	292
Gold-in-process	59	63
Stockpiles	44	79
Refined gold	13	17
Less: obsolescence provision for stores and materials	(8)	(11)
Sub-total	**296**	**440**
Total	**480**	**667**

15. TAXES RECEIVABLES

	31 December 2015	31 December 2014
Reimbursable value added tax	43	45
Income tax prepaid	15	1
Other prepaid taxes	1	1
Total	**59**	**47**

16. BANK DEPOSITS

During the year ended 31 December 2015, the Group modified certain bank deposit agreements, so that as of 31 December 2015 all of the deposits were available on demand and respectively were presented under the cash and cash equivalents caption (note 17).

As of 31 December 2014, all Group’s deposits were denominated in USD and had rates varying from 1.4% to 3.6% per annum.

17. CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Bank deposits		
- USD	1,630	1,093
- RUB	71	50
Current bank accounts		
- USD	59	38
- RUB	33	12
Other cash and cash equivalents	32	20
Total	**1,825**	**1,213**

(in millions of US Dollars)

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

	31 December	
	2015	**2014**
Interest rates on bank deposits denominated in:		
- USD	1.0-6.0%	0.6-6.0%
- RUB	8.0-11.1%	8.9-25.0%

18. SHARE CAPITAL

Authorised, issued and fully paid share capital of the Company comprised 190,627,747 ordinary shares at par value of RUB 1.

Increase of ownership in subsidiaries

During the year ended 31 December 2015, the Group acquired from PGIL:

- 35.93% shares of PJSC "South-Verkhoyansk Mining Company", for USD 65 million, which lead to increase of ownership to 100.00%; and
- 50.46% shares of Polyus Exploration Limited, for USD 165 million, which lead to increase of ownership to 100.00%.

Payment was made in cash in 2015 financial year. In result of the acquisition retained earnings of the Group and non-controlling interest decreased by USD 216 million and USD 14 million, respectively.

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

During the year ended 31 December 2015, PGIL approved a long term incentive plan (LTIP) according to which the members of top management of the PGIL Group are entitled to a conditional award in the form of the PGIL's ordinary shares linked to the achievement of a combination of financial and non-financial performance conditions. Since top management of the Group and PGIL Group is the same persons, appropriate accounting was pushed down and reflected in the consolidated financial statement of the Group.

The LTIP stipulates three 3-year rolling performance periods (i.e. 2015-2017, 2016-2018 and 2017-2019). The total number of shares that may be distributed under the LTIP is up to 1% of the total share capital of the PGIL which can be granted from newly issued ordinary shares or from PGIL treasury shares, if any. At the end of each performance period the shares shall be transferred to the members of top management depending on whether the performance conditions have been achieved.

Fair value of PGIL shares were identified at the grant date of 19 May 2015 as the closing price per London Stock Exchange. Total expense for the reporting period arising from LTIP was immediately recognised in the consolidated statement of profit and loss within the line *Salaries* included within *Selling, general and administrative expenses* in the amount of USD 7 million.

Sale of treasury shares

In 2014 the Group sold to PGIL 8,995,860 American Depositary Receipts (hereinafter – ADRs) that granted the right for 4,497,930 shares of PJSC Polyus. The nominal value of ADRs was USD 262 million, the selling price was USD 95 million (Note 23).

(in millions of US Dollars)

19. BORROWINGS

	Nominal rate %	31 December 2015	31 December 2014
Credit facilities with financial institutions nominated in USD with variable interest rates	USD LIBOR + margins ranging from 0.55% to 4.95%	785	365
PGIL USD-credit facilities with fixed interest rate	6.1%	750	750
Credit facilities with financial institutions nominated in RUR with fixed interest rates	10.35%	461	596
Notes due in 2025 (Rusbonds) with noteholders' early repayment option in 2021	12.1%	137	–
Letters of credit with deferred payments terms with variable rates	Cost of fund (COF) + 2.7%, Euribor +1.8%, USD LIBOR + 2.35%	38	107
Credit facilities with financial institutions nominated in RUR with variable interest rates	Central bank rate + 2.3%	18	–
Sub-total		**2,189**	**1,818**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(38)	(90)
Long-term borrowings		**2,151**	**1,728**

The Company and subsidiaries of the Group from time to time obtain credit facilities from different financial institutions, raise financing from the noteholders to fund its general corporate purposes and to finance its capital investment projects.

Unused committed credit facilities

During the year ended 31 December 2014, one of the companies of the Group, entered into a five year RUB 40,000 million credit line with a bank to fund its general corporate purposes. As of 31 December 2015 and 31 December 2014, the amount of unused credit facilities was RUB 40,000 million equivalent to USD 549 million and USD 711 million, respectively.

During the year ended 31 December 2015, one of the companies of the Group, entered into an eleven year RUB 6,054 million credit line with a bank to fund construction of Razdolinskaya-Taiga power grid. As of 31 December 2015, the credit facilities in the amount of USD 65 million (RUB 4,707 million) were unused.

Other matters

JSC "Gold Mining Company Polyus", a 100% subsidiary of the Group, guaranteed liabilities of all the companies in the Group for all borrowings.

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

- in the distribution of their assets. The Group is not allowed to divest more than 10% of its assets in any form of transaction without prior consent of the banks. This limitation is applicable to the most significant subsidiaries of the Group;
- in its right to dispose of the controlling share in certain significant subsidiaries of the Group; and
- in the transfer of non-core assets between certain subsidiaries of the Group; and
- in its level of leverage and other financial and non-financial parameters.

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

Whilst measured at amortised cost, the fair value of all of the borrowings are within Level 2 of the fair value hierarchy in accordance with IFRS 13. The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB interest rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value. The fair value of the borrowings as of 31 December 2015 was equal to USD 2,013 million (31 December 2014: USD 1,437 million).

(in millions of US Dollars)

20. DEFERRED TAX ASSETS AND LIABILITIES

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

	Year ended 31 December	
	2015	**2014**
Net deferred tax liability at beginning of the year	**103**	**134**
Recognised in the consolidated statement of profit or loss	(7)	2
Recognised in the consolidated statement of comprehensive income	13	19
Effect of translation to presentation currency	(22)	(52)
Net deferred tax liability at end of the year	**87**	**103**

Deferred taxation is attributable to tax losses carried-forward and the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

	31 December	
	2015	**2014**
Property, plant and equipment	155	160
Inventory	43	60
Deferred expenditures	3	3
Derivative financial instruments and investments	–	27
Offset of deferred tax asset and liability within the same taxable entity	(68)	(100)
Total deferred tax liabilities	**133**	**150**

	31 December	
	2015	**2014**
Tax losses carried-forward	106	131
Payables	4	10
Accrued expenses	3	4
Property, plant and equipment	1	2
Offset of deferred tax asset and liability within the same taxable entity	(68)	(100)
Total deferred tax assets	**46**	**47**

Unrecognised deferred tax asset

	31 December	
	2015	**2014**
Unrecognised deferred tax asset resulting from losses on derivative financial instruments	115	185
Unrecognized deferred tax assets resulted from impairments	33	48
Unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit	18	30
Total	**166**	**263**

Tax losses carried forward expire in periods up to ten years, and some are not recognised as management does not believe it is probable that future taxable profit will be available against which the respective entities can utilise the benefits.

