POLYUS

PJSC Polyus

Management Report

31 December 2016

21 February 2017

Contents

Cautionary statement

31 December 2016 – PJSC Polyus (the "Company" or "Polyus") issues this Annual Management Report (AMR) to summarise recent operational activities and to provide trading guidance in respect of the consolidated financial statements for the year ended 31 December 2016.

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

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

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

Responsibility statement

Directors of 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

Management Discussion and Analysis

Key highlights

$ mln (if not mentioned otherwise)	**2016**	**2015**	**Y-o-Y**
Operating highlights			
Gold production[1] (koz)	1,968	1,763	12%
Gold sold (koz)	1,915	1,768	8%
Realised prices			
Average realised refined gold price (excluding effect of SPPP[2]) ($/oz)	1,250	1,159	8%
Average realised refined gold price (including effect of SPPP) ($/oz)	1,287	1,225	5%
Financial performance			
Total revenue	2,458	2,188	12%
Operating profit	1,361	1,164	17%
Operating profit margin (%)	55	53	2 ppts
Profit for the year	1,445	1,021	42%
Earnings per share – basic & diluted (US Dollar)	10.09	5.18	95%
Adjusted net profit[3]	952	937	2%
Adjusted net profit margin (%)	39	43	(4 ppts)
Adjusted EBITDA[4]	1,536	1,278	20%
Adjusted EBITDA margin (%)	62	58	4 ppts
Net cash inflow from operations	1,178	1,103	7%
Capital expenditure[5]	468	268	75%
Financial position			
Cash and cash equivalents and bank deposits	1,740	1,825	(5%)
Net debt[6]	3,241	364	N.A.[7]
Net debt/adjusted EBITDA (x)[8]	2.1	0.3	N.A.
Cash costs			
Total cash cost (TCC) per ounce sold ($/oz)[9]	389	424	(8%)
All-in sustaining cash cost (AISC) per ounce sold ($/oz)[10]	572	596	(4%)

[1] - Gold production is comprised of 1,842 koz of refined gold and 126 koz of gold in flotation concentrate.

[2] - The Strategic Price Protection Programme comprises a series of zero-cost Asian gold collars ("revenue stabiliser") and gold forward contracts.

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

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

[5] - Capital expenditure figures are presented on an accrual basis.

[6] - Net debt is defined as short- and long-term debt, less cash and cash equivalents and short-term bank deposits. Short-term bank deposits with an original maturity of more than three months can be withdrawn on demand and therefore have the same liquidity as cash and cash equivalents. Net debt excludes derivative financial instrument assets/liabilities, site restoration and environmental obligations, deferred tax, deferred revenue and other non-current liabilities. Net debt should not be considered as an alternative to current and non-current loans and borrowings, and should not necessarily be construed as a comprehensive indicator of the Group's overall of liquidity.

[7] - N.A. stands for "not applicable".

[8] Net debt / adjusted EBITDA stood at 2.5x as of the end of 1H 2016; net debt / adjusted EBITDA stood at 2.3x as of the end of 3Q 2016.

[9] - For a definition and calculation of TCC per ounce sold, see the section Total cash costs.

[10] - For a definition and calculation of AISC per ounce sold, see the section All-in-sustaining costs.

Comments to highlights

1. Gold sales increased 8% y-o-y to 1,915 koz driven by the execution of our growth projects and our focus on operational excellence.

2. Revenue amounted to $2,458 million, as compared to $2,188 million in 2015, due to an increase in sales volumes and higher realised gold price.

3. The Group's TCC and AISC declined 8% y-o-y to $389/oz and 4% y-o-y to $572/oz, respectively. Strong operational performance and efficiency improvement initiatives continued to support the Group's cost profile.

4. Adjusted EBITDA increased 20% y-o-y to $1,536 million driven by higher gold sales volumes and realised gold price as well as further decline in TCC. The adjusted EBITDA margin expanded 4 ppts y-o-y to 62%.

5. Profit for the period totalled $1,445 million (up 42% y-o-y) partially reflecting the impact of one-off non-cash items, including a foreign exchange gain and gain on derivatives. Adjusting for the aforementioned non-cash items adjusted net profit stood largely flat y-o-y at $952 million, which primarily reflects higher interest expense.

6. Net cash inflow from operations increased 7% y-o-y to $1,178 million driven by increased earnings generation of the Group's business.

7. Capex was $468 million, up 75% y-o-y, as Natalka and brownfield development projects entered an active phase of investment.

8. On 21 December 2016, the Group transferred $138 million to the Federal Subsoil Resources Management Agency in form of prepayment for the participation in the Sukhoi Log auction.

9. Cash and cash equivalents at the end of 2016 amounted to $1,740 million, as compared to $1,825 million at the end of 2015.

10. Net debt increased to $3,241 million as of the end of 2016 as compared to $364 million as of the end of 2015 due to substantial increase in borrowings, proceeds from which were used for the share buyback offset by strong free cash flow generation during the year.

11. Net debt / adjusted EBITDA stood at 2.1x as of the end of 2016, declining from 2.3x as of the end of 3Q 2016 reflecting EBITDA expansion.

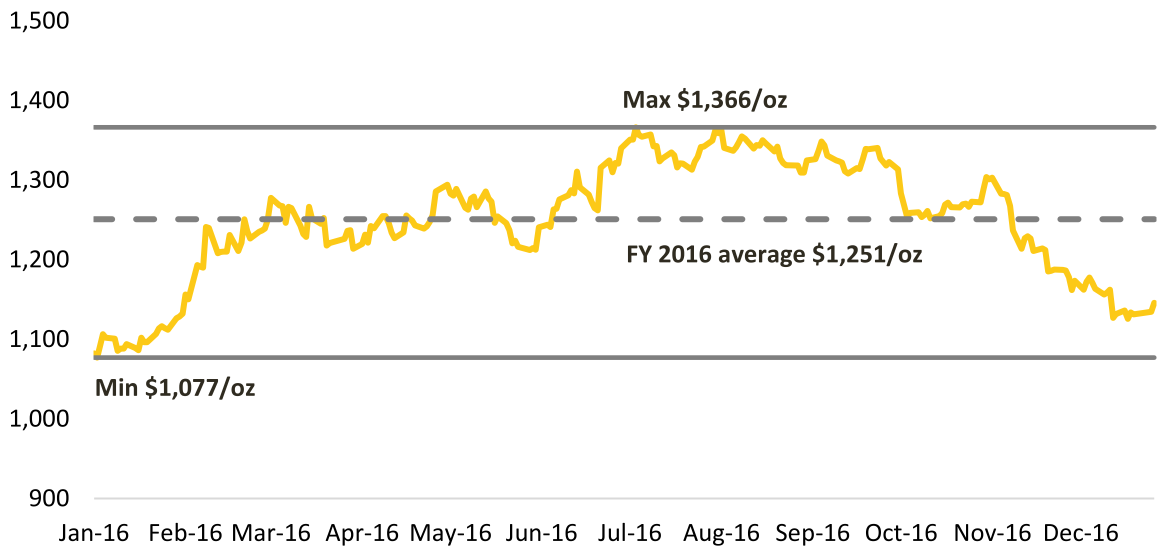
Review of external factors

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

Gold price dynamics

The market price of gold is a significant factor that influences the Group's profitability and operating cash flow generation. In 2016, the average London Bullion Market Association (LBMA) gold price was $1,251/oz, 8% above the 2015 average of $1,160/oz.

