POLYUS GOLD
INTERNATIONAL

Polyus Gold International
Management Discussion and Analysis
FY 2014

March 13, 2015

Cautionary statement

This Management report has been prepared solely to provide additional information to shareholders to assess the company's strategies and the potential for those strategies to succeed.

The Management report 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 and 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 Management report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Polyus Gold International Limited and its subsidiary undertakings when viewed as a whole.

Statement of Directors' responsibility

The responsibility statement below has been prepared in connection with the Group's full Annual Report for the year ended 31 December 2014. Certain parts thereof are not included within this announcement.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

The Annual Report and consolidated financial statements of the Group for the year ended 31 December 2014 were approved on 12 March 2015 by the Board of Directors.

On behalf of the Board of Directors:

Pavel Grachev

Chief Executive Officer and Director

London, 12 March 2015.

Highlights

$ mln (if not mentioned otherwise)	FY 2014	FY 2013	y-o-y change	2H 2014	1H 2014
Total gold production (koz)	1,696	1,652	3%	950	746
Gold sold (koz)	1,691	1,631	4%	939	751
Average realised gold price (excl. effect of Strategic Price Protection Programme[1]) ($/oz)	1,275	1,385	(8%)	1,259	1,296
Average realised gold price (incl. effect of Strategic Price Protection Programme) ($/oz)	1,300	1,385	(6%)	1,295	1,306
Total revenue	2,239	2,329	(4%)	1,232	1,007
Operating profit	846	222	281%	568	278
(Loss)/profit from continuing operations	(182)	143	N.M.	(-435)	253
(Loss)/earnings per share – basic and diluted (US cents)	(5)	4	N.M.	(13)	8
Adjusted net profit[2]	615	565	9%	387	228
Adjusted net profit margin (%)	27	24	3 ppts	31	23
Cash and cash equivalents and bank deposits	1,486	857	73%	1,486	1,177
Net cash inflow from operations	809	422	92%	473	336
Capital expenditure	525	1,440	(64%)	238	287
Adjusted EBITDA[3]	1,011	910	11%	618	393
Adjusted EBITDA margin (%)	45	39	6 ppts	50	39
Net debt[4]	327	349	(6%)	327	370
Net debt/adjusted EBITDA (x)	0.32	0.38	(16%)	0.32	0.42
Total cash cost (TCC) per ounce sold ($/oz)[5]	585	707	(17%)	524	662
All-in sustaining cash cost (AISC) per ounce sold ($/oz)[6]	825	1,002	(18%)	760	905

[1] The Strategic Price Protection Programme comprises a series of zero-cost Asian gold collars ("revenue stabiliser") and gold forward contracts.
[2] For a definition and calculation of Adjusted Net profit, see the section Net profit.
[3] "Adjusted EBITDA" is defined by the Group as profit before finance costs, income tax, income/(losses) from investments (including derivatives), depreciation, amortisation and interest, and is further adjusted for certain items included in the table below. 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 year 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.
[4] 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 liability, site restoration and environmental obligations, deferred tax 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 measure of liquidity.
[5] For a definition and calculation of Total cash costs per ounce sold, see the section Total cash costs.
[6] For a definition and calculation of all-in-sustaining costs per ounce sold, see the section All-in-sustaining costs.

FY 2014 – Financial highlights

1. Gold sales up 4% y-o-y to 1,691 koz as a result of the Verninskoye ramp-up and higher output at Olimpiada.
2. Revenue down 4% y-o-y to $2,239 million as a result of a lower average realised gold price.
3. Losses from continuing operations for the period amounted to $182 million, compared to a profit of $143 million in FY 2013, caused by primarily non-cash losses from derivative financial instruments and investments, amounting to $934 million (2013: loss of $5 million).
4. Adjusted net profit amounted to $615 mln, a 9% increase over FY 2013 figure.
5. A non-cash translation loss of $1,751 million due to rapid RUB devaluation.
6. Cash and cash equivalents and bank deposits at the end of FY 2014 amounted to $1,486 million, 73% up from $857 million at the end of FY 2013.
7. Net cash flow of $809 million from operations, up 92% y-o-y due to stringent working capital control and higher operating profit.
8. Capex of $525 million, down 64% y-o-y owing to lower spending on Natalka, tight capital control and rouble depreciation.
9. Adjusted EBITDA up 11% to $1,011 million y-o-y due to the implementation of cost reduction initiatives and the rouble devaluation.
10. Net debt of $327 million at the end of FY 2014, slightly down from $349 million at the end of FY 2013.
11. Net debt/adjusted EBITDA of 0.32x at the end of FY 2014, down from 0.38x at the end of 2013 on higher EBITDA and lower net debt.
12. A special dividend of $500 million announced and paid.
13. TCC fell 17% y-o-y to $585/oz, due to cost-cutting initiatives and the weaker rouble, more than offsetting inflationary pressure.
14. AISC declined 18% y-o-y to $825/oz as a result of the rouble depreciation, the cost optimisation programme, and lower sustaining Capex.

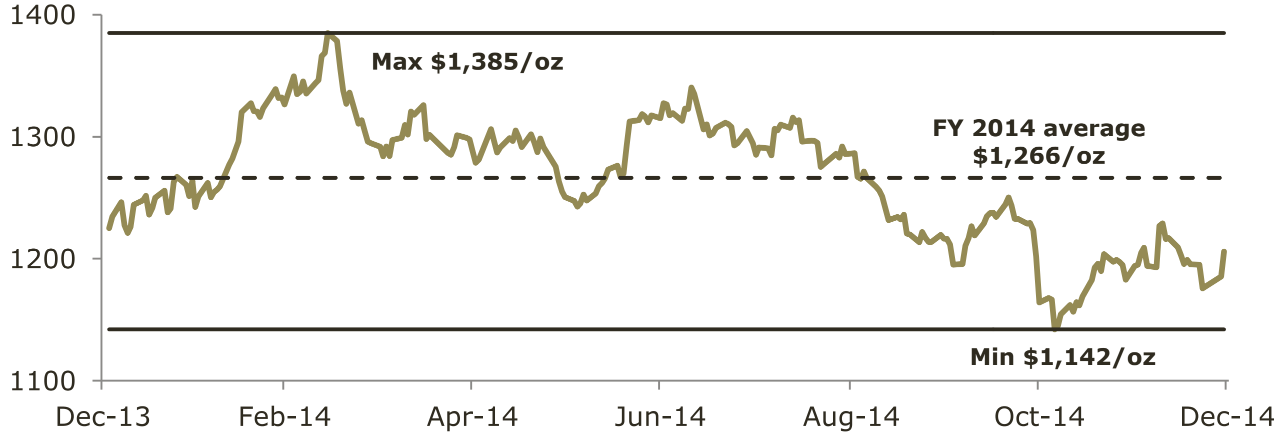
External factors review

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

Gold price dynamics

The market price of gold is a significant factor which influences the Group’s profitability and operating cash flow generation. In FY 2014, the average London Bullion Market Association (LBMA) gold price was $1,266/oz, 10% lower than in FY 2013, when it averaged $1,411/oz.

LBMA gold price dynamics in FY 2014, $/oz

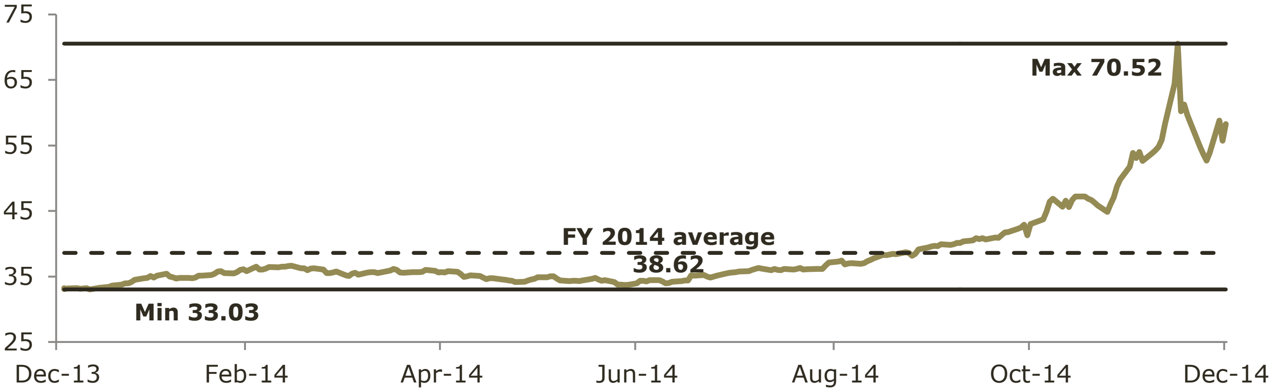


Source: London Bullion Market Association

Rouble exchange rate dynamics

The Group's revenue from gold sales is linked to US dollars (USD), whereas most of the Group’s operating expenses are denominated in Russian roubles (RUB). The strengthening of the RUB against the USD may negatively affect the Group’s margins by increasing the USD value of its RUB-denominated costs, while a stronger USD positively affects the Group’s margins by decreasing the USD value of its RUB-denominated costs. In FY 2014, the average RUB/USD exchange rate was 38.42, compared to 31.85 in FY 2013, representing a 21% y-o-y RUB fall. The combination of sanctions imposed on the Russian economy (related to the Ukrainian conflict) combined with a steep fall in the oil price from $103/bbl to $58/bbl at year-end, caused a sharp decline in the value of the RUB, whose rate fell from RUB33/USD to RUB58/USD by the year-end, or 43%. This fall in the RUB has positively affected the Group’s operating margins in FY 2014, though reduced the Group’s net assets due to the RUB use as the Group’s functional currency.