Unrecognised deferred tax liability

	31 December	
	2015	**2014**
Taxable temporary differences associated with investments in subsidiaries	80	315

(in millions of US Dollars)

The deferred tax liability presented above was not recognised because the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

21. TRADE AND OTHER PAYABLES

	31 December 2015	31 December 2014
Wages and salaries payable	56	57
Trade payables to third parties	25	20
Interest payable	31	29
Other accounts payable and accrued expenses	22	31
Accrued annual leave	16	19
Dividends payable to non-controlling interests	1	2
Total	**151**	**158**

The average credit period for trade payables at 31 December 2015 was 21 days (2014: 18 days). No interest was charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

22. TAXES PAYABLE

	31 December 2015	31 December 2014
Tax on mining	10	11
Value added tax	6	3
Social taxes	5	6
Income tax payable	4	11
Property tax	2	2
Other taxes	2	3
Total	**29**	**36**

23. RELATED PARTIES

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

Immediate shareholder

The Group entered into the following transactions with parent entity:

	Year ended 31 December 2015	Year ended 31 December 2014
Interest income	11	1
Interest expense	21	1
Interest capitalised	25	47
Proceeds from borrowings	–	5
Repayment of borrowing and interest accrued	47	84
Proceeds from sale of treasury shares	–	95
Proceeds from disposal of non-controlling interest in subsidiaries	–	301
Cash used for acquisition of non-controlling interest in subsidiaries	230	–
Loans issued	190	1,034
Proceeds from loans issued	–	80

(in millions of US Dollars)

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

	31 December 2015	31 December 2014
Loans received (note 19)	750	750
Interest payable	9	12
Loans issued (note 13)	383	193
Interest receivable	10	–

Key management personnel

	Year ended 31 December 2015	Year ended 31 December 2014
Short-term compensation of key management personnel	15	21
Long-term compensation of key management personnel (LTIP)	7	–
Termination benefits to the former key management personnel	1	8
Total	23	29

24. COMMITMENTS AND CONTINGENCIES

Commitments

Capital commitments

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

	31 December 2015	31 December 2014
Project Natalka	9	11
Other capital commitments	21	12
Total	**30**	**23**

Operating leases: Group as a lessee

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2060. Future minimum lease payments due under non-cancellable operating lease agreements at the end of the year were as follows:

	31 December 2015	31 December 2014
Due within one year	4	3
From one to five years	18	8
Thereafter	17	20
Total	**39**	**31**

Contingencies

Litigations

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

Taxation contingencies in the Russian Federation

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

Commercial legislation in the Russian Federation, including tax legislation, is subject to varying interpretations and frequent changes. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed with additional taxes, penalties and interest.

Environmental matters

The Group is subject to extensive federal and local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns.

The Group's management believes that its mining and production technologies are in compliance with existing Russian environmental legislation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernises technology to meet more stringent standards.

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

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.
Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. In the first quarter of 2015 international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

(in millions of US Dollars)

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

25. FINANCIAL INSTRUMENTS RISK MANAGEMENT ACTIVITIES

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt which is borrowings (note 19) less banks deposits (note 16) and cash and cash equivalents (note 17), and equity of the Group.

Major categories of financial instruments

The Group’s principal financial liabilities comprise borrowings, derivative financial instruments and accounts payable. The main purpose of these financial instruments is to finance the Group’s operations. The Group has various financial assets such as cash and cash equivalents, other receivables, derivative financial instruments, loans receivable and bank deposits.

	31 December	
	2015	**2014**
Financial assets		
Cash and cash equivalents	1,825	1,213
Loans receivable	385	194
Derivative financial instruments	231	171
Other receivables	23	10
Bank deposits	–	269
Total financial assets	**2,464**	**1,857**
Financial liabilities		
Borrowings	2,189	1,818
Derivative financial instruments	509	970
Accounts payable	135	139
Total financial liabilities	**2,833**	**2,927**

Derivative financial instruments are carried at fair value.

The main risks arising from the Group’s financial instruments are gold price, interest rate, foreign currency exchange rates, credit and liquidity risks.

Gold price risk

The Group is exposed to changes in the gold price due to its significant volatility. According to the approved hedging strategy the Group may hedge up to 1/3 of its annual gold sales. During 2014, the Group entered into a number of derivative transactions (revenue stabiliser and gold forward agreements) under a Strategic Price Protection Programme to limit its exposure to future possible fluctuations of gold price (as detailed further in note 13).

Under the terms of the revenue stabiliser the Group ensures a minimum selling gold price in the case of declines in the gold price and at the same time may benefit from increases in the gold price until certain barrier prices are reached on the call options, at which point the sale price is capped.
If the gold price was 10% higher / lower during the year ended 31 December 2015 gold sales for the year would have increased / decreased by USD 134 million / USD 138 million, respectively (2014: USD 181 million / USD 175 million).

Interest rate risk

The Group is exposed to interest rate risk as it borrows funds. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group’s current policy considering the relatively low LIBOR rates is to borrow funds in USD with floating interest rates. During 2014, the Group, in order to align its borrowings with the policy, entered into a number of derivative transactions (note 13):

- to swap cash flows under a 36 billion Rouble denominated credit facility with a fixed interest rate of 10.35% into USD dollar denominated cash flows with a floating interest rate of LIBOR+2.32%. The credit facility was initially arranged in RUB with the view to swapping it into a USD denominated cash flow, because this was more cost effective than obtaining funding directly in USD (note 19); and
- to swap interest payments under the 750 million credit facility from a fixed rate of 6.1% into a floating rate of LIBOR+3.55% (note 19);
- to swap cash flows under a 10 billion Rouble denominated bonds issued by the Parent with a fixed coupon of 12.1% into USD dollar denominated cash flows with a floating interest rate of 6MLIBOR+4.45%. The bond was initially arranged in RUB with the view to swapping it into a USD denominated cash flow, because this was more cost effective than obtaining funding directly in USD.

If the interest rate was 0.5% higher / lower during the year ended 31 December 2015 interest expense excluding effect of change in fair value of interest rate and cross currency swaps for year ended 31 December 2015 would have increased / decreased by USD 8 million (31 December 2014: USD 5 million).

If interest rates used in calculations of fair values of interest rate and cross currency swaps as of 31 December 2015 was 0.5% higher / lower, the gain on revaluation would be USD 39 million lower / higher, respectively (2014: USD 44 million).

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

Foreign currency exchange rate risk

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

During the year ended 31 December 2014, the Group entered into a number of derivative agreements, in the form of currency collars (note 13) in order to economically hedge its Russian rouble denominated expenses. As of 31 December 2015, no currency collars remained outstanding.