LBMA gold price dynamics in 2016, $/oz

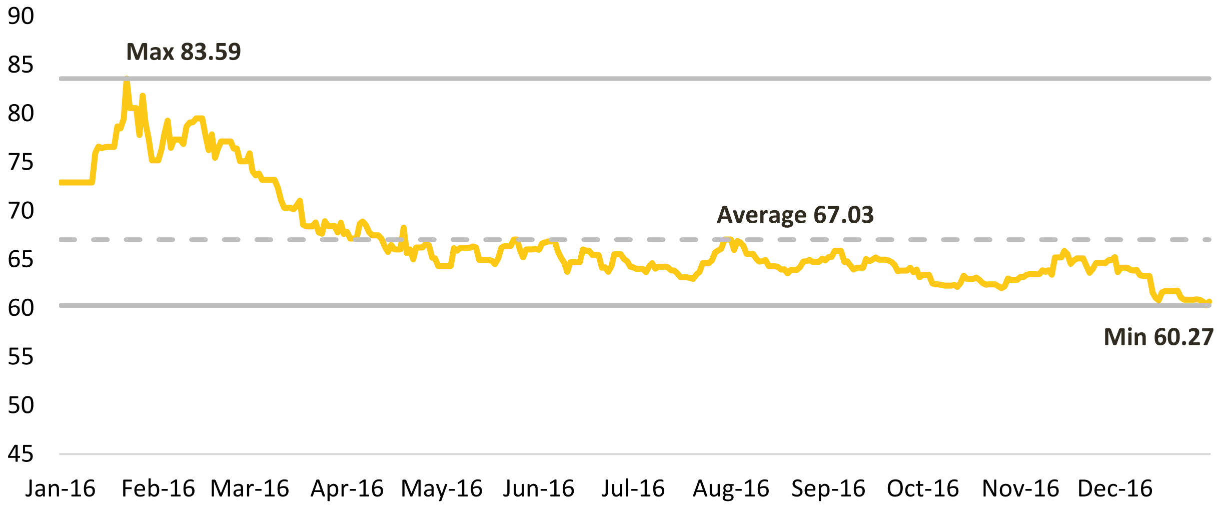


Source: London Bullion Market Association

Rouble exchange rate dynamics

The Group's revenue from gold sales is linked to the US dollar (USD), whereas most of the Group's operating expenses are denominated in Russian roubles (RUB). The strengthening of the RUB against the USD can negatively impact the Group's margins by increasing the USD value of its RUB-denominated costs, while a weaker RUB positively affects its margins as it reduces the USD value of the Group's RUB-denominated costs. In 2016, the average RUB/USD exchange rate was 67.03, 10% devaluation y-o-y from 60.96 in 2015. As shown in the following section, the RUB devaluation positively impacted the Group's operating margins in 2016, due to the majority of its costs being RUB-denominated, and the USD being the presentational currency.

RUB/USD dynamics, 2016



Source: The Central Bank of the Russian Federation

Inflationary trends

All of the Group's operations are located in Russia. The rouble-based Russian Consumer Price Index (CPI), calculated by the Federal State Statistics Service, was at 5.4% in 2016, compared to 12.9% in 2015. Inflation increases production costs, thus negatively affecting mining operations.

Financial review

Statement of profit or loss review

REVENUE ANALYSIS

	2016	2015	Y-o-Y
Gold sales (koz)	1,915	1,768	8%
Average realised refined gold price (excluding effect of SPPP) ($/oz)	1,250	1,159	8%
Average realised refined gold price (including effect of SPPP) ($/oz)	1,287	1,225	5%
Average afternoon gold LBMA price fixing ($/oz)	1,251	1,160	8%
Premium of average selling price (including effect of SPPP) over average LBMA price fixing ($/oz)	36	65	(45%)
Gold sales ($ mln)	2,429	2,159	13%
Other sales ($ mln)	29	29	–
Total revenue ($ mln)	**2,458**	**2,188**	**12%**

In 2016, the Group's revenue from gold sales increased 13% y-o-y to $2,429 million mainly driven by a higher average realised gold price and increased gold sales volumes. The average realised refined gold price increased 5% y-o-y to $1,287/oz, while gold sales amounted to 1,915 koz, up 8% y-o-y. Gold prices went up during the period with the average LBMA price rising 8% y-o-y to $1,251/oz. The Group's Strategic Price Protection Programme further supported revenue generation, improving the 2016 average selling price by $36/oz (compared to a premium of $65/oz in 2015). The programme covered 852.5 koz of gold sold in 2016.

Revenue breakdown by mine, 2015

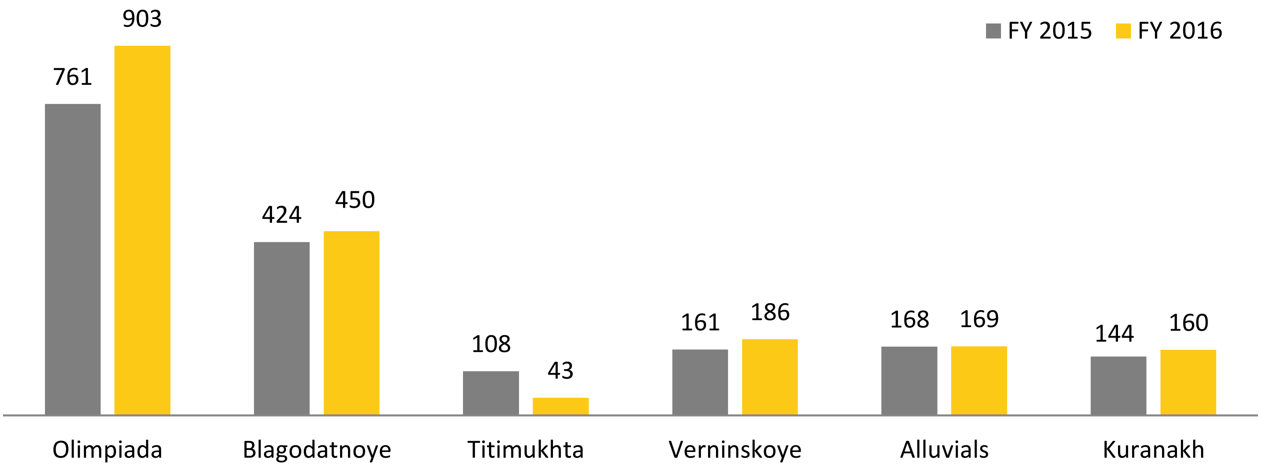
$ mln	Olimpiada	Blagodatnoye	Titimukhta[11]	Verninskoye	Alluvials	Kuranakh	Other
Gold sales	952	525	134	189	191	165	3
Other sales	–	–	–	3	5	5	16
Total sales	**952**	**525**	**134**	**192**	**196**	**170**	**19**

Revenue breakdown by mine, 2016

$ mln	Olimpiada	Blagodatnoye	Titimukhta[11]	Verninskoye	Alluvials	Kuranakh	Other
Gold sales	1,141	576	56	232	220	199	5
Other sales	6	–	–	3	5	3	12
Total sales	**1,147**	**576**	**56**	**235**	**225**	**202**	**17**

[11] - Hereinafter, Titimukhta gold sales figures include sales of gold produced from ore purchased from the third-party-owned Veduga mine, in accordance with an off-take agreement.