RUB/USD dynamics, FY 2014



Source: Bloomberg

Inflationary trends

All the Group’s operations are located in Russia. The Russian Consumer Price Index (CPI), calculated by the Central Bank of Russia, increased to 11.4% in FY 2014 compared to 6.5% in FY 2013. Inflation negatively impacts mining operations and increases production costs.

Financial review

Profit and loss statement review

Revenue analysis

	FY 2014	FY 2013	y-o-y change	2H 2014	1H 2014
Gold sales ($ mln)	2,197	2,259	(3%)	1,216	981
Gold sales (koz)	1,691	1,631	4%	939	751
Average realised gold price (excl. effect of Strategic Price Protection Programme, SPPP) ($/oz)	1,275	1,385	(8%)	1,259	1,296
Average realised gold price (incl. effect of SPPP) ($/oz)	1,300	1,385	(6%)	1,295	1,306
Average afternoon gold LBMA price fixing ($/oz)	1,266	1,411	(10%)	1,243	1,291
Premium/(discount) of av. selling price (incl. effect of SPPP) over/(under) av. LBMA price fixing ($/oz)	34	(26)	N.M.	52	15

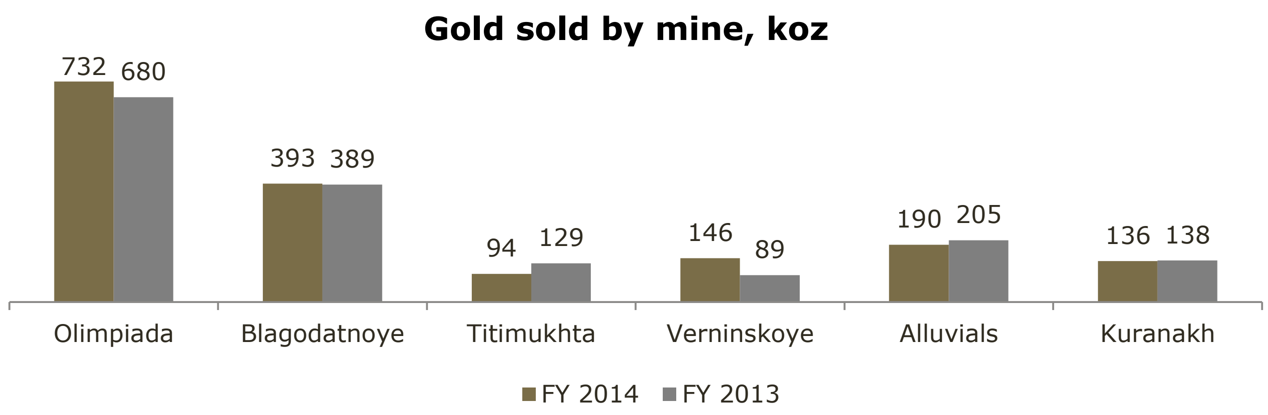
The Group's revenue from gold sales in FY 2014 was down 3% y-o-y, to $2,197 million, as a result of lower gold prices, while sales volumes increased by 4% y-o-y to 1,691 koz. The average realised gold price in FY 2014 amounted to $1,300/oz, down 6% y-o-y. The decrease could have been steeper (the average LBMA price in FY 2014 fell 10% y-o-y to $1,266/oz), but the Group benefited from the Strategic Price Protection Programme (SPPP), which was launched by the Group in July 2014 and set the price floor for a significant amount of gold sold. The positive effect of the SPPP on the FY 2014 average selling price amounted to $25/oz. The Group's FY 2014 average selling price was $34/oz higher than the average LBMA price for the period, compared to a $26/oz discount in FY 2013.

Mine-by-mine gold sales were broadly in line with the production performance of each asset, with no serious delays in sales volumes being registered at the Group's operations in FY 2014.

Revenue breakdown by mine, FY 2014

$ mln	Olimpiada	Blagodatnoye	Titimukhta[7]	Verninskoye	Alluvials	Kuranakh	Other
Gold sales	961	517	124	186	234	175	0
Other sales				6	10	5	21
Total sales	**961**	**517**	**124**	**192**	**244**	**180**	**21**

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



Cash costs analysis

Cost of sales breakdown

$ mln	FY 2014	FY 2013	y-o-y change	2H 2014	1H 2014
Cash operating costs	**1,020**	**1,268**	**(20%)**	**480**	**540**
Depreciation and amortisation (D&A) of operating assets	174	209	(17%)	71	103
Total cost of production	**1,194**	**1,477**	**(19%)**	**551**	**643**
Increase in gold-in-process and refined gold	(20)	(130)	(85%)	24	(44)
Cost of gold sales	**1,174**	**1,347**	**(13%)**	**575**	**599**

In FY 2014 the Group's cash operating costs were down 20% to $1,020 million, vs. $1,268 million in FY 2013. Major contributors to the overall decrease, as seen in the table below, were labour, consumables and fuel.

Cost reduction initiatives and the RUB weakening against the USD were drivers behind the decline of each cost item. Both factors helped offset an increase in expenses caused by higher sales volumes in FY 2014.

Cash operating costs breakdown by item

$ mln	FY 2014	FY 2013	y-o-y change
Labour	320	386	(17%)
Consumables and spares	281	359	(22%)
Tax on mining	154	166	(7%)
Fuel	131	184	(29%)
Power	44	58	(24%)
Outsourced mining services	19	26	(27%)
Other	71	89	(20%)
Total	**1,020**	**1,268**	**(20%)**

A sharp devaluation in the RUB in 2H 2014 played a key role in the overall costs decline, and the implementation of the full-scale cost optimisation programme also had a major positive impact.

The Group's labour expenses decreased, primarily due to the deployment of a headcount optimisation programme, changes in bonus payments at the Krasnoyarsk Business Unit, an increase in the engagement of third-party contractors at Alluvials' remote locations, and stringent control over salaries across all operations.

Consumables and spares' consumption was reduced, due to optimisation of the bio-oxidation process at Olimpiada, stabilisation of mill processing rates and reagents' consumption at Verninskoye, reduction of purchase prices for major consumables (cyanide, grinding balls, activated carbon) at the Krasnoyarsk Business Unit and Kuranakh, and a Group-wide reassessment of planned maintenance and repair works.

Fuel costs fell significantly due to lower transportation volumes at Alluvials following idling at several high-cost mining areas and a decrease in transportation volumes at Kuranakh and Titimukhta as a result of lower mining volumes.

Overall, power costs were negatively impacted by an annual tariffs indexation and higher ore processing volumes at Verninskoye; however, the management of the mine mitigated this negative impact by reducing the consumption of self-generated high-cost diesel power.

Outsourced mining services comprised sand washing at Alluvials and rock mass transportation at Kuranakh, both of which were reduced due to the optimisation of mining volumes at these mines.

Other costs were down as a result of the RUB weakening, as well as the optimisation of logistics and lower rent, security, and utilities expenses.

Cash operating costs breakdown by Business unit

$ mln	Krasnoyarsk FY 2014	Krasnoyarsk FY 2013	Verninskoye FY 2014	Verninskoye FY 2013	Alluvials FY 2014	Alluvials FY 2013	Kuranakh FY 2014	Kuranakh FY 2013
Labour	151	190	31	33	55	72	34	42
Consumables and spares	217	291	37	32	20	20	24	35
Tax on mining	117	126	10	11	14	15	12	14
Fuel	71	99	11	14	24	31	15	21
Power	23	25	4	4	7	9	17	18
Outsourced mining services	0	0	0	0	17	23	3	3
Other	90	108	11	10	4	9	14	23
Total	**669**	**839**	**104**	**104**	**141**	**179**	**119**	**156**

The largest savings at Krasnoyarsk were achieved in consumables and spares and labour, due to the implementation of mill productivity initiatives leading to lower unit consumption rates and maintenance costs, reagents' price reductions, headcount optimisation and a weaker RUB.

Verninskoye costs remained largely flat y-o-y, despite a 35% y-o-y growth in ore-processing volumes owing to the stabilisation of mill processing rates and reagents' consumption, combined with cost reductions across the production flow.

Alluvials reduced costs, chiefly due to the optimisation of its production areas portfolio and a reduction in mining expenses at remote locations.