(in millions of US Dollars)

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

	31 December	
	2015	**2014**
Assets		
USD	2,134	1,770
EURO (presented in USD at closing exchange rate)	1	17
Total	**2,135**	**1,787**
Liabilities		
USD	2,084	2,144
EURO (presented in USD at closing exchange rate)	14	71
Total	**2,098**	**2,215**

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

The table below details the Group’s sensitivity to changes in exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in the respective currencies.

If the USD or EURO exchange rate had increased by 25% for the year ended 31 December 2015 and year ended 31 December 2014 compared to RUB as of the end of respective year, the Group would have incurred the following losses:

	31 December	
	2015	**2014**
(Gain) / loss (USD exchange rate increased compared to RUB)	(13)	94
Loss (EURO exchange rate increased compared to RUB)	3	14

Credit risk

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

In order to mitigate credit risk, the Group conducts its business with creditworthy and reliable counterparties, and minimises advance payments to suppliers.

The Group employs a methodology for in-house financial analysis of banks and non-banking counterparties, which enables management to estimate an acceptable level of credit risk with regard to particular counterparties and to set appropriate individual risk limitations. Within the Group’s core companies the procedures for preparing new agreements include analysis and contemplation of credit risk, estimation of the aggregate risk associated with a counterparty (arising both from an agreement under consideration and from previously existing contracts, if any) and verifying compliance with individual credit limits.

Credit risk inherent to the contract was incorporated in the fair value of derivative financial instruments at the reporting date. The credit risk incorporated into valuations is based on the quoted counterparty CDS for the counterparty risk.

The Group’s credit risk profile is regularly monitored by management in order to avoid undesirable increases in risk, to limit concentration of credit and to ensure compliance with the above mentioned policies and procedures.

(in millions of US Dollars)

Deposits, current bank accounts and derivative financial instruments are held with major Russian and international banks, with reasonable and appropriate diversification, which decreases concentration risk by spreading the credit risk exposure across several top rated banks.

Although the Group sells more than 90% of the total gold sales to 4 major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore the credit risk related to trade receivables is minimal. There were no outstanding receivables for gold sales as of 31 December 2015.

Gold sales to the Group's major customers are presented as follows:

	Year ended 31 December	
	2015	**2014**
Otkritie Bank	668	704
Sberbank	651	220
VTB Bank	493	841
MDM Bank	166	298
Bank of Moscow	–	85
Other	181	49
Gold sales	**2,159**	**2,197**

Liquidity risk

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

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

Presented below is the maturity profile of the Group's financial liabilities as of 31 December 2015 based on undiscounted contractual payments, including interest payments:

	Borrowings		Accounts	
	Principal	**Interest**	**payable**	**Total**
Due in the first year	38	141	104	**283**
Due in the second year	258	138	–	**396**
Due in the third year	418	132	–	**550**
Due in the fourth year	578	90	–	**668**
Due in the fifth year	762	40	–	**802**
Due in the period between sixth to eight years	144	17	–	**161**
Total	**2,198**	**558**	**104**	**2,860**

(in millions of US Dollars)

Presented below is the maturity profile of the Group's financial liabilities as of 31 December 2014 based on undiscounted contractual payments , including interest payments:

	Borrowings		Accounts	
	Principal	**Interest**	**payable**	**Total**
Due in the first year	90	122	110	**322**
Due in the second year	38	120	–	**158**
Due in the third year	87	119	–	**206**
Due in the fourth year	886	91	–	**977**
Due in the fifth year	710	34	–	**744**
Due in the period between sixth to eight years	14	–	–	**14**
Total	**1,825**	**486**	**110**	**2,421**

26. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

26.1 Information about significant subsidiaries of the Group

		Effective % held[1] at 31 December	
Subsidiaries[2]	**Nature of business**	**2015**	**2014**
Incorporated in Russian Federation			
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"	Market agent	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
Incorporated in British Virgin Islands			
Polyus Exploration Limited[3]	Geological research	100	50

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

	PJSC "Lenzoloto" consolidated 31 December	
Summarised statements	**2015**	**2014**
Current assets	179	155
Non-current assets	51	46
Current liabilities	15	16
Non-current liabilities	11	10
Equity attributable to the shareholders of the subsidiary	136	110
Non-controlling interests	68	65

[1] Effective % held by the Company, including holdings by other subsidiaries of the Group.
[2] Following change in legislation, most of the significant subsidiaries were renamed from open joint stock company (OJSC) and from closed joint stock company (CJSC) into joint stock company (JSC).
[3] The Company maintains control of this entity as it continues to govern their financial and operating policies and manage returns from them through its ability to appoint the majority in the Board of Directors. A majority of the Board members for these entities are representatives of the Company and they are therefore consolidated even though the effective interest is less than 50% as of 31 December 2014 and for the year then ended. Direct ownership in those subsidiaries by the immediate parent is in each case exceeds 50%, and there are no other additional agreements or other instances which could have set limits on the Company's ability to execute its control over its subsidiaries.

(in millions of US Dollars)

Summarised statements	PJSC "Lenzoloto" consolidated Year ended 31 December 2015	2014
Revenue	197	234
Profit for the year	72	89
Profit attributable to non-controlling interests	15	37
Total comprehensive income	72	89
Net cash inflow from operating activities	56	65
Net cash inflow / (outflow) from investing activities	70	(61)
Net cash outflow from financing activities	(12)	(10)
Dividends paid to non-controlling interests	12	10

26.3 Significant restrictions on the Company's ability to access or use the assets and settle the liabilities of the group

The basis of distribution of accumulated retained earnings for companies operating in the Russian Federation is defined by legislation as the current year net profit of the company, as calculated in accordance with Russian accounting standards. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

27. EVENTS AFTER THE REPORTING DATE

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

Joint venture with Polymetal

In January 2016, the Group completed an execution of a joint venture agreement with Polymetal International plc ("Polymetal"), under which Polymetal will participate in advancing the development of the Group's Nezhdaninskoye gold deposit in Yakutia, Russia. The arrangement will allow Polymetal to acquire up to 50% in the joint venture entity holding 100% of JSC South-Verkhoyansk Mining Company through an earn-in mechanism.

Hedging activities

In February 2016, the Group continued to economically hedge its gold sales by entering into the new revenue stabiliser agreements for an annual amount of 100 thousand ounces during the first three years and 300 thousand ounces during the fourth year.

Loans received

In March 2016, the Group obtained the following new bank credit facilities:

- USD 2,500 million credit facility agreement with maturity in 2023 at LIBOR + 4.5% nominal rate;
- USD 100 million credit facility agreement with maturity in 2019 at LIBOR + 4.5% nominal rate.

Proceeds were used for buy-back transactions as described below.

Buy-back transactions

On 10 March 2016, the Board of Directors of the Company approved the distribution by LLC "Polyus-Invest", a 100% indirect subsidiary of the Group, of an Information Memorandum to the holders of PJSC "Polyus" ordinary shares and ADRs in respect of the terms and conditions for the submission of applications to enter into securities purchase agreements.