Gold sold by mine, koz[12]



CASH COSTS ANALYSIS

Cost of sales breakdown

$ mln	2016	2015	Y-o-Y
Cash operating costs	**763**	**765**	**–**
Depreciation and amortisation (D&A) of operating assets	154	126	22%
Total cost of production	**917**	**891**	**3%**
Increase in gold-in-process and refined gold inventories	(26)	(15)	73%
Cost of gold sales	**891**	**876**	**2%**

During 2016, the Group's cash operating costs were flat y-o-y at $763 million, despite an increased level of production. The rouble weakening and operational optimization initiatives, including those implemented as part of the Total Operational Efficiency programme, fully mitigated both cost inflation and increase in variable costs driven by higher production volumes.

Cash operating costs – breakdown by item

$ mln	2016	2015	Y-o-Y
Consumables and spares	242	205	18%
Labour	227	239	(5%)
Mineral Extraction Tax ('MET')	134	140	(4%)
Fuel	72	74	(3%)
Power	22	35	(37%)
Outsourced mining services	8	12	(33%)
Other	58	60	(3%)
Total	**763**	**765**	**–**

Consumables and spares expenses increased 18% y-o-y, accounting for 32% of cash operating costs, largely as a result of cost inflation and higher cyanide and other chemical agents consumption due to increased processing volumes. Meanwhile, the ongoing implementation of The Total Operational Efficiency programme helped to partially mitigate growth in variable costs.

[12] Sales volumes exclude gold produced from the Poputninskoye deposit, where trial mining was launched in 2015.

With all of the Group's labour expenses being rouble denominated, devaluation of the local currency and headcount reduction offset the negative impact of annual salary indexation. Hence, the Group's labour costs in 2016 declined 5% y-o-y, comprising 30% of cash operating costs.

MET payments (18% of cash operating costs) declined 4% y-o-y which partially reflects successfully obtained tax concessions at Verninskoye since mid-2016.

Fuel costs declined 3% y-o-y as modest increase in transportation costs at the Krasnoyarsk Business Unit was fully offset by rouble devaluation.

In spite of the annual tariff indexation and higher production volumes, the Group saw a substantial decrease in electricity costs (down 37% y-o-y), mainly reflecting a decline in the average tariff at Kuranakh, which entered the electricity wholesale market.

Other costs declined 3% y-o-y to $58 million.

Cash operating costs – breakdown by key business units[13]

$ mln	Krasnoyarsk		Verninskoye		Alluvials		Kuranakh	
	2016	2015	2016	2015	2016	2015	2016	2015
Consumables and spares	177	153	31	28	19	15	19	18
Labour	105	105	28	26	35	37	27	27
MET	101	108	8	11	13	11	12	9
Fuel	32	43	7	9	14	16	9	9
Power	18	19	2	3	5	6	6	11
Outsourced mining services	–	–	–	–	6	6	–	2
Other	88	80	7	5	8	10	7	11
Total	**521**	**508**	**83**	**82**	**100**	**101**	**80**	**87**

TOTAL CASH COSTS (TCC)

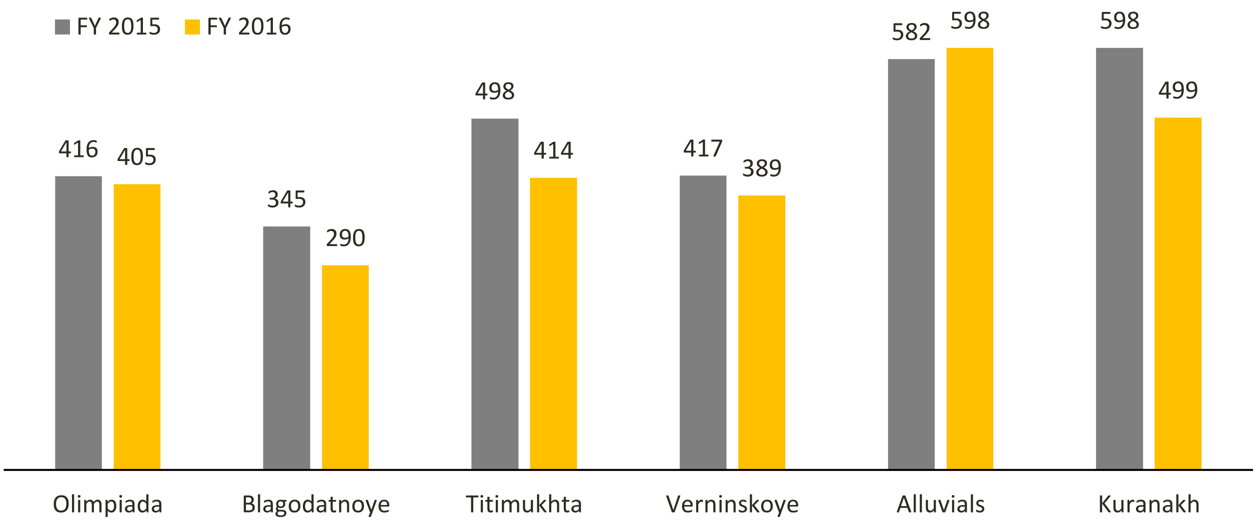
TCC calculation

$ mln	2016	2015	Y-o-Y
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.
+ non-monetary changes in inventories	12	4	200%
TCC	**745**	**749**	**(1%)**
Gold sold (koz)	1,915	1,768	8%
TCC per ounce sold ($/oz)	**389**	**424**	**(8%)**

The Group's TCC declined 8% to $389/oz. This was underpinned by strong operational performance of the Group's assets, efficiency improvement initiatives and rouble devaluation. All the hard rock operations demonstrated y-o-y cost decline.

13 Calculated on standalone basis and don't include other non-producing business units and consolidation adjustments.

TCC performance by mine, $/oz



TCC at Olimpiada declined 3% y-o-y to $405/oz as negative impact of higher consumables price, greater repair expenses and annual salary indexation was fully offset by rouble weakening. Additional adverse effect came on the back of reduced volumes of processing of low-cost stockpiled ore, which significantly reduced TCC in 2015.

At Blagodatnoye, TCC declined 16% y-o-y to $290/oz, primarily driven by improvements on the production side including higher grades and higher grinding circuit capacity. The use of the mining fleet temporarily reallocated from the Olimpiada mine's Vostochnyi pit resulted in elevated stripping activity and higher volumes of ore mined leading to a lower cost per tonne of ore mined.

The most visible cost progress was achieved at Kuranakh where TCC decreased 17% y-o-y to $499/oz. This was driven primarily by operational improvements including increased throughput volumes. In January 2016, Kuranakh entered the electricity wholesale market, which also had a significant impact on electricity costs.