Kuranakh reduced its expenses, notwithstanding inflationary trends in power and labour costs due to the optimisation of mining works, heightened control over consumables, the reorganisation of procurement logistics, and purchase price reduction initiatives.

Selling, general and administrative expenses

In FY 2014 the Group's selling, general and administrative expenses (SG&A) expenses were down 19% compared to FY 2013, to $183 million due management's efforts to reduce expenses and the weaker rouble. In particular, a material reduction was accomplished in professional services, which were down 24% y-o-y. Part of previously outsourced professional services at Verninskoye and Alluvials were substituted by in-house expertise, while administrative logistics were optimised at Kuranakh.

SG&A breakdown by item

$ mln	FY 2014	FY 2013	y-o-y change	2H 2014	1H 2014
Salaries	124	151	(18%)	60	64
Taxes other than mining and income taxes	22	25	(12%)	10	12
Professional services	16	21	(24%)	10	6
Amortisation and depreciation	4	5	(20%)	2	2
Other	17	24	(32%)	9	8
Total	**183**	**226**	**(19%)**	**91**	**92**

The major component of SG&A continued to be salaries, which fell 18% y-o-y. In addition to a positive effect from a weaker RUB, the reduction was achieved through the optimisation of management compensations across the Group, as well as the closure of administrative units at Alluvials' remote locations.

Total cash costs (TCC)

TCC calculation

$ mln	FY 2014	FY 2013	y-o-y change	2H 2014	1H 2014
Cost of gold sales	1,174	1,347	(13%)	575	599
– property, plant and equipment depreciation	(174)	(209)	(17%)	(71)	(103)
– provision for annual vacation payment	1	(1)	N.M.	4	(3)
– employee benefit obligations cost	(1)	(5)	(80%)		(1)
– change in allowance for obsolescence of inventory	(14)	3	N.M.	(11)	(3)
+ non-monetary changes in inventories	3	18	(83%)	(5)	8
TCC	**989**	**1,153**	**(14%)**	**492**	**497**
Gold sold (koz)	1,691	1,631	4%	939	751
TCC per ounce sold ($/oz)	**585**	**707**	**(17%)**	**524**	**662**

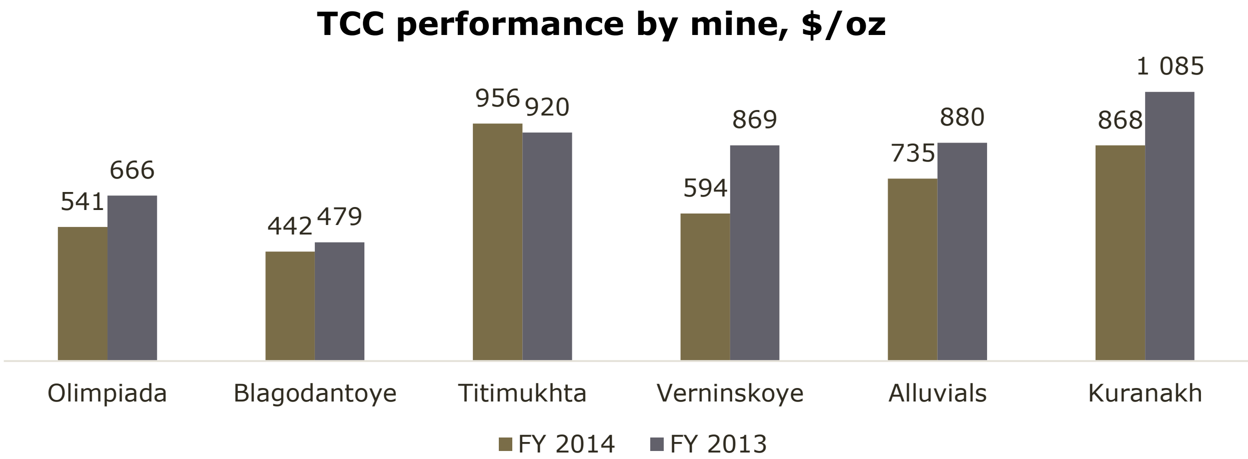
The Group's TCC decreased by 17% in FY 2014 to $585/oz, compared to $707/oz in FY 2013. As seen below, all mines, with the exception of Titimukhta, contributed to the overall cost decrease, reflecting the implementation of cost-reduction initiatives, a weaker RUB, and higher production volumes offset by accelerating inflation.

The most significant unit cost reduction in the reporting period occurred at Verninskoye (down 32% y-o-y) due to the RUB devaluation and economies of scale as the mine reached its throughput design parameters at the end of FY 2013 and operated at nameplate capacity throughout FY 2014, boosting its gold output by 64% y-o-y, which was also achieved through improvements in the processing flow and substantial progress in recoveries.

Another substantial TCC decrease was registered at Alluvials (down 16% y-o-y), as a number of high-cost mining areas were idled, while stripping works were optimised and mining expenses at remote locations were reduced.

The cost reduction initiatives at Titimukhta were partially offset by lower grades and thus ore-processing volumes, leading to a 4% y-o-y increase in TCC.

Cost reductions at Olimpiada, Blagodatnoye and Kuranakh came from the optimisation of mining and processing works, lower unit consumption rates, declines in maintenance costs and reagents' prices, the reorganisation of procurement logistics, and headcount optimisation.



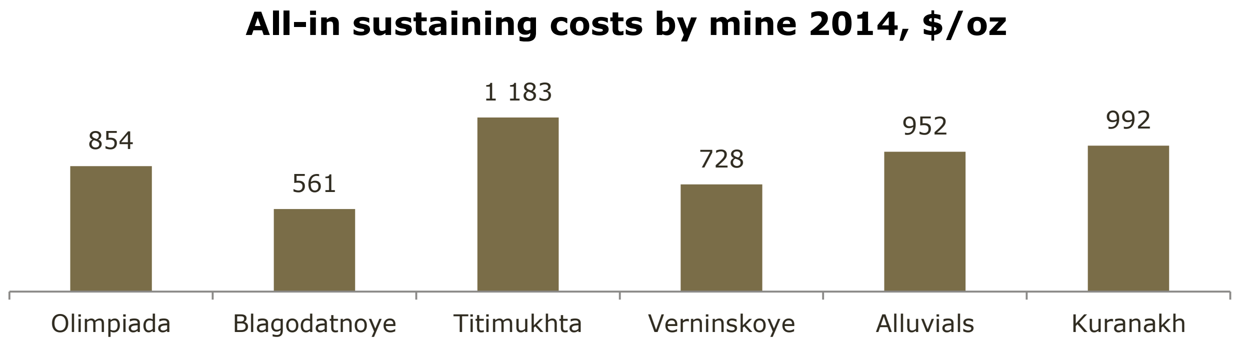
All-in sustaining costs (AISC)

As with the TCC reduction, the Group's AISC dropped substantially: from $1,002/oz in FY 2013 to $825/oz in the reported period, or by 18% y-o-y. Lower AISC were driven by the decrease in TCC described in the section above, as well as lower SG&A and sustaining Capex. The latter dropped 53% y-o-y to $99 million, but this was partially offset by increased stripping activity asset additions, which were up 187% y-o-y due to large-scale stripping works at Olimpiada.

In 2H 2014 AISC fell to $760/oz, making the Group one of the lowest-cost gold producers globally.

All-in sustaining costs calculation

$ mln	FY 2014	FY 2013	y-o-y change	2H 2014	1H 2014
Total TCC	989	1,153	(14%)	492	497
+ Selling, general and administrative expenses	183	226	(20%)	91	92
less: amortisation and depreciation	(4)	(4)	0%	(2)	(2)
+ research expenses and other sustain expenses	0	2	N.M.		0
+ stripping activity asset additions	109	38	187%	89	20
+ sustaining capital expenditures	99	210	(53%)	35	64
+ unwinding of discounts on decommissioning liabilities	4	5	(20%)	2	2
Adding back expenses excluded from costs of gold Sales (COGS)					
+ provision for annual vacation payment	(1)	1	N.M.	(4)	3
+ employee benefit obligations cost	1	5	(80%)		1
+ change in allowance for obsolescence of inventory	14	(3)	N.M.	11	3
Total all-in sustaining costs	**1,394**	**1,633**	**(15%)**	**714**	**680**
Gold sold (koz)	1,691	1,631	4%	939	751
All-in-sustaining cost ($/oz)	**825**	**1,002**	**(18%)**	**760**	**905**