(in millions of US Dollars)

As a result of the completion of the above mentioned buy-back program, LLC "Polyus-Invest" purchased the following number of ordinary shares:

Name of shareholders submitted its shares for buy-back	Number of shares'000	Ownership*, as %	Price per 1 share, RUB	Consideration, USD million
PGIL	60,212	31.59%	4,041	3,423
Minority shareholders	307	0.16%	4,041	19
Buy-back direct expenses	–	–	–	1
Total	**60,519**	**31.75%**		**3,443**

* as of the date of buy-back

Settlement of loans issued

On 4 March 2016, PGIL settled in cash (in advance of maturity date) a loan issued by the Group in the total amount of USD 124 million.

On 30 September 2016, a 100% subsidiary of the Group obtained from PGIL 4,477 thousands of the Company's ordinary shares which were used as a settlement of remaining loans issued previously by the Group and the accrued interest thereon in the total amount of USD 269 million.

New dividend policy

On 7 October 2016, the Board of Directors (the "Board") has approved the Company's dividend policy, pursuant to which the Company will pay dividends on a semi-annual basis in an amount of 30% of the EBITDA of PJSC Polyus for the respective reporting period. Payment will be calculated on the basis of the consolidated financial statements of the Company in accordance with IFRS requirements, provided that the net debt/adjusted EBITDA (last 12 months) ratio based on the consolidated financial statements of PJSC Polyus is lower than 2.5x.

Should the net debt / adjusted EBITDA (for the last 12 months) ratio increase to higher than 2.5x, the Board will exercise discretion on dividends, considering the Company's financial position, free cash flow, outlook and macro environment. The Board may consider the possibility of payment of special dividends, subject to the Company's liquidity position, capex requirements, free cash flows and leverage.

PGIL completed USD 500 million Notes issuance

On 26 October 2016, PGIL issued USD 500 million notes due 28 March 2022 with a coupon of 4.699% per annum (the "Notes"). The Notes are guaranteed by JSC "Gold Mining Company Polyus", a 100% subsidiary of the Group. In November 2016, PGIL transferred in the form of the loan USD 500 million to JSC "Gold Mining Company Polyus". Net proceeds from the issue of the Notes will be primarily used for debt refinancing and other general corporate purposes of the Group, including the financing of operating activities and development projects of the Group.

Government grant

On 13 September 2016, the Ministry for the Development of the Russian Far East (the "Minvostokrazvitiya") and JSC "Matrosova Mine" (the "Matrosova Mine"), a 100% subsidiary of the Group representing Magadan business unit, signed-off an agreement under which Minvostokrazvitiya has to provide to Matrosova Mine government grant in the following maximum amounts:

During the year ended 31 December	26 Dec. 2016[4]
2016	76
2017	43
2018	45
Total	**163**

[4] – recalculated based on the official Central Bank of the Russian Federation ex-rate as of 26 December 2016.

Under the agreement Matrosova Mine receives the government grant, cash from which should be used for the construction of: (i) electricity transmission line 220 kW “Ust’-Omchug – Omchak New”, (ii) 220 kW distribution point and (iii) electric power substation for 220 kW “Omchak New”. The construction is expected to be completed during the second quarter of the year ending 31 December 2019. Unutilised balance of the government grant will have to be returned to Minvostokrazvitiya. JSC “Gold Mining Company Polyus” is a guarantor under the agreement.

On 20 December 2016, Matrosova Mine received USD 75 million at the ex-rate as of the date of cash collection (RUB 4,619 million) from the Ministry for the Development of the Russian Far East.

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

On 22 December 2016, the Board of Directors of PJSC “Polyus” approved an amended incentive plan with the only effective change to replace a conditional award in the form of PJSC Polyus' ordinary shares instead of PGIL.

Reclassification of Rusbonds to short-term borrowings

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. The bondholders must notify the issuer up to 13 March 2017 to exercise their right. As a result, the full outstanding amount of Rusbonds was reclassified into a short-term category since 22 December 2016.

PJSC Polyus

Condensed consolidated
interim financial statements

for the three months ended
31 March 2017 (unaudited)

PJSC POLYUS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2017 (UNAUDITED)

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PJSC POLYUS

DIRECTOR'S RESPONSIBILITIES STATEMENT FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017

Directors of Public Joint Stock Company Polyus (the "Company") are responsible for the preparation of the condensed consolidated interim financial statements of the Company and its subsidiaries (together the "Group") that present fairly the financial position of the Group as at 31 March 2017, and the results of its operations, cash flows and changes in equity for the three 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 three months ended 31 March 2017 were approved by Directors on 10 May 2017.

By order of the Board of Directors:

Grachev P.S.
General Director

Moscow, Russia
10 May 2017

PJSC POLYUS

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

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

	Notes	Three months ended 31 March 2017	Three months ended 31 March 2016
Gold sales	4	600	505
Other sales		9	6
Total revenue		**609**	**511**
Cost of gold sales	5	(225)	(173)
Cost of other sales		(9)	(6)
Gross profit		**375**	**332**
Selling, general and administrative expenses	6	(42)	(34)
Other expenses, net		(3)	–
Operating profit		**330**	**298**
Finance costs, net	7	(63)	(32)
Interest income		11	8
Gain / (loss) on derivative financial instruments and investments, net	8	108	(13)
Foreign exchange gain, net		190	116
Profit before income tax		**576**	**377**
Current income tax expense		(91)	(75)
Deferred income tax benefit / (expense)		14	(8)
Profit for the period		**499**	**294**
Attributable to:			
Shareholders of the Company		504	297
Non-controlling interests		(5)	(3)
		499	**294**
Weighted average number of ordinary shares'000	13		
- for basic earnings per share		125,628	177,394
- for dilutive earnings per share		125,743	177,394
Earnings per share (US Dollar)			
- basic		4.01	1.67
- dilutive		4.01	1.67

PJSC POLYUS

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

(in millions of US Dollars)

	Notes	Three months ended 31 March 2017	Three months ended 31 March 2016
Profit for the period		**499**	**294**
Other comprehensive income / (loss)			
Items that may be subsequently reclassified to profit or loss:			
Increase / (decrease) in revaluation of cash flow hedge reserve on revenue stabiliser	10	5	(19)
Decrease in revaluation of cash flow hedge reserve on gold forward	10	–	(11)
Deferred tax relating to change in revaluation of cash flow hedge reserve		(1)	6
		4	**(24)**
Items that will not be reclassified through profit or loss:			
Effect of translation to presentation currency		**(15)**	**3**
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	(16)	(20)
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward	10	–	(6)
Deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss		3	5
		(13)	**(21)**
Other comprehensive loss		**(24)**	**(42)**
Total comprehensive income		**475**	**252**
Attributable to:			
Shareholders of the Company		473	250
Non-controlling interests		2	2
		475	**252**

PJSC POLYUS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AT 31 MARCH (UNAUDITED)

(in millions of US Dollars)