At Titimukhta, TCC decreased 17% y-o-y to $414/oz. In line with the completion of the Mill-1 reconfiguration project in September 2016, mining and processing activities at Titimukhta have been ceased in favour of treating the Olimpiada ore in 2H 2016.

Verninskoye reduced its TCC 7% y-o-y to $389/oz. Though marginally impacted by higher cost scheduled maintenance works, this decline was mainly attributable to operational improvements, including gradual increase in recoveries. To recap, better perfomance at the sorption and cyanidation circuits enabled the mill to improve recovery to above 87% levels.

In the meantime, at Alluvials, TCC increased 3% y-o-y, to $598/oz. Rouble devaluation partially offset growth in spares expenses and outsourced mining services costs.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

The Group's selling, general, and administrative (SG&A) expenses increased 6% y-o-y, to $151 million, largely due to higher labour costs.

SG&A breakdown by item

$ mln	2016	2015	Y-o-Y
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%**

ALL-IN SUSTAINING COSTS (AISC)

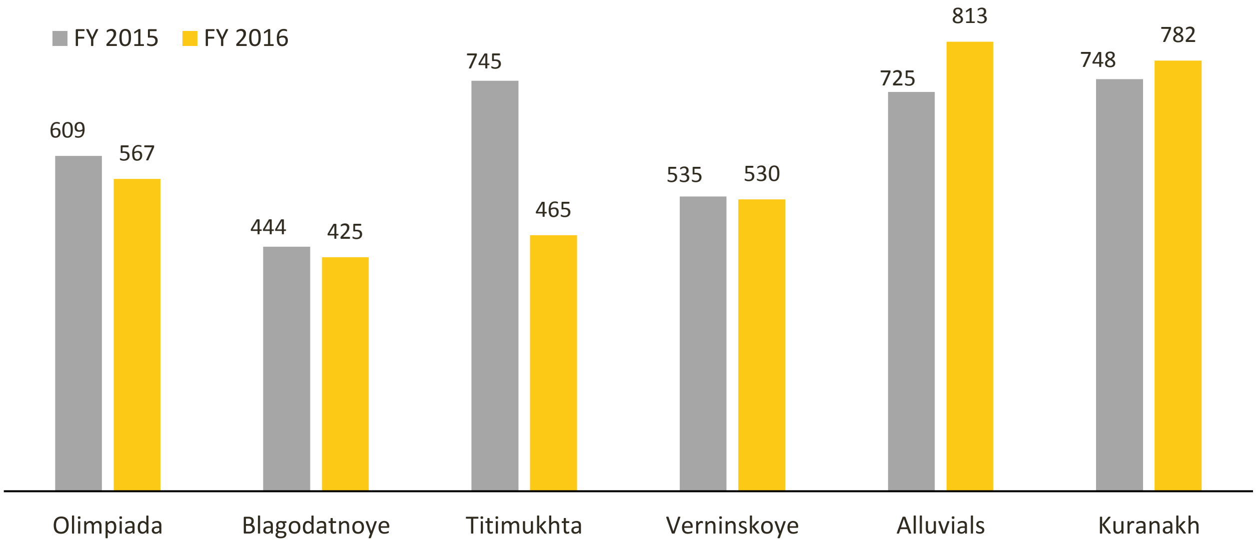
Similarly to the TCC/oz, the Group's AISC/oz demonstrated a 4% y-o-y decline to $572/oz in 2016. Lower TCC and reduced stripping expenses were the key drivers behind the positive performance.

In terms of individual mine performance, AISC at Titimukhta declined 38% y-o-y to $465/oz. This fully reflects a decision to cease activities at the mine in line with the completion of the Mill-1 reconfiguration project in September 2016. In the meantime, at Kuranakh, AISC rose 5% y-o-y to $782/oz on the back of the mining fleet renovation.

All-in sustaining costs calculation

$ mln	2016	2015	Y-o-Y
Total TCC	**745**	**749**	**(1%)**
+ selling, general and administrative expenses	151	143	6%
- amortisation and depreciation	(5)	(3)	67%
+ research expenses and other sustaining expenses	1	1	–
+ stripping activity asset additions	55	104	(47%)
+ sustaining capital expenditure	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.
Total all-in sustaining costs	**1,095**	**1,054**	**4%**
Gold sold (koz)	1,915	1,768	8%
All-in-sustaining cost ($/oz)	**572**	**596**	**(4%)**

All-in sustaining costs by mine, $/oz



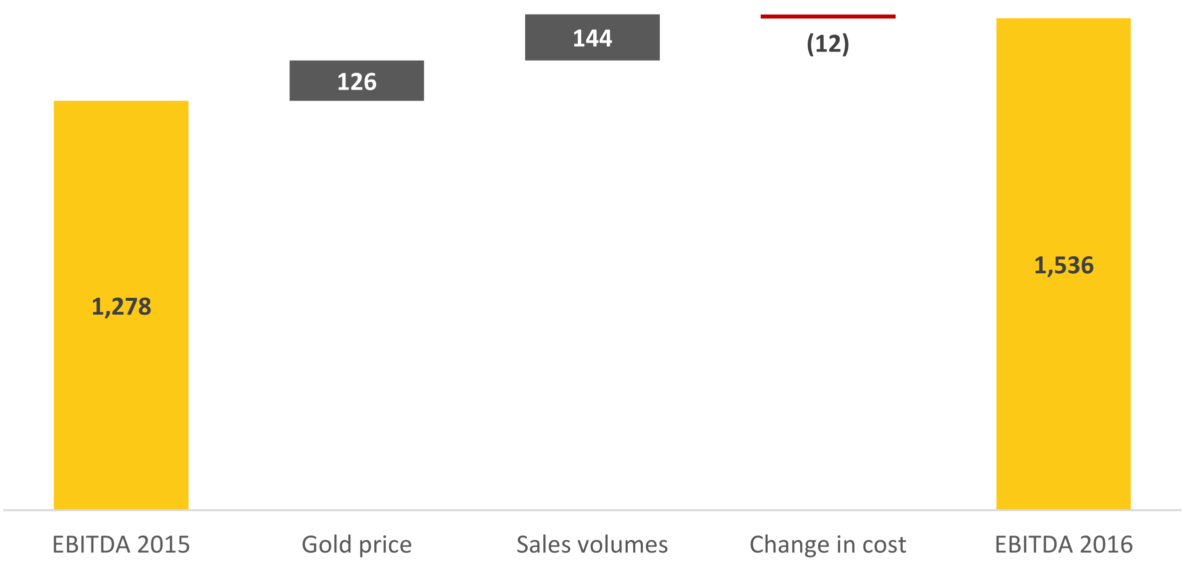
ADJUSTED EBITDA

The Group's adjusted EBITDA increased 20% y-o-y to $1,536 million in 2016, with the adjusted EBITDA margin expanding 4 ppts y-o-y to 62%.