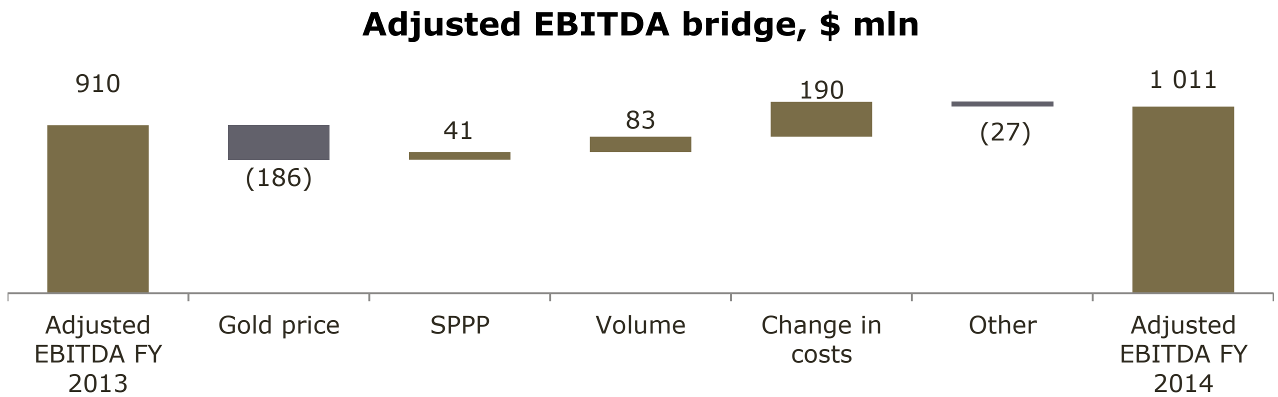


Adjusted EBITDA

The Group's adjusted EBITDA advanced 11% y-o-y to $1,011 million in FY 2014, with the adjusted EBITDA margin progressing 6 ppts y-o-y to 45% (in 2H 2014 the EBITDA margin reached 50%). The y-o-y increase was achieved through strict cost control measures, the weaker local currency, and a positive effect from the Strategic Price Protection Programme amounting to $41 million.

Adjusted EBITDA calculation

$ mln	FY 2014	FY 2013	y-o-y change	2H 2014	1H 2014
Operating profit/ (loss) for the year	**846**	**222**	**281%**	**568**	**278**
Depreciation and amortisation	174	214	(19%)	67	107
(Reversal of impairments)/ impairments	(17)	472	N.M.	(25)	8
Other	8	2	N.M.	8	
Adjusted EBITDA	**1,011**	**910**	**11%**	**618**	**393**
Adjusted EBITDA margin (%)	45	39	6 ppts	50	39



Worth noting is that all the Group's mines delivered a positive EBITDA result. The Titimukhta result is especially remarkable, as the mine registered a $2 million EBITDA loss in 1H 2014. Our lowest-cost mines Olimpiada and Blagodatnoye continued to be the largest contributors to the Group's earnings, although Verninskoye has been progressing well and it is expected to deliver a stronger result in FY 2015 following its achieving nameplate throughput capacity and the anticipated achievement of design recovery parameters in FY 2015.

FY 2014 adjusted EBITDA breakdown by mine, $ mln

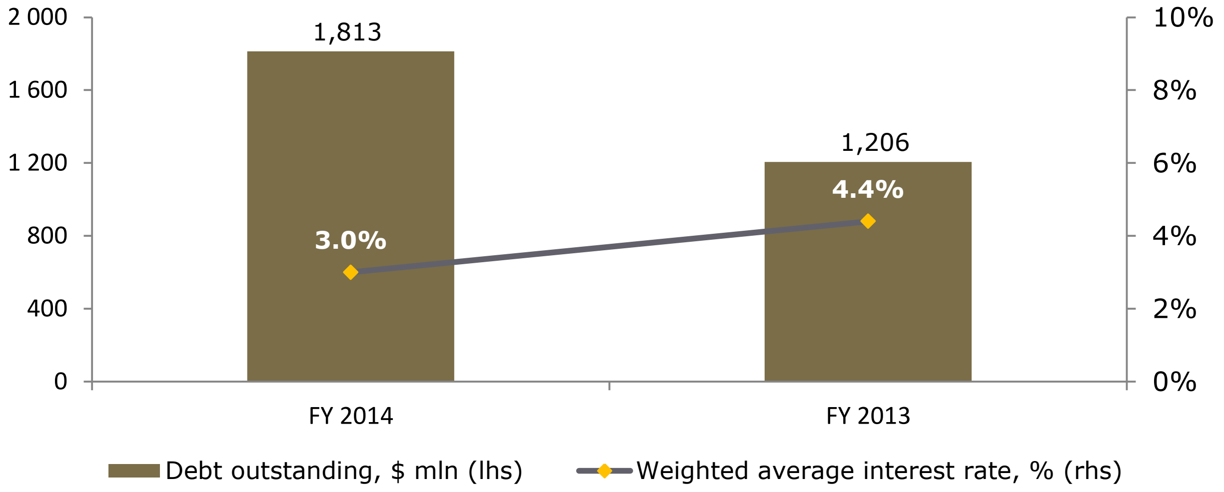
$ mln	FY 2014	FY 2013	y-o-y change
Olimpiada	490	418	17%
Blagodatnoye	305	309	(1%)
Titimukhta	27	46	(41%)
Verninskoye	89	37	141%
Alluvials	70	80	(13%)
Kuranakh	50	29	72%
Other	(20)	(8)	150%
Total	**1,011**	**910**	**11%**

Finance cost analysis

$ mln	FY 2014	FY 2013	y-o-y change
Interest on borrowings	100	43	133%
Gain on exchange of interest payments under cross currency swap	(16)	-	N.M.
Gain on exchange of interest payments under interest rate swaps	(4)	-	N.M.
Unwinding of discounts on decommissioning liabilities	4	5	(20%)
Other	2	-	N.M.
Sub-total finance cost	**86**	**48**	**79%**
Interest capitalised in the cost of mine under development and capital construction-in progress	(60)	(34)	76%
Total finance cost expensed	**26**	**14**	**86%**

The Group's total finance costs in FY 2014 amounted to $26 million, as compared to $14 million in FY 2013. Capitalised interest amounted to $60 million in FY 2014, compared to $34 million in FY 2013. Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps), amounted to $80 million in FY 2014, compared to $43 million in FY 2013. The increase in interest payments resulted from higher gross debt, while the average interest rate was down to 3.0%, as compared to 4.4% in FY 2013, primarily as a result of the effect from cross-currency and interest rate swaps.

Weighted average interest rate dynamics



Foreign exchange gain and derivatives

The Group's foreign exchange gain in FY 2014 amounted to $123 million, compared to $4 million in FY 2013. The reasons for the increase were the effect of revaluation of USD-denominated bank deposits as the functional currency of the Group is RUB and the capitalization of forex loss on USD-denominated loans for Natalka construction.

As stated above, in July 2014 the Group initiated the SPPP (Strategic Price Protection Programme) comprised of a series of zero cost Asian gold collars ("revenue stabiliser") and gold forward contracts.

Valuation and hedge accounting of derivative financial instruments (as at 31 December 2014)

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

Revenue stabiliser

The revenue stabiliser component represents a series of zero-cost Asian barrier collar agreements to purchase put options and to sell call options with "knock-out" and "knock-in" barriers. Initially, revenue stabiliser agreements are recognised at cost, with subsequent revaluation to fair value using the Monte Carlo simulation method. Input data used in the valuation model (forward gold prices and volatility) corresponds to level 2 of the fair value hierarchy in IFRS 13.

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

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

Forward contracts

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

The positive effect from gold forward contracts in FY 2014 totalled $6.1 million, as gold traded below the fixed contract price of $1,321/oz.

The combined effect of gold-linked derivatives (Revenue stabiliser and Forward contracts) amounted to $41.1 million.

Currency collars

During the year, in order to reduce the adverse effects from changes in the exchange rate of the RUB against the USD, the Group simultaneously purchased put options and sold call options for a total amount of $1,900 million, with the exercise dates throughout:

- September 2014 to August 2015: exchange rates for puts 36.83 RUB/USD and for calls 40.06 RUB/USD

- September 2015 to December 2015: exchange rates for puts 38.21 RUB/USD and for calls 40.65 RUB/USD

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

Contrary to the Group's and consensus expectations, the RUB lost materially in value in 2H 2014. The combination of sanctions imposed on the Russian economy related to the Ukrainian conflict and the steep fall in the oil price, from $108/bbl in July 2014 to $58/bbl at year-end, caused a substantial decline in the value of the RUB, whose rate fell from RUB33/USD at the beginning of FY 2014 to RUB58/USD at the year-end, or 43%.

As a result of the currency-collar transactions the Group is not fully benefitting from the RUB devaluation at the cash flow level.

Currency collars do not qualify as hedges under IFRS, but represent effective economic hedges on the cash flow in the opinion of management.

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

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

Cross-currency swaps

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

The positive effect from the swaps in FY 2014 reached $16.2 million, with the negative impact from the significant RUB depreciation in Q4 2014 being more than offset by the lower obtained rate (effective USD interest rate of 2.70%, compared to the initial 10.35% RUB rate). This was recorded as a gain on the exchange of interest payments under Cross-currency Swaps in Finance Costs.