	Notes	31 Mar. 2017	31 Dec. 2016
Assets			
Non-current assets			
Property, plant and equipment	9	3,426	2,938
Derivative financial instruments and investments	10	35	57
Inventories	11	269	264
Deferred tax assets		90	75
Other non-current assets		40	37
		3,860	**3,371**
Current assets			
Inventories	11	403	369
Derivative financial instruments and investments	10	1	10
Deferred expenditures		30	10
Trade and other receivables		54	58
Advances paid to suppliers and prepaid expenses		15	19
Taxes receivable		77	89
Cash and cash equivalents	12	1,487	1,740
		2,067	**2,295**
Total assets		**5,927**	**5,666**
Equity and liabilities			
Capital and reserves			
Share capital	13	7	7
Additional paid-in capital	13	2,294	2,288
Treasury shares	13	(3,713)	(3,712)
Cash flow hedge revaluation reserve	10	3	12
Translation reserve		(2,742)	(2,720)
Retained earnings		4,121	3,617
Equity attributable to shareholders of the Company		**(30)**	**(508)**
Non-controlling interests		96	94
		66	**(414)**
Non-current liabilities			
Site restoration, decommissioning and environmental obligations		36	38
Borrowings	14	4,591	4,698
Derivative financial instruments	10	459	456
Deferred revenue	15	82	76
Deferred consideration	16	101	–
Deferred tax liabilities		189	182
Other non-current liabilities		35	32
		5,493	**5,482**
Current liabilities			
Borrowings	14	24	283
Trade and other payables		244	222
Deferred consideration	16	21	–
Taxes payable		79	93
		368	**598**
Total liabilities		**5,861**	**6,080**
Total equity and liabilities		**5,927**	**5,666**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH (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 / (loss) for the period		–	–	–	–	–	–	297	**297**	(3)	**294**
Decrease in cash flow hedge revaluation reserve	10	–	–	–	–	(44)	–	–	**(44)**	–	**(44)**
Effect of translation to presentation currency		–	–	–	–	–	(3)	–	**(3)**	5	**2**
Total comprehensive (loss) / income		**–**	**–**	**–**	**–**	**(44)**	**(3)**	**297**	**250**	**2**	**252**
Equity-settled share-based payment plans (LTIP)		–	–	3	–	–	–	–	**3**	–	**3**
Buy-back of treasury shares		(60,237)	–	–	(3,424)	–	–	–	**(3,424)**	–	**(3,424)**
Release of translation reserve due to disposal of subsidiary		–	–	–	–	–	(3)	3	**–**	–	**–**
Balance at 31 March 2016		**130,391**	**7**	**2,276**	**(3,424)**	**79**	**(2,629)**	**2,496**	**(1,195)**	**73**	**(1,122)**
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		–	–	–	–	–	–	504	**504**	(5)	**499**
Decrease in cash flow hedge revaluation reserve	10	–	–	–	–	(9)	–	–	**(9)**	–	**(9)**
Effect of translation to presentation currency		–	–	–	–	–	(22)	–	**(22)**	7	**(15)**
Total comprehensive (loss) / income		**–**	**–**	**–**	**–**	**(9)**	**(22)**	**504**	**473**	**2**	**475**
Equity-settled share-based payment plans (LTIP)		–	–	6	–	–	–	–	**6**	–	**6**
Purchase of the Company's shares	13	(14)	–	–	(1)	–	–	–	**(1)**	–	**(1)**
Balance at 31 March 2017		**125,618**	**7**	**2,294**	**(3,713)**	**3**	**(2,742)**	**4,121**	**(30)**	**96**	**66**

PJSC POLYUS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED 31 MARCH (UNAUDITED)
(in millions of US Dollars)

	Notes	Three months ended 31 March 2017	Three months ended 31 March 2016
Operating activities		**576**	**377**
Profit before income tax			
Adjustments for:			
Finance costs, net	7	63	32
Interest income		(11)	(8)
(Gain) / loss on derivative financial instruments and investments, net	8	(108)	13
Depreciation and amortisation	9	39	30
Foreign exchange gain, net		(190)	(116)
Other		5	4
		374	**332**
Movements in working capital			
Inventories		5	(23)
Deferred expenditures		(18)	(9)
Trade and other receivables		10	2
Advances paid to suppliers and prepaid expenses		3	1
Taxes receivable		20	(3)
Trade and other payables		3	30
Other non-current liabilities		(1)	–
Taxes payable		(14)	(5)
Cash flows from operations		**382**	**325**
Income tax paid		(100)	(34)
Net cash generated from operating activities		**282**	**291**
Investing activities			
Purchase of property, plant and equipment		(113)	(73)
Additional payment for the Sukhoi Log license	9	(15)	-
Interest received		12	11
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		1	1
Net cash (utilised in) / generated from investing activities		**(15)**	**72**
Financing activities			
Interest paid		(95)	(43)
Commission paid		-	(30)
Proceeds from leaseback transactions		10	2
Repayments under lease		(2)	
Net proceeds on exchange of interest payments under interest and cross currency rate swaps	10	9	6
Payment for shares buy-back	13	(1)	(3,424)
Proceeds from borrowings	14	800	2,619
Repayment of borrowings		(1,259)	(10)
Net cash utilised in financing activities		**(538)**	**(880)**
Net decrease in cash and cash equivalents		**(271)**	**(517)**
Cash and cash equivalents at beginning of the period		**1,740**	**1,825**
Effect of foreign exchange rate changes on cash and cash equivalents		18	18
Cash and cash equivalents at end of the period		**1,487**	**1,326**

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. The controlling shareholder of the Company is Polyus Gold International Limited (“PGIL”), a public limited company registered in Jersey. As at 31 March 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.

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.

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

(in millions of US Dollars)

IFRS standards update

The following is a list of standards (new or amended IFRS standards and interpretation that have been issued by the IASB) that have been applied in the preparation of these condensed consolidated interim financial statements for the three months ended 31 March 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 interpretation as mentioned above had no effect on the amounts presented in the condensed consolidated interim financial statements for the three months ended 31 March 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	Under review
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	Date will be determined later	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	Under review

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	31 Mar. 2017	31 Dec. 2016
Period end rate	56.38	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 months ended 31 March 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 Gold-mining Company Polyus (JSC Polyus), 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 expects to increase its ownership interest in LLC SL Gold ("SL Gold"), a 51% subsidiary of the Group with the remaining 49% interest held by RT, by 23.9% within the following five years (with the right to accelerate).

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

- ***Krasnoyarsk business unit*** (Krasnoyarsk region of the Russian Federation) – mining (including initial processing) and sale of gold from the Olimpiada, Blagodatnoye and Titimukhta mines, as well as research, exploration and development work at the Olimpiada and Blagodatnoye deposits;
- ***Irkutsk alluvial business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from several alluvial deposits;
- ***Irkutsk ore business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from the Verninskoye mine, research, exploration and development works at the Smezhny and Medvezhy Zapadny deposits;
- ***Yakutia Kuranakh business unit*** (Sakha Republic of the Russian Federation) – mining (including initial processing) and sale of gold from the Kuranakh mines;
- ***Magadan business unit*** (Magadan region of the Russian Federation) – represented by JSC Matrosova Mine which performs development works at the Natalka deposit;
- ***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.