Adjusted EBITDA calculation

$ mln	2016	2015	Y-o-Y
Profit for the year	**1,445**	**1,021**	**42%**
Income tax expense	326	191	71%
Foreign exchange gain, net	(396)	(149)	166%
(Gain) / loss on derivative financial instruments and investments, net	(119)	125	(195%)
Interest income	(40)	(69)	(42%)
Finance cost, net	145	45	N.A.
Loss on property, plant and equipment disposal	12	1	N.A.
Long Term Incentive Plan	19	7	171%
Reversal of impairment	(4)	(22)	(82%)
Depreciation and amortisation	148	128	16%
Adjusted EBITDA	**1,536**	**1,278**	**20%**
Adjusted EBITDA margin (%)	62	58	4 ppts

Adjusted EBITDA bridge, $ mln



All of the Group's operational assets contributed to EBITDA growth. Olimpiada and Blagodatnoye remained the main contributors to the Group's earnings. 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 the Group's assets.

FY 2016 adjusted EBITDA breakdown by mine, $ mln

$ mln	2016	2015	Y-o-Y
Olimpiada	717	605	19%
Blagodatnoye	417	348	20%
Titimukhta	36	54	(33%)
Verninskoye	146	115	27%
Alluvials	90	76	18%
Kuranakh	107	70	53%
Other	23	10	130%
Total	**1,536**	**1,278**	**20%**

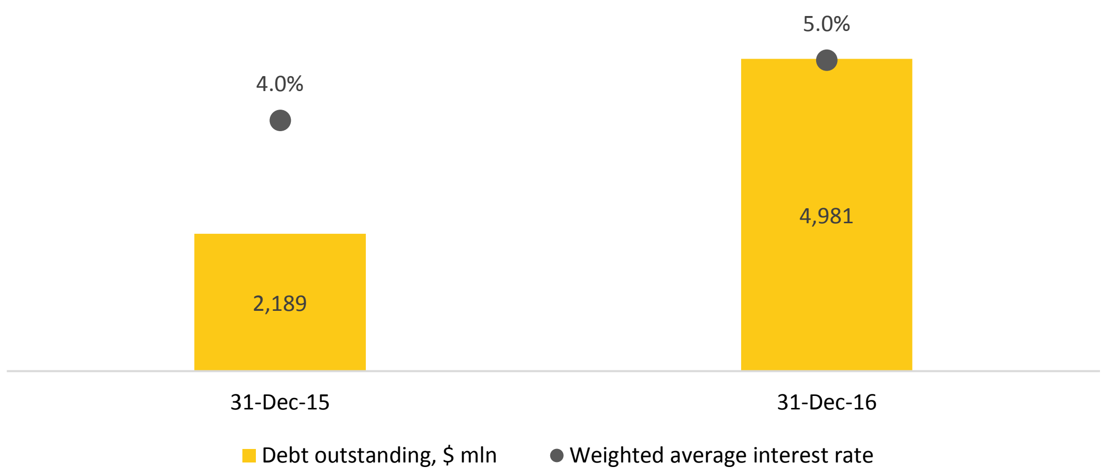
FINANCE COST ANALYSIS

$ mln	2016	2015	Y-o-Y
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 decommissioning 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**	**N.A.**

The Group's total finance costs in 2016 amounted to $145 million, compared to $45 million in 2015. The Group continued interest capitalisation in regards to the Natalka development project, with the construction works ramping up further. Capitalised interest related to the Natalka project and Razdolinskaya-Tayga grid amounted to $97 million, up 137% y-o-y, following the acceleration of the Natalka construction. Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps), totalled $237 million in 2016, compared to $80 million in 2015. Higher gross debt as well as an increase in the weighted average interest rate were the reasons behind the pickup in interest payments. To recap, in January 2016 the Group entered into a $2.5 billion 7-year credit facility with PJSC Sberbank.

To mitigate interest rate risk, the Group has opted to increase the share of fixed rate debt in its portfolio, which was achieved via refinancing with the $500 million Eurobond issue due in 2022[14] and new credit lines along with the swaps of several loans from floating into fixed rate. These brought the overall share of fixed-rate liabilities to 46%[15] as of the end of 2016.

Weighted average interest rate dynamics



Foreign exchange gain and derivatives

The Group's foreign exchange gain in 2016 amounted to $396 million, as compared to $149 million gain in 2015, which reflects the revaluation of USD-denominated bank deposits and USD-denominated liabilities as of the end of 2016 on the back of FX rate fluctuation.

[14] All of the outstanding Eurobond issues obtained through Polyus Gold International Limited ('PGIL')
[15] Net of non-cash IFRS adjustments

Valuation and hedge accounting of derivative financial instruments as at 31 December 2016

$ mln	Asset	Liability	Fair value recorded in the statement of financial position	Profit & loss (expenses)/ income	Other compre-hensive loss
Revenue stabiliser	42	(22)	20	(3)	(118)
Gold forwards	–	–	–	8	(20)
Cross-currency swaps	10	(434)	(424)	206	–
Interest rate swaps	7	–	7	1	–
Total	**59**	**(456)**	**(397)**	**212**	**(138)**

Revenue stabiliser[16]

In 2016, $65 million of loss from Tranches 1 and 2 under revenue stabiliser programme was recognised in the cash flow hedge revaluation reserve within equity, while the remaining change in fair value $4 million loss was recognised in profit or loss. See note 10 of the consolidated financial statements. Following the sale of the hedged volume of gold and the exercise of certain options, $53 million were subsequently reclassified to gold sales within the consolidated statement of profit or loss.

In 2016, loss resulted from the change in the fair value of Tranches 3 and 4 totalled $58 million. See note 10 of the consolidated financial statements. Following the sale of the hedged volume of gold and the exercise of certain options, $6 million were subsequently reclassified to gold sales within the consolidated statement of profit or loss.

In 2016, the positive effect from the revenue stabiliser programme amounted to $59 million.

Forward contracts[17]

In 2016, $12 million of loss was recognised in the Cash flow hedge revaluation reserve within equity and following the sale of the hedged amount of gold $8 million was reclassified from the cash flow hedge revaluation reserve within equity into gold sales within the consolidated statement of profit or loss.

No further gold forward contracts remained outstanding since 30 June 2016. The positive effect on revenue from gold forward contracts in 1H 2016 amounted to $8 million, as gold traded below the fixed contract price of $1,321/oz during the respective period.

The combined effect in 2016 of gold-linked derivatives (revenue stabiliser and forward contracts) on revenue amounted to $67 million.

Cross-currency and interest rate swaps[18]

In 2016, the overall positive effect from cross-currency and interest rate swaps on finance cost amounted to $44 million. This was recorded within the note 9 of the consolidated financial statement as a realised gain on the exchange of interest payments under interest rate and cross currency swaps.

[16] For additional information on revenue stabiliser, see Note 13 of the consolidated financial statements.
[17] For additional information on forward contracts, see Note 13 of the consolidated financial statements.
[18] For additional information on cross-currency and interest rate swaps, see Note 10 of the consolidated financial statements.

PROFIT BEFORE TAX & INCOME TAXES

In 2016, profit before tax increased 46% y-o-y to $1,771 million partially driven by a gain on derivative financial instruments and investments (as opposed to a loss in 2015) and a y-o-y increase in foreign exchange gain. In the meantime, income tax totalled $326 million, up 71% y-o-y, resulting in an effective income tax rate of 18%. The latter primarily reflects an adjustment related to revaluation of derivatives.