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

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

Interest rate SWAP

In 1H 2014 the Group entered into an interest rate swap agreement with banks, under which the Group will pay semi-annually and until 29 April 2020 LIBOR+Margin of 3.55% in USD in respect of a $750 million Eurobonds nominal amount, while receiving 5.625% in USD. The purpose of this swap was to decrease the effective interest rate for the $750 million Eurobonds.

The positive effect from the swap in FY 2014 amounted to $3.6 million, as the effective interest rate on the Eurobonds resulted in a rate of 3.83%, compared to the fixed 5.625% obtained at the Eurobonds' placement. This was recorded as a gain on the exchange of interest payments under Interest Rate Swaps in Finance Costs.

Income taxes

The Group's overall income taxes amounted to $222 million in FY 2014. The major reason for the income tax y-o-y increase was the $185 million allowance for deferred tax assets on derivatives, due to the recognition of several taxes as non-recoverable. For the reconciliation of the income taxes calculation see note 13 in the Financial Statements.

Impairments

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

There are a number of subjective factors that are necessarily incorporated into such a review, both operational and financial, using the best evidence available. The values derived are particularly sensitive to the assumptions regarding the planned mining operations and flowsheet and the financial assumptions for the RUB/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 our mining consultants and incorporate screening techniques including photometric separation.

The financial assumptions include significant judgements associated with forecast gold prices determined at a volatile time for our markets. For instance, RUB has varied between 36 Roubles to USD in August 2014 to 69 in January 2015, and gold prices have been above $1,800/oz and below $1,200/oz over the past 4 years.

The key long term assumptions that were used in the impairment testing were a weighted average long term gold price of $1,294/oz, exchange rate of 68 RUB for 1 USD and a post-tax discount rate of approximately 9%. The assumptions are provided in real terms. The impairment test is particularly sensitive to the assumption for the RUB/USD exchange rate, gold price and discount rate. An impairment would be required:

- if the Rouble strengthened to above 55 RUB for 1 USD; or
- if the gold price decreased below $1,114/oz; or
- if the discount rate increased above 14%.

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

Net profit

The Group's loss for the period amounted to $182 million, compared to a profit of $143 million in FY 2013. The result was impacted by the effect of derivatives and investments and non-cash Forex-related items. Regarding the FX impact, the Group registered an FX gain of $123 million in FY 2014. Adjusting for those non-cash items, the Group's net profit for FY 2014 stands at $615 million.

Adjusted Net profit calculation

$ mln	FY 2014	FY 2013	y-o-y change	2H 2014	1H 2014
Net profit	(182)	143	N.M.	(435)	253
+ (reversal of impairment)/impairment	(17)	472	N.M.	(25)	8
+ impact from derivative financial instruments and Forex	811	1	N.M.	852	-41
+ deferred income tax related to one-off items	3	(51)	N.M.	(5)	8
Adjusted net profit	**615**	**565**	**9%**	**387**	**228**

Statement of financial position review

Translation loss

The devaluation of RUB in 2014 has resulted in a significant translation loss of $1,751 million being recorded in the period, which has resulted in our net assets reducing by 59% due to presenting our financial position at the year-end spot rate. Of this amount, $743 million related to mine under development, $646 million to property, plant and equipment and the remaining amounts related to working capital accounts, borrowings, capital construction in progress and other items. This was due to a y-o-y change in the RUB/USD exchange rate.

Debt

As of 31 December 2014, the Group's gross debt amounted to $1,813 million, 50% above the $1,206 million at the end of FY 2013[8]. Only 5% of gross debt ($90 million) was short-term, with the balance long-term, thus reflecting the Group's robust liquidity position.

The $750 million in Eurobonds continued to account for a large proportion of the debt. Bank loans accounted for 52% of the debt portfolio, dominated by the credit facility from Sberbank for RUB36 billion, obtained in April 2014.

Debt breakdown by type

$ mln	FY 2014	1H 2014	FY 2013
Eurobonds	745	745	744
ECA financing	14	20	26
Deferred payments under letters of credit	107	164	216
Bank loans	947	618	220
Total	**1,813**	**1,547**	**1,206**

Currency-wise the Group's debt was mostly USD-denominated, reflecting a large portion of the USD Eurobonds. As mentioned above in the Cross-currency swaps section, the RUB 36 billion credit facility from Sberbank obtained in April 2014 was economically hedged via cross-currency swaps.

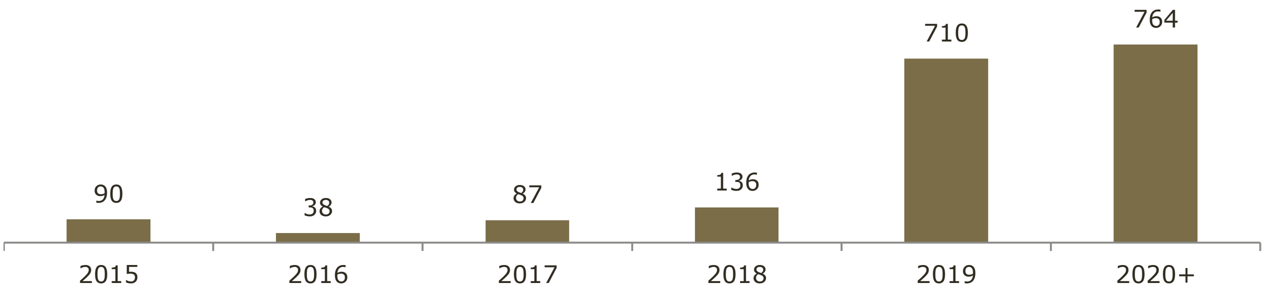
Debt breakdown by currency

$ mln	FY 2014	1H 2014	FY 2013
EUR	69	120	125
RUB	596	527	0
USD	1,148	900	1,081
Total	**1,813**	**1,547**	**1,206**

[8] The debt figure excludes liabilities arising from derivative financial instruments, discussed above in the section Foreign exchange gain and derivatives.

Debt maturity schedule[9], $ mln

The Group's debt repayment schedule remains very comfortable until 2019–2020, when several bank loans and the Eurobond issue mature. Prior to that, in 2015–2018 the repayments amount to $351 million, accounting for 24% of the Group's cash position by the end of FY 2014.



Cash and cash equivalents and bank deposits

As of 31 December 2014, the Group's cash and cash equivalents amounted to $1,217 million, up 50% from a year ago. The amount of bank deposits increased to $269 million, from $48 million. Thus the overall total cash position was at $1,486 million, representing a 73% increase over FY 2013. The Group believes that such a sizeable cash position is vital in the current turbulent market and geopolitical environment with limited access to capital. The Group's cash position is dominated by the USD, as revenue is fully linked to the USD-nominated gold price, while the RUB exchange rate is subject to significant volatility.

Cash, cash equivalents and bank deposits breakdown by currency as at 31 Dec 2014

$ mln	FY 2014	1H 2014	FY 2013
RUB	63	241	574
USD	1,406	936	282
EUR	17	0	1
Total	**1,486**	**1,177**	**857**

Net debt

As of 31 December 2014, the Group's net debt stood at $327 million, slightly down when compared with the end of 1H 2014 and FY 2013. The level of net debt remained stable over the course of FY 2014, despite the payment of a $500 million special dividend in the end of the reporting year.

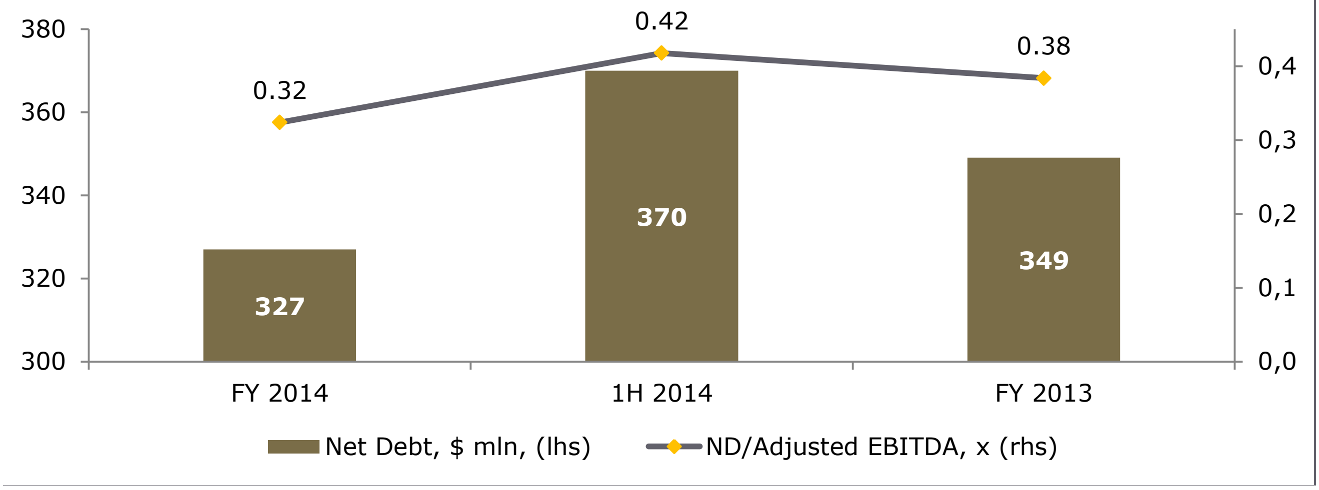
[9] The breakdown is based on actual maturities and excludes $13 million of bank commissions included in borrowings, in accordance with IFRS.