	Gold sales	Ounces of gold sold in thousands[1]	Adjusted EBITDA	TCC (USD per ounce)[1]	Capital expenditures
Three months ended 31 March 2017					
Business units					
Krasnoyarsk	485	392	314	366	23
Irkutsk alluvial	-	-	-	-	7
Irkutsk ore	65	54	38	389	5
Yakutia Kuranakh	50	41	26	585	8
Magadan	-	-	1	-	76
Sukhoi Log (Note 9)	-	-	-	-	140
Exploration	-	-	-	-	1
Capital construction	-	-	-	-	6
Unallocated	-	-	4	-	2
Total	**600**	**487**	**383**	**380**	**268**
Three months ended 31 March 2016					
Business units					
Krasnoyarsk	395	308	270	351	17
Irkutsk alluvial	1	-	(4)	682	3
Irkutsk ore	62	53	39	399	2
Yakutia Kuranakh	45	38	26	478	9
Exploration	2	1	1	1,088	1
Magadan	-	-	-	-	37
Capital construction	-	-	-	-	26
Unallocated	-	-	(2)	-	1
Total	**505**	**400**	**330**	**357**	**96**

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales during the three months ended 31 March 2017 and 2016. Included within gold sales during three months ended 31 March 2017 are realised gain on derivatives of USD 19 million (note 10) (31 March 2016: USD 30 million).

Gold sales

	Three months ended 31 March	
	2017	**2016**
Refined gold	576	505
Other gold-bearing products	24	-
Total	**600**	**505**

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.

[1] unaudited and not reviewed

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

	Three months ended 31 March	
	2017	**2016**
Profit for the period	**499**	**294**
Income tax	77	83
Depreciation and amortisation (note 9)	39	30
Finance costs, net (note 7)	63	32
Long term incentive plan	7	3
Foreign exchange gain, net	(190)	(116)
(Gain) / loss on derivative financial instruments and investments, net (note 8)	(108)	13
Interest income	(11)	(8)
Special charitable contributions	7	-
Reversal of impairment	-	(1)
Adjusted EBITDA	**383**	**330**

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

	Three months ended 31 March	
	2017	**2016**
Cost of gold sales	225	173
Adjusted for:		
Depreciation and amortisation (note 5)	(40)	(29)
Depreciation, amortisation and accrual provisions in inventory change	-	(1)
TCC	**185**	**143**
Ounces of gold sold, in thousands	487	400
TCC per ounce of gold sold, USD per ounce[2]	**380**	**357**

Capital expenditures are primarily related to the following projects:

- ***Magadan business unit:*** continuation of construction in all major areas of the Natalka mill project, main equipment installation and assembling. Ongoing infrastructure construction.
- ***Krasnoyarsk business unit:*** preparation for connecting to the new Razdolinskaya-Taiga grid, ongoing upgrading and expanding of the Blagodatnoye mill, construction of new BIOX unit;
- ***Yakutia Kuranakh business unit:*** supply of equipment for heap leach project, earthworks at ore preparation area;
- ***Capital construction business unit:*** contracting of technological equipment for construction project Omchak electricity grid;
- ***Irkutsk ore business unit:*** preparation of area and contracting for equipment for the capacity expansion project. Research and evaluation works around the strategy of further development of the Irkutsk hub strategy.

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

[2] unaudited and not reviewed

(in millions of US Dollars)

5. COST OF GOLD SALES

	Three months ended 31 March 2017	Three months ended 31 March 2016
Labour	53	42
Consumables and spares	49	51
Tax on mining	29	26
Fuel	16	14
Power	7	6
Outsourced mining services	-	2
Other	11	7
Total cash operating costs	**165**	**148**
Depreciation and amortisation of operating assets (note 9)	40	29
Total cost of production	**205**	**177**
Decrease / (increase) in stockpiles, gold-in-process and refined gold inventories	20	(4)
Total	**225**	**173**

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 31 March 2017	Three months ended 31 March 2016
Salaries	27	26
Distribution expenses related to gold-bearing products	4	-
Taxes other than mining and income taxes	3	3
Professional services	2	2
Depreciation and amortisation (note 9)	1	1
Other	5	2
Total	**42**	**34**

7. FINANCE COSTS, NET

	Three months ended 31 March 2017	Three months ended 31 March 2016
Interest on borrowings	87	43
Write-off of unamortised debt cost due to early extinguishment of the debt	11	15
Unwinding of interest on deferred consideration (note 16)	1	–
Gain on exchange of interest payments under cross currency swap (note 10)	(9)	(6)
Other	1	1
Sub-total finance cost, net	**91**	**53**
Interest included in the cost of qualifying assets	(28)	(21)
Total	**63**	**32**

(in millions of US Dollars)

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

	Three months ended 31 March	
	2017	**2016**
Revaluation gain on cross currency swaps (note 10)	96	90
Revaluation loss on ineffective part of the revenue stabiliser under Tranches 1 and 2 (note 10)	(30)	(64)
Revaluation loss on revenue stabiliser under Tranche 3 and 4 (note 10)	(49)	(69)
Revaluation (loss) / gain on interest rate swap (note 10)	(1)	14
Gain on disposal of joint venture (see below)	92	–
Gain on disposal of subsidiary	–	16
Total	**108**	**(13)**

During 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 consists 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	-	37	17	57	2	**113**
Transfers from capital construction in progress	26	-	-	(26)	-	**-**
Change in site restoration, decommissioning and environmental obligations	1	-	-	-	-	**1**
Disposals	(2)	-	-	-	-	**(2)**
Disposed on disposal of subsidiary	-	-	-	-	(105)	**(105)**
Reclassifications	4	(3)	-	(1)	-	**-**
Effect of translation to presentation currency	101	80	21	17	2	**221**
Balance at 31 March 2016	**1,413**	**1,082**	**281**	**200**	**148**	**3,124**
Balance at 31 December 2016	**1,703**	**1,370**	**353**	**301**	**306**	**4,033**
Additions	-	76	35	49	142	**302**
Transfers from capital construction in progress	31	-	-	(31)	-	**-**
Disposals	(5)	-	-	-	-	**(5)**
Reclassifications	(1)	-	-	6	(1)	**4**
Effect of translation to presentation currency	129	107	28	24	28	**316**
Balance at 31 March 2017	**1,857**	**1,553**	**416**	**349**	**475**	**4,650**