NET PROFIT

In 2016, net profit totalled $1,445 million, up 42%, compared with $1,021 million in 2015. The result mainly reflects an impact of one-off non-cash items on both profit before tax and income tax expense as per described above. Adjusting for those items (see the reconciliation below) and reflecting higher interest expense, the Group's adjusted net profit for 2016 stood at $952 million.

Adjusted net profit calculation

$ mln	2016	2015	Y-o-Y
Net profit for the year	**1,445**	**1,021**	**42%**
- reversal of impairment	(4)	(22)	(82%)
+ (gain) / loss on derivative financial instruments and investments, net	(119)	125	(195%)
- foreign exchange gain, net	(396)	(149)	166%
+ deferred income tax related to derivatives	26	(38)	(171%)
Adjusted net profit	**952**	**937**	**2%**

Statement of financial position review

DEBT

As of 31 December 2016, the Group's gross debt amounted to $4,981 million, up 128% from the end of 2015 and marginally higher comparing to $4,950 million as of 30 September 2016.

After establishing the credit facility from Sberbank, obtained in January 2016, the Group continued to proactively manage its loan portfolio. Specifically, in the 4Q 2016 loans of $500 million maturing in 2017-2019 were repaid with the proceeds from the $500 million Eurobond issue. Taking into account the aforementioned factors the share of bank loans in gross debt increased to 70% y-o-y as of the end of 2016. The overall share of public debt amounted to 30% as of the end of respective period.

Debt breakdown by type

$ mln	2016	2015	Y-o-Y
Eurobonds (obtained through PGIL)	1,237	750	65%
RUB bonds	253	137	85%
Deferred payments under letters of credit	19	38	(50%)
Finance lease	6	–	N.A.
Bank loans	3,466	1,264	174%
Total	**4,981**	**2,189**	**128%**

Currency-wise, the Group's debt portfolio remains dominated by US dollar denominated instruments. Their share increased further to 82% as of 31 December 2016 (11 ppts growth as compared to the structure as of 31 December 2015) as the Company entered into a 7-year USD denominated credit facility with Sberbank in January 2016 and placed $500 million Eurobond due 2022 in October 2016.

Debt breakdown by currency

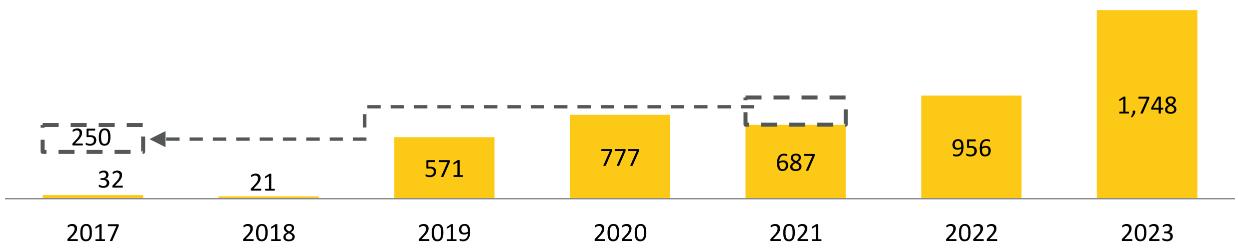
	2016		2015	
	$ mln	% of total	$ mln	% of total
EUR	6	–	13	1%
RUB	876	18%	616	28%
USD	4,099	82%	1,560	71%
Total	**4,981**		**2,189**	

The majority of the maturities due after or during 2021 are comprised of the 7-year $2.5 billion credit facility from Sberbank and the $500 million Eurobond issue due in 2022. The RUB36 billion credit facility from Sberbank is due in 2019 and the $750 million Eurobond issue is due in 2020. Existing cash balances cover all the principal debt repayments up to 2020.

Following PJSC Polyus' EGM approval of the merger of LLC Polyus-Invest into PJSC Polyus holders of the local rouble bonds became entitled to an early redemption of the bonds. The bondholders must notify the issuer by 13 March 2017 to exercise their right. The Group envisages there is a low risk of the local rouble bonds early redemption taking into account bonds' market price (trading at a premium to par value). Nevertheless, local rouble bonds totalling $253 million were temporarily reclassified into a short-term debt[19]. Adjusting for local rouble bonds, less than 1% of gross debt ($30 million) is due in the following 12-month period.

[19] For additional information on rouble bonds reclassification, see Note 18 of the consolidated financial statements.

Debt maturity schedule[20], $ mln



CASH AND CASH EQUIVALENTS AND BANK DEPOSITS

The Group's cash and cash equivalents and bank deposits were $1,740 million, down 5% from the end of 2015. The Group's cash position is primarily denominated in USD, as revenue is fully linked to the USD-quoted gold price, while the RUB exchange rate is subject to significant volatility.

Cash, cash equivalents, and bank deposits breakdown by currency as at 31 December 2016

$ mln	2016	2015	Y-o-Y
RUB	238	104	129%
USD	1,502	1,721	(13%)
Total	**1,740**	**1,825**	**(5%)**

NET DEBT

By the end of 2016, reflecting the conducted share buyback, the Group's net debt amounted to $3,241 million, as opposed to $364 million as of the end of 2015. Since the end of 1H 2016 net debt decreased by $228 million as a result of a robust free cash flow generation in 2H 2016. The latter was partially offset by the $138 million prepayment to Rosnedra as part of the application process for the Sukhoi Log auction in December 2016.

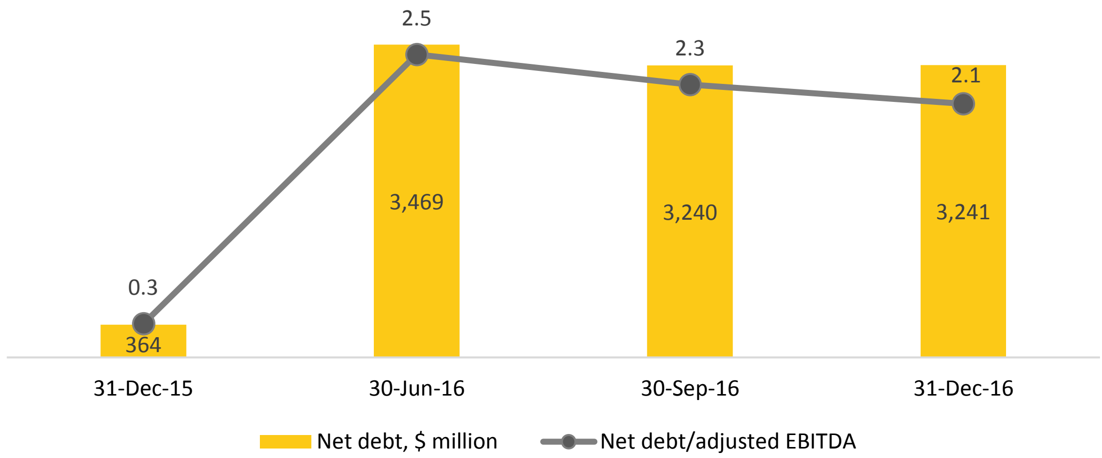
Net debt calculation

$ mln	2016	2015	Y-o-Y
Non-current borrowings	4,698	2,151	118%
+ Current borrowings	283	38	N.A.
– Cash and cash equivalents	(1,740)	(1,825)	(5%)
Net debt	**3,241**	**364**	**N.A.**

The net debt/adjusted EBITDA ratio as of the end of 2016 increased to 2.1x, as compared to 0.3x as of the end of 2015, predominantly due to a sharp increase in net debt position during the respective period. In the meantime, the Group remains on a deleveraging path with the net debt/adjusted EBITDA (last 12 months) ratio as of the end of 2016 decreasing from the level of 2.5x as of the end of 1H 2016, which reflects last 12 months EBITDA expansion and decline in net debt.