Net debt evolution

$ mln	FY 2014	1H 2014	FY 2013
Non-current borrowings	(1,723)	(1,390)	(937)
+ Current borrowings	(90)	(157)	(269)
– Cash and cash equivalents	1,217	875	809
– Bank deposits	269	302	48
Net debt	**(327)**	**(370)**	**(349)**

The Group's covenant net debt/adjusted EBITDA ratio remained largely unchanged in FY 2014, down to 0.32x at the year-end.

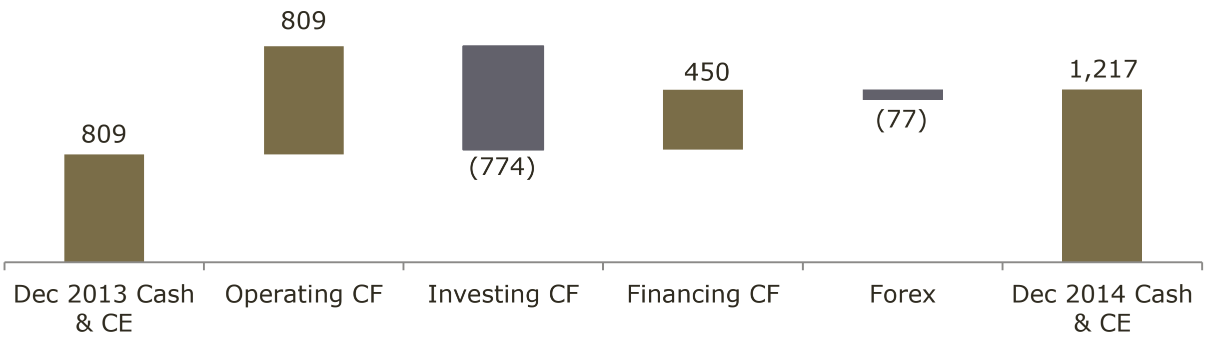
Net debt and net debt/adjusted EBITDA evolution



Cash flow review

The Group's operating cash flow in FY 2014 was solid at $809 million, fully covering the Group's Capex of $525 million. Cash utilised in investing activities amounted to $774 million, compared to $1,023 million in FY 2013. The net increase in bank deposits in FY 2014 amounted to $227 million, while in the previous year there was a net decrease of $39 million. Higher operating cash, coupled with $373 million from financing cash flow and Forex, led to a $408 million increase in cash and cash equivalents to $1,217 million. This figure would have been higher but for the $227 million increase in bank deposits, reflecting a technical reallocation of the Group's liquidity into a different category which is not treated as cash and cash equivalents.

FY 2014 cash flow bridge, $ mln



Operating cash flow

The Group generated robust operational cash flow in FY 2014 of $809 million, almost double the level seen in FY 2013 of $422 million. This resulted from both higher operating cash flow and a release of working capital of $30 million, as compared to a build-up in working capital of $284 million in FY 2013. Working capital management remains a primary focus of the Group and will remain under strict control going forward.

Capex

The Group's Capex in FY 2014 was $525 million, down 64% from $1,440 million in FY 2013. The major reasons behind such a significant decrease were lower investment in the Natalka project, strict control over expenses, including development and maintenance Capex, and RUB depreciation.

The Group spent $310 million on Natalka in FY 2014, which was below the initial plan. The lower investments came from the weaker RUB, a decision to reconsider the Group's options with regards to the project development and slow down construction works significantly since November 2014. The project's operational review is anticipated to be completed in the middle of FY 2015.

Spendings on Olimpiada declined 62% y-o-y, as a number of development projects begun in FY 2013, including the automation of the mill, were completed in 1H 2014.

Blagodatnoye Capex decreased to $17 million, down 69% compared to FY 2013 Capex, as the latter included construction of a large dormitory for personnel.

Verninskoye Capex was lower y-o-y, as major construction works at the mine were completed in FY 2013.

Other projects' Capex remained broadly unchanged y-o-y, as the construction of the Peleduy-Mamakan grid, the major component of this item, continued in FY 2014.

FY 2013/FY 2014 capex breakdown[10]

$ mln	FY 2014	FY 2013	y-o-y change	2H 2014	1H 2014
Natalka	310	1,059	(71%)	138	172
Olimpiada	56	146	(62%)	18	38
Blagodatnoye	17	54	(69%)	4	13
Verninskoye	38	53	(28%)	26	12
Alluvials	17	18	(6%)	2	15
Titimukhta	6	2	200%	0	6
Kuranakh	6	16	(63%)	4	2
Exploration	6	26	(77%)	1	5
Other (incl. power projects)	69	66	5%	45	24
Total	**525**	**1,440**	**(64%)**	**238**	**287**

Financing cash flow

The Group's financing cash flow in FY 2014 was $450 million, a 9% decrease from $493 million in FY 2013. The major reason for this y-o-y drop was higher dividend payments and a larger amount of repaid borrowings in FY 2014, partially offset by the increase of proceeds from borrowings.

[10] For the MD&A purposes Capex considers allocation of Capital Construction unit by other business units compared with the Consolidated Financial Statements where Capital Construction is presented as a separate business unit.

Related-party transactions

Related-party transactions are disclosed in note 30 to the consolidated financial statements. The Group had no transactions with its shareholders during FY 2014 and FY 2013.

Going concern

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in this MD&A on pages 21 to 25. As at 31 December 2014, the Group held $1.5 billion of cash and had net debt of $327 million with $700 million of undrawn but committed facilities available subject to covenant compliance. Details on borrowings and credit facilities are disclosed in note 26 of the financial statements. In assessing its going concern status, the directors have considered the uncertainties affecting future cash flows and have taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. In the event of certain adverse pricing scenarios and the risks and uncertainties below, management has within its control the option of deferring uncommitted capital expenditure to maintain the Group's funding position.

Having examined all scenarios the Group also concluded, that no covenants are breached in any of these adverse pricing scenarios. Accordingly, the Board is satisfied that the Group's forecasts and projections, having taken account of reasonably possible changes in trading performance, show that the Group have adequate resources to continue in operational existence for at least the next 12 months from the date of this report and that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2014.

Risks and uncertainties

Emerging markets, such as the Russian Federation, are subject to additional risks compared to more developed markets, including economic, political and social, legal and legislative risks. Laws and regulations affecting businesses in the Russian Federation continue to change rapidly; tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory and political environment.

Starting from March 2014, a number of sanction packages have been imposed by the US and the EU on certain Russian officials, businessmen and companies. In addition, in April 2014 the credit agency Standard & Poor's downgraded Russia's long-term foreign currency sovereign rating from BBB to BBB- with a negative outlook. Previously, Fitch credit agency had also revised Russia's creditworthiness outlook from stable to negative. These events, including the official sanctions, particularly if further extended, may adversely affect the Russian economy through reduced access for Russian businesses to international capital and export markets, capital flight, weakening of the rouble, and other negative economic consequences. The impact of these developments on the operations and financial position of the Group is at this stage difficult to predict, but is actively monitored including the availability of relevant operating equipment.

The directors do not consider that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 December 2013, other than the abovementioned sanctions against the Russian Federation.

The Group's activities expose it to a variety of financial risks, which are discussed in detail 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. The Audit and Risk Committee assists the Board with its review of the effectiveness of the risk management process, and monitoring of key risks and mitigations.

Commodity price risk

The Group's earnings are exposed to price movements of gold, which is the Group's main source of revenue. The Group sells most of its gold output at prevailing market prices. However to protect its earnings and balance sheet from a potential significant fall in gold prices the Group initiated a Strategic Price Protection Programme (SPPP), which includes gold collars and gold forward contracts. A detailed discussion on SPPP is provided on page 16 of this MD&A.

Foreign exchange risk

As stated on page 6 in the MD&A section, the Group's revenue is linked to USD, while most of the Group's operating expenses are denominated in RUB. 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 are discussed on page 17 of this MD&A. As most of the Group's debt is denominated or linked to USD, the Group strategy is to keep its cash and deposits in USD – as at the end of FY 2014 95% of cash and cash equivalents and bank deposits of the Group were in USD, 1% in EUR and 4% in RUB – please refer to page 22 of this MD&A for a detailed discussion on this.

Interest rate risk

The Group is exposed to interest rate risk, as a significant part of the Group's debt portfolio is US Dollar floating rate borrowings. Fluctuations in interest rates may affect the Group's financial result. In order to obtain a floating rate in exchange for a fixed rate on its $750 million Eurobonds the Group entered into interest rate swaps, which are discussed on pages 18-19 of this MD&A.