(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	(29)	–	(7)	–	–	**(36)**
Disposals	2	–	–	–	–	**2**
Disposed on disposal of subsidiary	–	–	–	–	105	**105**
Reversal of impairment	–	1	–	–	–	**1**
Reclassifications	(1)	–	–	–	–	**(1)**
Effect of translation to presentation currency	(53)	(1)	(5)	(1)	5	**(55)**
Balance at 31 March 2016	**(744)**	**(9)**	**(57)**	**(8)**	**(39)**	**(857)**
Balance at 31 December 2016	**(938)**	**(7)**	**(99)**	**(8)**	**(43)**	**(1,095)**
Charge	(38)	-	(13)	-	-	**(51)**
Disposals	5	-	-	-	-	**5**
Effect of translation to presentation currency	(71)	-	(8)	(1)	(3)	**(83)**
Balance at 31 March 2017	**(1,042)**	**(7)**	**(120)**	**(9)**	**(46)**	**(1,224)**
Net book value at						
Balance at 31 December 2015	**620**	**959**	**198**	**146**	**100**	**2,023**
Balance at 31 March 2016	**669**	**1,073**	**224**	**192**	**109**	**2,267**
Balance at 31 December 2016	**765**	**1,363**	**254**	**293**	**263**	**2,938**
Balance at 31 March 2017	**815**	**1,546**	**296**	**340**	**429**	**3,426**

(in millions of US Dollars)

Mineral rights

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

	31 Mar. 2017	31 Dec. 2016
Mineral rights presented within fixed assets	52	49
Mineral rights presented within mine under development	37	34
Mineral rights presented within exploration and evaluation assets	315	159
Total	**404**	**242**

Exploration and evaluation assets

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

	31 Mar. 2017	31 Dec. 2016
Sukhoi Log	297	141
Chertovo Koryto	30	28
Razdolinskoye	26	24
Bamsky	20	18
Panimba	17	16
Smezhny	9	9
Blagodatnoye	8	7
Burgakhchan area	7	7
Olympiada	6	5
Medvezhy Zapadny	2	2
Other	7	6
Total	**429**	**263**

Amounts related to Sukhoi Log license were capitalised as following:

	31 Mar. 2017
Balance at the beginning of the reporting period	**141**
Fair value on initial recognition presented as increase in exploration and evaluation assets (note 16)	121
Additional payment in auction for the license	15
Interest capitalised	3
Effect of translation to presentation currency	17
Balance at the end of the reporting period	**297**

Depreciation and amortisation charge is allocated as follows:

	Three months ended 31 March	
	2017	2016
Cost of gold sales	38	29
Depreciation in change in inventory	2	-
Total depreciation and amortisation within cost of production (note 5)	**40**	**29**
Capitalised within property, plant and equipment	10	7
Selling, general and administrative expenses (note 6)	1	1
Total depreciation and amortisation	**51**	**37**
Less: amortisation of other non-current assets	-	(1)
Total depreciation of property, plant and equipment	**51**	**36**

(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 31 March	
	2017	**2016**
Interest expenses	28	21
Interest income on bank deposits	(2)	(2)
Total	**26**	**19**

10. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS

	31 Mar. 2017	31 Dec. 2016
Non-current assets		
Revenue stabiliser	1	32
Cross currency swaps	26	10
Interest rate swaps	8	7
Investment in joint venture	-	7
Loans issued	-	1
Total non-current assets	**35**	**57**
Current assets		
Revenue stabiliser	1	10
Total assets	**36**	**67**
Non-current liabilities		
Cross currency swaps	383	434
Revenue stabiliser	76	22
Total non-current liabilities	**459**	**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.

The Group entered into revenue stabiliser agreements for Tranches 1 and 2 in 2014, Tranche 3 in 2015 and Tranche 4 in 2016. In 2015, the Group restructured Tranches 1 and 2 resulting in a partial close out of the fourth year options and lowering barriers on the remaining options for the first three years of each instrument. The revenue stabiliser options are exercised quarterly in equal amounts.

Tranches 1 and 2 of the revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the *Cash flow hedge revaluation reserve* within condensed consolidated interim statement of changes in equity, whilst the remaining change in the fair value of USD 30 million loss is reflected in the condensed consolidated interim statement of profit or loss (note 8) (31 March 2016: a loss of USD 64 million). During the three months ended 31 March 2017, under Tranches 1 and 2, a gain of USD 5 million was recognised in the *Cash flow hedge revaluation reserve* within condensed consolidated interim statement of changes in equity (31 March 2016: a loss of USD 19 million) and following the sale of the hedged volume of gold and the exercise of certain options USD 16 million was subsequently reclassified to Gold sales within the condensed consolidated interim statement of profit or loss (31 March 2016: a gain of USD 20 million).

Tranches 3 and 4 are accounted at fair value through profit and loss. The loss resulted from the change in their fair value totalled USD 49 million and is presented within note 8 of the condensed consolidated interim statement of profit or loss (31 March 2016: a loss of USD 69 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 condensed consolidated interim statement of profit or loss (31 March 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.

Gold forward

In 2014, the Group entered into financing contracts to sell a total of 310 thousand ounces of gold monthly in equal quantities over a period of two years starting from 1 July 2014 and ending on 30 June 2016 at a fixed price of USD 1,321 per ounce. There are no outstanding balances in regard of gold forward as of 31 March 2017.

Cross currency swaps

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.

In 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.

In 2016, the Group amended previous cross currency contracts and entered into new fixed rate swap, offsetting the floating swap, so that the following terms were in place during the three months ended 31 March 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.

Cross currency swaps - Rusbonds

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.

(in millions of US Dollars)

The Group accounted for these derivative financial instruments at fair value which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps for the three months ended 31 March 2017 resulted in a revaluation gain of USD 96 million recognised in the condensed consolidated interim statement of profit or loss (note 8) (31 March 2016: a gain of USD 90 million). The gain on the exchange of interest payments of USD 9 million is recognised within the *Finance cost* (note 7) (31 March 2016: a gain of USD 6 million).

The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

Interest rate swaps

In 2014, the Group entered into interest rate swap agreements, 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. During the year ended 31 December 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.

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. The Group accounts for it at fair value which was determined using a discounted cash flow valuation technique.

For the three months ended 31 March 2017, the loss on changes in the fair value of the interest rate swaps in the amount of USD 1 million is recognised in the condensed consolidated interim statement of profit or loss (note 8) (31 March 2016: a gain of USD 14 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

	31 Mar. 2017	31 Dec. 2016
Inventories expected to be recovered after 12 months		
Stockpiles	257	253
Gold-in-process	12	11
Sub-total	**269**	**264**
Inventories expected to be recovered in the next 12 months		
Stores and materials	279	253
Gold-in-process	54	54
Stockpiles	74	51
Refined gold	9	23
Less: provision for obsolete and slow-moving stores and materials	(13)	(12)
Sub-total	**403**	**369**
Total	**672**	**633**

(in millions of US Dollars)

12. CASH AND CASH EQUIVALENTS

	31 Mar. 2017	31 Dec. 2016
Bank deposits		
- USD	1,046	1,443
- RUB	74	82
Current bank accounts		
- USD	199	41
- RUB	70	82
Cash in the Federal Treasury (note 15)	80	74
Other cash and cash equivalents	18	18
Total	**1,487**	**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:

	31 Mar. 2017	31 Dec. 2016
- USD	1.3%-3.2%	1.1%-4.4%
- RUB	8.3%-9.9%	8.4%-10.2%

13. SHARE CAPITAL

Authorised, issued and fully paid share capital of the Company comprised 190,627,747 ordinary shares at par value of RUB 1.