[20] The breakdown is based on actual maturities and excludes $60 million of non-cash IFRS adjustments and reflects local rouble bonds reclassification.

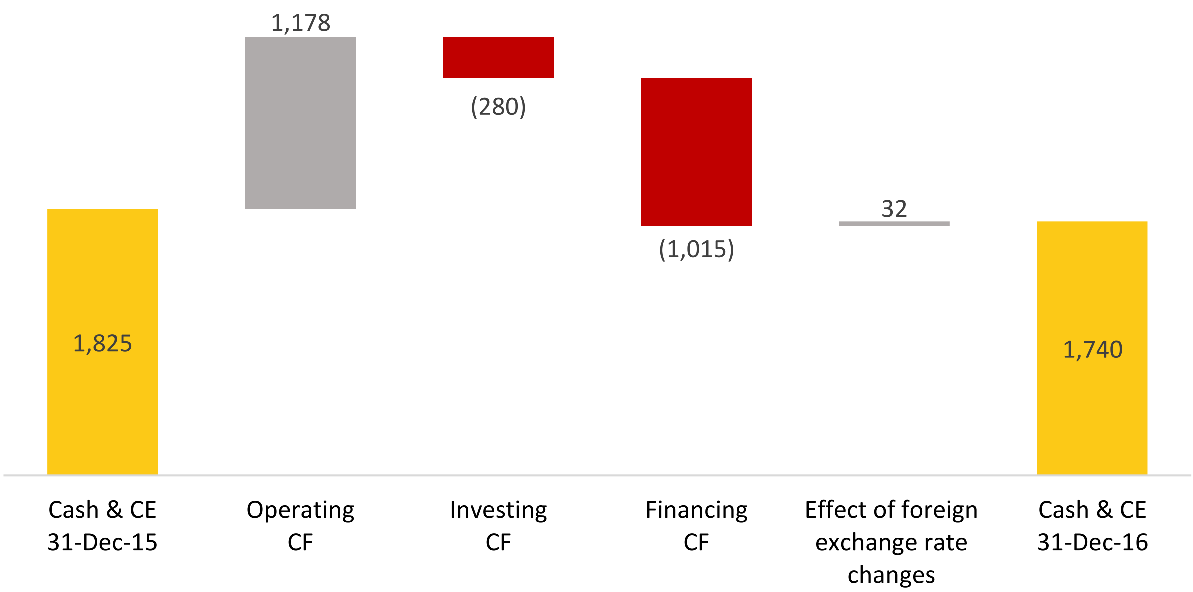
Net debt and net debt/ adjusted EBITDA (last 12 months)[21] ratio



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

Statement of cash flows review

2016 cash flow bridge, $ mln



In 2016, net operating cash flow[22] went up 7% y-o-y to $1,178 million driven by increased earnings generation of the Group's business. Despite a substantially higher capex spending in 2016, the Company posted cash outflow on investing activities at $280 million as opposed to $676 million of cash outflow in 2015. The Company's refinancing activity coupled with higher interest payments on the back of increased total debt resulted in a cash outflow on financing activities in amount of $1,015 million. All of the above drove the decline in cash and cash equivalents to $1,740 million as of the end of 2016.

OPERATING CASH FLOW

In 2016, the Group generated operational cash flow of $1,178 million driven by strong EBITDA generation on the back of a weaker rouble, lower costs, higher sales volumes and benefits from the SPPP. This result was achieved despite the $92 million of working capital build up mainly due to the increased ore stockpiles at Blagodatnoye, Verninskoye and Natalka, higher VAT receivable resulting from active construction works at Natalka and advanced accelerated fuel procurement at Blagodatnoye. Separately, growth in accounts receivable totalling $36 million relates to unpaid supply of flotation concentrate to the third parties. In the meantime, strict working capital control continues to remain a priority for the Group.

INVESTING CASH FLOW

In 2016, capex rose 75%, to $468 million, from $268 million in 2015 reflecting higher maintenance capex as well as the Natalka and brownfield development projects entering an active phase during the last twelve months.

[22] During the review of the preparation of the 1H 2015 report, the Directors reconsidered the previous presentation of interest paid in the cash flow statement as an operating cash flow and concluded that it should now more appropriately be included as a financing cash flow as this provides a better reflection of the current financing position of the Group. This change is presentational only and the change has no impact on any of the primary statements other than the statement of cash flows, nor does it have any impact on the overall net increase in cash and cash equivalents disclosed.

The Group's main development project, Natalka saw an 90% growth in capex in 2016, to $215 million, due to the project execution being relaunched in 2H 2015. In December 2016, construction of the primary crushing and main conveyor complex was completed, while the construction of a crushed ore storage and reclaim facility is progressing as planned. Equipment for the grinding circuit has been installed and construction of power facilities and auxiliary infrastructure is on-going. Currently, deliveries of beneficiation equipment are being carried out. The construction works are expected to continue and expand during 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 project by the end of 2017, followed by a ramp-up period to reach design parameters. Separately, mining at Natalka has been relaunched already in January 2017 (the deposit was previously mined from 2013 through 2014)

Capex at Olimpiada increased to $80 million due to the reconfiguration of Mill-1, which was completed in September 2016. The Group is implementing a project to expand BIOX capacities, which is expected to be completed by end 2017 with sufficient capacity to enable processing of gold in concentrate into doré gold.

At Blagodatnoye, capex rose to $20 million, primarily as a result of projects to upgrade and expand the Mill's processing capacity. The Group completed the first stage of this project, with throughput capacity reaching 8.0 mtpa on an annualised basis. In 2017, the Company expects to stabilise these levels and to increase recoveries. In addition, the Company continued design works related to the heap leach project.

Completion of the first stage of the Mill's capacity expansion project at Verninskoye, with throughput capacity reaching 2.5 mtpa on annualised basis, resulted in capex growth to $24 million. The target designed throughput capacity of 3.0 mtpa is expected to be achieved over several stages during 2017-2018.

Capex at Kuranakh increased to $33 million, largely due to the completion of the first stage of the capacity expansion at Kuranakh Mill. The mill currently opperates at a throughput capacity of 4.5 million tonnes, allowing not only for an increased production volumes but a substantial improvement in the Kuranakh cost profile. The project is expected to be finalized by the end of 2017.

At Alluvials, capex increased to $16 million on the back of higher exploration activity as well as the ongoing worn-out equipment replacement programme.

Capex breakdown[23]

$ mln	2016	2015	Y-o-Y
Natalka	215	113	90%
Olimpiada	80	39	105%
Blagodatnoye	20	13	54%
Verninskoye	24	21	14%
Alluvials	16	5	N.A.
Titimukhta	–	1	(100%)
Kuranakh	33	10	N.A.
Exploration	10	7	43%
Other (including power projects)	70	59	19%
Total	**468**	**268**	**75%**

[23] The capex above presents the capital construction-in-progress unit as allocated to other business units, whilst in the consolidated financial statements capital construction-in-progress is presented as a separate business unit.