Inflation risk

As stated on page 7 in the MD&A section, the Group's earnings are exposed to inflationary trends in Russia and inflation negatively impacts the Group's earnings increasing future operational costs. To mitigate RUB inflation risk the Group estimates possible inflation levels and incorporates them into its cost planning, has implemented cost reduction initiatives at its operations, and the Group's treasury function is responsible for ensuring that the majority of cash and cash equivalents are held in USD.

Outlook

The Group plans to produce 1.63-1.71 moz of gold in FY 2015. The Group is satisfied with the production and financial results achieved during FY 2014 and will continue to focus on the improvement of the operational and financial efficiency of its operations.

According to GFMS forecast[11], in FY 2015 Polyus Gold will move to the first decile on the global TCC curve, as a result of cost cutting, operational improvements and RUB devaluation.

[11] Source: https://gfmsonline.com/

Polyus Gold International Limited

Consolidated financial statements for the year ended 31 December 2014

Polyus Gold International Limited

Consolidated financial statements for the year ended 31 December 2014

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Polyus Gold International Limited

Consolidated statement of profit or loss for the year ended 31 December
(in millions of US Dollars, except for earnings per share data)

	Notes	2014	2013
Continuing operations			
Gold sales	6	2,197	2,259
Other sales		42	70
Total revenue		**2,239**	**2,329**
Cost of gold sales	7	(1,174)	(1,347)
Cost of other sales		(33)	(47)
Gross profit		**1,032**	**935**
Selling, general and administrative expenses	8	(183)	(226)
Other expenses, net	9	(20)	(15)
Reversal of impairment / (impairment losses)	10	17	(472)
Operating profit		**846**	**222**
Finance costs	11	(26)	(14)
Interest income on bank deposits		31	27
Loss on derivative financial instruments and investments, net	12	(934)	(5)
Foreign exchange gain		123	4
Profit from continuing operations before income tax		**40**	**234**
Income tax expense	13	(222)	(91)
(Loss) / profit from continuing operations		**(182)**	**143**
Profit from discontinued operations	5	-	6
(Loss) / profit for the year		**(182)**	**149**
(Loss) / profit for the year from continuing operations attributable to:			
Shareholders of the Company		(164)	134
Non-controlling interests		(18)	9
		(182)	**143**
Profit for the year from discontinued operations attributable to:			
Shareholders of the Company		-	6
Non-controlling interests		-	-
		-	**6**
Number of ordinary shares in issue during the year (million)		3,032	3,032
(Loss) / earnings per share (US Cents) from continuing operations, basic and diluted[1]		(5)	4
Earnings per share (US Cents) from discontinued operations, basic and diluted[1]		-	-

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

Polyus Gold International Limited

Consolidated statement of comprehensive income for the year ended 31 December
(in millions of US Dollars)

		2014	2013
(Loss) / profit for the year		**(182)**	**149**
Other comprehensive loss for the year			
Items that may be subsequently reclassified to profit or loss:			
Increase in revaluation of cash flow hedge reserve on revenue stabiliser	18	132	-
Increase in revaluation of cash flow hedge reserve on gold forward	18	36	
Deferred tax relating to increase in revaluation of cash flow hedge reserve		(26)	-
Effect of translation to presentation currency		(1,751)	(319)
		(1,609)	**(319)**
Items that have been reclassified through profit or loss:			
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser	18	(35)	-
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward	18	(6)	
Deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss		7	-
		(34)	**-**
Other comprehensive loss for the year		**(1,643)**	**(319)**
Total comprehensive loss for the year		**(1,825)**	**(170)**
Total comprehensive (loss) / income for the year from continuing operations attributable to:			
Shareholders of the Company		(1,705)	(185)
Non-controlling interests		(120)	9
		(1,825)	**(176)**
Total comprehensive income for the year from discontinued operations attributable to:			
Shareholders of the Company		-	6
Non-controlling interests		-	-
		-	**6**

Polyus Gold International Limited

Consolidated statement of financial position at 31 December
(in millions of US Dollars)

Assets	Notes	2014	2013
Non-current assets			
Property, plant and equipment	14	950	1,506
Capital construction-in-progress	15	189	278
Mine under development	16	1,102	1,573
Exploration and evaluation assets	17	110	175
Derivative financial instruments and investments	18	172	2
Inventories	19	227	295
Deferred tax assets	27	47	-
Other non-current assets		3	-
		2,800	**3,829**
Current assets			
Inventories	19	440	702
Deferred expenditures		13	16
Other receivables	20	11	27
Advances paid to suppliers and prepaid expenses		16	28
Taxes receivable	21	48	250
Bank deposits	22	269	48
Cash and cash equivalents	23	1,217	809
		2,014	**1,880**
Total assets		**4,814**	**5,709**
Equity and liabilities			
Capital and reserves			
Share capital	24	1	1
Additional paid-in capital	24	2,152	2,152
Cash flow hedge revaluation reserve		108	-
Translation reserve		(2,045)	(396)
Retained earnings		1,258	1,922
Equity attributable to shareholders of the Company		**1,474**	**3,679**
Non-controlling interests		146	275
		1,620	**3,954**
Non-current liabilities			
Site restoration, decommissioning and environmental obligations	25	49	69
Borrowings	26	1,723	937
Derivative financial instruments	18	423	-
Deferred tax liabilities	27	150	134
Other non-current liabilities		22	33
		2,367	**1,173**
Current liabilities			
Borrowings	26	90	269
Derivative financial instruments	18	547	-
Trade, other payables and accrued expenses	28	154	260
Taxes payable	29	36	53
		827	**582**
Total liabilities		**3,194**	**1,755**
Total equity and liabilities		**4,814**	**5,709**

Polyus Gold International Limited

Consolidated statement of changes in equity for the year ended 31 December
(in millions of US Dollars)

	Notes	Number of outstanding shares, (million)	Equity attributable to shareholders of the Company: Share capital	Additional paid-in capital	Cash flow hedge revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 31 December 2012		**3,032**	**1**	**2,152**	**-**	**(77)**	**2,111**	**4,187**	**282**	**4,469**
Profit for the year		-	-	-	-	-	140	140	9	**149**
Other comprehensive (loss) / income		-	-	-	-	(319)	-	(319)	-	**(319)**
Total comprehensive income		**-**	**-**	**-**	**-**	**(319)**	**140**	**(179)**	**9**	**(170)**
Effect of disposal of subsidiaries		-	-	-	-	-	(9)	(9)	9	**-**
Dividends declared and paid to shareholders of the Company	24	-	-	-	-	-	(320)	(320)	-	**(320)**
Dividends declared and paid to shareholders of non-controlling interests		-	-	-	-	-	-	-	(25)	**(25)**
Balance at 31 December 2013		**3,032**	**1**	**2,152**	**-**	**(396)**	**1,922**	**3,679**	**275**	**3,954**
Profit for the year		-	-	-	-	-	(164)	(164)	(18)	**(182)**
Increase in cash flow hedge revaluation reserve		-	-	-	108	-	-	108	-	**108**
Other comprehensive loss[1]		-	-	-		(1,649)	-	(1,649)	(102)	**(1,751)**
Total comprehensive income		**-**			**108**	**(1,649)**	**(164)**	**(1,705)**	**(120)**	**(1,825)**
Dividends declared and paid to shareholders of the Company	24	-	-	-	-	-	(500)	(500)	-	**(500)**
Dividends declared and paid to shareholders of non-controlling interests		-	-	-	-	-	-	-	(9)	**(9)**
Balance at 31 December 2014		**3,032**	**1**	**2,152**	**108**	**(2,045)**	**1,258**	**1,474**	**146**	**1,620**

[1] Following a decrease in exchange rate of the Russian Rouble against the US Dollar a translation loss of USD 1,751 million was recognised in other comprehensive income, of which translation loss USD 743 million related to mine under development, USD 646 million to property, plant and equipment and remaining amounts related to working capital accounts, borrowings, capital construction in progress and other items.