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
Minority shareholders	13,556	0.01%	4,497	1

There were no dividends declared and paid for the three months ended 31 March 2017 and 2016.

Weighted average number of ordinary shares

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

	Three months ended 31 March	
	2017	2016
Ordinary shares in issue at the beginning of the reporting period	125,632	190,628
Treasury shares	(4)	(13,234)
Weighted average number of ordinary shares – basic EPS	**125,628**	**177,394**
LTIP	115	–
Weighted average number of ordinary shares – dilutive EPS	**125,743**	**177,394**

(in millions of US Dollars)

14. BORROWINGS

	Nominal rate %	31 Mar. 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%	1,279	2,513
PGIL USD-credit facilities with fixed interest rate (note 17)	4.799% − 5.725%	2,038	1,237
Credit facilities with financial institutions nominated in RUR with fixed interest rates	10.35%	584	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	12.10%	271	253
Credit facilities with financial institutions nominated in RUR with variable interest rates	Central bank rate + 2.3%	88	81
Letters of credit with deferred payments terms with variable rates	Euribor +1.8%, USD LIBOR + 1.15%	9	19
Lease liabilities nominated with fixed interest rates in USD	5.1% − 8.5%	15	6
Sub-total		**4,615**	**4,981**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(24)	(283)
Long-term borrowings		**4,591**	**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.

During the three months ended 31 March 2017, the Group received a USD 800 million loan from PGIL, which was financed by USD 800 million Notes issued by PGIL. 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.

Unused committed credit facilities

In 2014, one of the Group's subsidiaries entered into a five year RUB 40,000 million credit line with a bank to fund its general corporate purposes. As of 31 March 2017 and 31 December 2016, the amount of unused credit facilities was RUB 40,000 million equivalent to USD 709 million and USD 659 million, respectively.

Pledge

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

Other matters

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

(in millions of US Dollars)

There were a number of financial covenants under several loan agreements in effect as of 31 March 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 31 December 2016. Group tests covenants on semi-annual basis, respectively next covenants compliance test will take place based on 30 June 2017 figures.

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, full outstanding amount of Rusbonds was reclassified to long-term as of 31 March 2017.

Fair value measurements

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

	31 Mar. 2017		31 Dec. 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
- Borrowings (Level 2)	4,344	4,339	4,728	4,248
- Rusbonds (Level 1)	271	295	253	272
Total	**4,615**	**4,634**	**4,981**	**4,520**

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

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.

(in millions of US Dollars)

15. DEFERRED REVENUE

On 13 September 2016, the Ministry for the Development of the Russian Far East (the "Minvostokrazvitiya") and JSC Matrosova Mine (the "Matrosova Mine"), a 100% subsidiary of the Group, representing Magadan business unit, entered into an agreement under which Minvostokrazvitiya has to provide to Matrosova Mine government grant in the following maximum amounts:

	31 Mar. 2017
2016	82
2017	46
2018	48
Total	**176**

Under the agreement Matrosova Mine receives the government grant, cash from which should be used for the construction of: (i) electricity transmission line 220 kW "Ust'-Omchak – Omchak New", (ii) 220 kW distribution point and (iii) electric power substation for 220 kW "Omchak New". The construction is expected to be completed during the second quarter of the year ending 31 December 2019. Unutilised balance of the government grant will have to be returned to Minvostokrazvitiya. JSC Gold Mining Company Polyus is a guarantor under the agreement.

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

	31 Mar. 2017
Carrying value at the beginning of the reporting period	**76**
Effect of translation to presentation currency	6
Carrying value at the end of the reporting period	**82**

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 expects to increase its ownership interest in LLC SL Gold ("SL Gold"), a 51% subsidiary of the Group, 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 at the initial recognition in the amount of 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. was accounted for as Deferred consideration with a corresponding increase in Exploration and evaluation assets within Mineral rights group. Thereafter Deferred consideration was presented in the condensed consolidated interim statement of financial position at amortised cost with change between carrying value and fair value at initial recognition in the amount of USD 1 million presented as Unwinding of interest on deferred consideration (note 7) recognised in the condensed consolidated interim statement of profit or loss.

(in millions of US Dollars)

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

	31 Mar. 2017
Balance at the beginning of the reporting period	**-**
Fair value on initial recognition presented as increase in exploration and evaluation assets (note 9)	121
Unwinding of interest on deferred consideration (note 7)	1
Foreign exchange gain, net	(6)
Effect of translation to presentation currency	6
Balance at the end of the reporting period	**122**

Of which, USD 101 million was presented within long-term liabilities and the remaining USD 21 million within short-term liabilities.

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 31 March 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 obtains and issues loans from / (to) related parties and makes appropriate accruals and cash receipts of interest income and expense.

Immediate shareholders

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

	31 Mar. 2017	31 Dec. 2016
Loans received (note 14)	2,038	1,237
Interest payable	25	12

The Group entered into the following transactions with the parent entity:

	Three months ended 31 March	
	2017	2016
Interest income	-	3
Interest received	-	6
Interest expense	13	-
Interest capitalised	10	11
Repayment of borrowing and interest accrued	9	-
Proceeds from borrowings	800	-
Proceeds from loans given	-	124
Buy-back of treasury shares	-	3,423

(in millions of US Dollars)

Key management personnel

	Three months ended 31 March	
	2017	2016
Short-term compensation of key management personnel	10	11
Long-term compensation of key management personnel (LTIP)	7	3
Total	**17**	**14**

18. COMMITMENTS AND CONTINGENCIES

Capital commitments

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

	31 Mar. 2017	31 Dec. 2016
Project Natalka	205	190
Other capital commitments	69	67
Total	**274**	**257**

Contingencies

Litigations

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

Taxation contingencies in the Russian Federation

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

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.

(in millions of US Dollars)

Operating environment

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

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. In the first quarter of 2015 international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook. During 2016 and for the three months ended 31 March 2017, the economic situation has become more stable, although the above mentioned events have led to reduced access of Russian businesses to international capital markets, increased inflation, reduced economic growth and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

19. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

		Effective % held[3] at	
Subsidiaries	**Nature of business**	**31 Mar. 2017**	**31 Dec. 2016**
Incorporated in Russian Federation			
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	Exploration and evaluation of Sukhoi Log deposit	51	51

20. EVENTS AFTER THE REPORTING DATE

In April 2017, the merge of LLC Polyus-Invest, a 100% subsidiary of the Group, into PJSC Polyus was completed. As a result of this, 63,082,318 treasury shares of PJSC Polyus, previously held by LLC Polyus-Invest, were cancelled.

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, respectively, the liability to PGIL was decreased by the equal amount.

[3] Effective % held by the Company, including holdings by other subsidiaries of the Group.