Other areas of investing activities in 2016 comprised $138 million of prepayment for the participation in the Sukhoi Log auction and $50 million of interest received. Moreover, $76 million (ca. RUB 4.6 billion) of government grants were received for the construction of “Ust’-Omchug – Omchak” power grid. This amount is a part of RUB 9.9 billion (ca. $164 million) government subsidy, which was granted in September 2016. The construction is expected to be completed in 2019, allowing for electricity cost reduction at Natalka. For more details please refer to Note 19 of the consolidated financial statements.

FINANCING CASH FLOW

In 2016, net financing cash outflow totalled $1,015 million primarily on the back of the share buyback only partially financed by a $2.5 billion 7-year credit facility with PJSC Sberbank. Additionally, an increase in total debt resulted in higher interest payments. On a separate note, the outflow on refinancing of the borrowings with maturity in 2017 – 2019, executed in Q4 2016 in order to increase the share of fixed-rate liabilities, was sourced either by the $500 million Eurobond issue due in 2022 or other bank credit lines.

Recent corporate developments

New dividend policy

On 7 October 2016, the Board of Directors (the "Board") approved the Company's dividend policy, pursuant to which the Company will pay dividends on a semi-annual basis in the 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 dividend payments, 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.

Treasury shares cancelation process

On 22 December 2016, PJSC Polyus' Extraordinary General Shareholder Meeting approved the reorganization of PJSC Polyus by way of a merger of LLC Polyus-Invest into PJSC Polyus and the decrease of PJSC Polyus' charter capital by way of cancellation of PJSC Polyus' ordinary shares held by LLC Polyus-Invest following the completion of the merger. The Group expects 63,082,318 treasury shares held by Polyus Invest LLC to be canceled by the end of June 2017.

PJSC Polyus to become a guarantor under Polyus Gold International Limited's notes

On 23 January 2017, the Board of Directors approved granting of the unconditional and irrevocable guarantee under the guaranteed notes of its controlling shareholder Polyus Gold International Limited ("PGIL"). The USD 500 million 4.699% guaranteed notes due 28 March 2022 (the "Notes") were issued by PGIL on 26 October 2016.

The transaction is in line with the terms and conditions of the Notes, according to which PJSC Polyus was to become a guarantor under the Notes not later than 24 April 2017. The Notes are also guaranteed by JSC "Gold Mining Company Polyus", a key operating subsidiary of PJSC Polyus.

Sukhoi Log Auction Update

On 26 January 2017, the Federal Subsoil Resources Management Agency held an auction for the license for the Sukhoi Log deposit, one of the largest undeveloped gold deposits globally and the biggest gold greenfield in Russia.

According to the information available to the Group, SL Gold Limited Liability Company, a company established by JSC Polyus and LLC "RT Business Development", submitted the highest bid during the auction with a total amount of $153 million (of which $138 million was prepaid by SL Gold Limited Liability Company on 21 December 2016).

On 17 February 2017, the Government of the Russian Federation published a formal announcement of the results of the auction for the license for the Sukhoi Log deposit. According to the Governmental order affirming the results of the auction, SL Gold will be granted the right to develop Sukhoi Log, to include exploration and evaluation works and the extraction of gold and silver. Following the Government's announcement, Rosnedra will issue the license for the Sukhoi Log.

Subject to obtaining the license, the Group intends to conduct additional exploration works and a feasibility study, which will last for approximately three to four years, supported by international mining and engineering consultants. Based on the results of that study, the Group will evaluate options to initiate construction activities at Sukhoi Log.

Taking into account the fact that the Sukhoi Log and Verninskoye deposits' ores have similar mineral and chemical composition, the Group will evaluate the applicability of the processing solutions implemented at Verninskoye to the Sukhoi Log deposit.

PGIL completed $800 million Notes due 2023 issuance

On 7 February 2017, PGIL issued $800 million notes due 7 February 2023 with a coupon of 5.25% per annum. The Notes are guaranteed by JSC "Gold Mining Company Polyus", a 100% subsidiary of the Group. The 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.

Going concern

The financial position of the Group, its cash flows, liquidity position, and borrowing facilities are set out in this MD&A on pages 18 to 20. As at 31 December 2016 the Group held $1,740 million in cash and cash equivalents and bank deposits and had a net debt of $3,241 million, with $659 million of undrawn but committed credit facilities, subject to covenant compliance. Details on borrowings and credit facilities are disclosed in note 18 to the consolidated financial statements. In assessing its going-concern status, the directors have considered the uncertainties affecting future cash flows and have taken into account its financial position, anticipated future trading performance, borrowings, and other available credit facilities, as well as its forecast compliance with the covenants on those borrowings and its capital expenditure commitments and plans. In the event of certain reasonably possible adverse pricing and forex scenarios and the risks and uncertainties below, management has within its control the option of deferring uncommitted capital expenditure, or managing the dividend payment profile to maintain the Group's funding position.

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

Risks and uncertainties

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

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

Starting from March 2014, a number of sanction packages have been imposed by the United States ("US") and the European Union ("EU") on certain Russian officials, businessmen and companies. Over the 2015 the EU and the US announced the extension of sanctions by one year and six months correspondingly. In

March 2016 the US decided not to lift sanctions and extended them by one year. In early July 2016 the EU announced the extension of sanctions by six months. On 19 December 2016, the EU prolonged the economic sanctions targeting specific sectors of the Russian economy until 31 July 2017.

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

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

Commodity price risk

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

Foreign exchange risk

As stated on page 7, the Group's revenue is linked to the USD, as the gold price is quoted in this currency. Thus the Group's strategy is to have mostly USD-denominated debt and to keep its cash and deposits in USD. As of the end of 2016, 86% of the cash and cash equivalents and bank deposits of the Group were in USD – see page 19 of this MD&A for a detailed description. As part of this strategy, the Group entered into a number of cross-currency swaps with leading Russian banks economically to hedge interest payments and the exchange of the principal amounts – see page 17. In order to reduce the adverse effects associated with the changes in the exchange rates of RUB against USD the Group entered into currency collar contracts, which had all matured by 31 December 2015, thus, had no impact on the Group's financials in 2016.

Interest rate risk

The Group is exposed to interest rate risk, as 54% of the Group's debt portfolio is made up of US Dollar floating rate borrowings. Fluctuations in interest rates may affect the Group's financial results. The Group currently is shifting from floating to fixed interest rate on the back of higher finance cost expectations.

Inflation risk

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

Outlook

In 2017, the Group anticipates another year of production growth and expects total gold output to exceed 2.0 million ounces as previously guided and total 2.075-2.125 million ounces.

Management are confident that Polyus has strong opportunity for growth based on its existing portfolio, and that with the development of Natalka the Group will achieve the announced output target of at least 2.7 million ounces by 2020.

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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 & Touche

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

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**

PJSC "POLYUS"

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	Year ended 31 December 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	**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:

	2016	2015
Interest rates on bank deposits denominated in:		
- 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	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	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	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.