Polyus Gold International Limited

Consolidated statement of cash flows for the year ended 31 December
(in millions of US Dollars)

	Notes	2014	2013
Operating activities			
Profit from continuing operations before income tax		**40**	**234**
Adjustments for:			
(Reversal of impairment) / impairment losses	10	(17)	472
Finance costs	11	26	14
Interest income on bank deposits		(31)	(27)
Loss on derivative financial instruments and investments	12	934	5
Amortisation and depreciation	14	182	214
Foreign exchange gain		(123)	(4)
Other		10	2
		1,021	**910**
Movements in working capital			
Inventories		(121)	(246)
Deferred expenditures		(5)	1
Other receivables		6	11
Advances paid to suppliers and prepaid expenses		(2)	(6)
Taxes receivable		123	(32)
Trade and other payables and accrued expenses		53	16
Other non-current liabilities		1	9
Taxes payable		(25)	(37)
Cash flows from operations		**1,051**	**626**
Interest paid		(77)	(32)
Gain on exchange of interest payments under Interest and cross currency rate swaps	11	20	-
Income tax paid		(185)	(175)
Net cash generated from continuing operations		809	419
Net cash generated from discontinued operations		-	3
Net cash generated from operating activities		**809**	**422**
Investing activities			
Proceeds from subsidiaries' disposal, net of cash disposed (USD 6 million for the year ended 31 December 2013)	5	-	291
Purchases of capital construction-in-progress, exploration and evaluation assets and assets for mine under development		(461)	(1,347)
Payments for stripping activity asset		(109)	(38)
Interest received		29	31
Increase in bank deposits		(475)	(147)
Proceeds from redemption of bank deposits		248	186
Proceeds from derivatives		43	-
Payment for derivatives		(55)	-
Other		6	4
Net cash utilised in continuing operations		(774)	(1,020)
Net cash utilised in discontinued operations		-	(3)
Net cash utilised in investing activities		**(774)**	**(1,023)**
Financing activities			
Dividends paid to shareholders of the Company	24	(500)	(320)
Dividends paid to non-controlling interests		(10)	(43)
Proceeds from borrowings	26	1,254	1,092
Repayment of borrowings	26	(294)	(236)
Net cash generated from continuing operations		450	493
Net cash utilised in discontinued operations		-	-
Net cash generated from financing activities		**450**	**493**
Net increase / (decrease) in cash and cash equivalents		**485**	**(108)**
Cash and cash equivalents at beginning of the year	23	**809**	**960**
Effect of foreign exchange rate changes on cash and cash equivalents		(77)	(43)
Cash and cash equivalents at end of the year	23	**1,217**	**809**

1. General

Polyus Gold International Limited (the “Company”) was incorporated on 26 September 2005 in Jersey and re-registered as a public limited company under the Companies (Jersey) Law 1991 on 18 November 2005.

On 19 June 2012, the Company was admitted to the Official List of the UK Listing Authority and commenced trading on the London Stock Exchange’s premium listed market.

The principal activities of the Company and its controlled entities (the “Group”) are the extraction, refining and sale of gold. The mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and the Sakha Republic of the Russian Federation.

The Group also performs research, exploration and development works, the development works being primarily at the Natalka licence area located in the Magadan region of the Russian Federation. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 34.1.

2. Basis of preparation and presentation

Going concern

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

Compliance with the International Financial Reporting Standards

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

Basis of presentation

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

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

Under Article 105(11) of the Companies (Jersey) Law 1991 the directors of a holding company need not prepare separate accounts (i.e. company only accounts) if consolidated accounts for the company are prepared, unless required to do so by the members of the company by ordinary resolution. The members of the Company have not passed a resolution requiring separate accounts and, in the Directors' opinion, the Company meets the definition of a holding company. As permitted by the law, the Directors have elected not to prepare separate accounts.

(in millions of US Dollars)

The following is a list of standards that have been adopted during the year ended 31 December 2014 and new or amended IFRS standards that have been issued by the IASB and endorsed by the EU:

Title	**Subject**	**Effective for annual periods beginning on or after**	**Effect on the consolidated financial statements in current and / or future periods**
IAS 27 (revised May 2011)	Separate Financial Statements	1 January 2014	Adopted. No effect.
IAS 28 (revised May 2011)	Investments in Associates and Joint Ventures	1 January 2014	Adopted. No effect.
Amendments to IAS 32 (Dec 2011)	Offsetting Financial Assets and Financial Liabilities	1 January 2014	Adopted. No effect.
Amendments to IAS 36 (May 2013)	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014	Adopted. No effect.
Amendments to IAS 39 (Jun 2013)	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	Adopted. No effect.
Amendments to IFRS 10, IFRS 12 and IAS 27 (Oct 2012)	Investment Entities	1 January 2014	Adopted. No effect.
IFRS 10	Consolidated Financial Statements	1 January 2014	Adopted. No effect.
IFRS 11	Joint Arrangements	1 January 2014	Adopted. No effect.
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014	Adopted. No effect.
IFRIC 21	Levies. New standard	1 January 2014	Adopted. No effect.
IAS 19	Defined Benefit Plans: Employee Contributions	1 July 2014	Adopted. No effect.
Annual improvements	Annual improvements to IFRS 2010-2012	1 July 2014	Adopted. No effect.
Annual improvements	Annual improvements to IFRS 2011-2013	1 July 2014	Adopted. No effect.

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

	Effective for annual periods beginning on or after
Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 16 and IAS 41– Bearer Plants	
Amendments to IAS 27 – Equity method in Separate Financial Statements	1 January 2016
Amendments to IFRS 11 – Joint Arrangements	1 January 2016
IFRS 15 – Revenue from Contracts with Customers	1 January 2017
IFRS 9 – Financial Instruments	1 January 2018

Management is currently considering the potential impact of the adoption of these Standards and amendments. However, it is not practicable to provide a reasonable estimate of their effect until a detailed review has been completed.

3. Significant accounting policies

3.1 Basis of consolidation

Subsidiaries

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

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

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

When the Company has less than a majority of the voting rights of an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it the power, including:

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

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

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

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

(in millions of US Dollars)

When the Group loses control of a subsidiary, the profit and loss on disposal is calculated as the difference between the aggregate of the fair value of the consideration received and the fair value of any retained interest and the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

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

Functional currency

The individual financial statements of the Group's subsidiaries are each prepared in their respective functional currencies. The functional currency of the Company is the US Dollar. The Russian Rouble ("RUB") is the functional currency of all the subsidiaries of the Group, except for Polyus Investments Limited registered in Cyprus whose functional currency is the US Dollar.

3.2 Presentation currency

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

- all assets, liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting date;
- all income and expenses are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of such transactions. The average exchange rate is derived by taking an average of the daily exchange rate over the course of the year;
- resulting exchange differences are included in equity and presented as Effect of translation to presentation currency within the Translation reserve (on disposal of such entities this Translation reserve is reclassified into the consolidated statement of profit or loss) and
- in the statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of the transaction.

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

	2014	2013	2012
Russian Rouble/US Dollar			
Year end rate	56.26	32.73	30.37
Average for the year	38.42	31.85	31.09

3.3 Foreign currencies

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

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

3.4 Revenue recognition

Gold sales revenue

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

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

Revenue from gold sales is recognised at the time of shipment from the refining plant when the Group has received confirmation of sale from the third party. Revenue from gold-bearing products is recognised when the goods have been delivered to a contractually agreed location. Gold sales are stated at their invoiced value net of value-added tax.

Other revenue

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

3.5 Income tax

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

Current tax

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

Deferred tax

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

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries and associates are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

Current and deferred tax for the year

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

3.6 Operating leases

The leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Costs for operating leases are recognised on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

3.7 Dividends

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

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

3.8 Property, plant and equipment

Mineral rights

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

Mining assets

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

Mining assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of the mines of 7 to 16 years in accordance with the mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Amortisation is charged from the date a new mine reaches commercial production quantities and is included in the cost of production.

The estimated remaining useful lives of the Group's significant mines based on the mine operating plans are as follows:

Blagodatnoye	15 years
Olimpiada	13 years
Verninskoye	10 years
Kuranakh	9 years
Titimukhta	6 years

Non-mining assets

Non-mining assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the economic useful lives of such assets:

Building, structures, plant and equipment	5-50 years
Transport	3-11 years
Other assets	3-10 years

Stripping activity asset

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

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

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

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

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

The stripping activity asset is accounted for as a part of property, plant and equipment. Starting from 1 January 2014, the basis of amortisation for the Stripping activity assets has changed from the straight-line method to the units of production method. The effect of the application of this method is an increase in the depreciation charge by USD 5 million during the year ended 31 December 2014, with a similar impact on the prior year.

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

3.9 Capital construction-in-progress

Assets under construction at operating mines are accounted for as capital construction-in-progress. The cost of capital construction-in-progress comprises its purchase price and any directly attributable costs to bringing it into working condition for its intended use.

Capital construction-in-progress is not depreciated.

When the capital construction-in-progress has been completed and, in a condition necessary to be capable of operating in the manner intended by management, the objects are reclassified to mining assets.

3.10 Mine under development

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

3.11 Finance costs directly attributable to the construction of qualifying assets

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

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

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

3.12 Impairment of long-lived tangible assets (Property, plant and equipment, Capital construction-in-progress and Mine under development)

An impairment review of long-lived tangible assets is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell or value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the consolidated statement of profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

A reversal of an impairment loss is recognised in the consolidated statement of profit or loss immediately.

3.13 Exploration and evaluation assets

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

- acquisition of rights to explore potentially mineralised areas;
- topographical, geological, geochemical and geophysical studies;
- exploratory drilling;
- trenching;
- sampling and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting gold resource.

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

Impairment of exploration and evaluation assets

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

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

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

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

3.14 Financial instruments

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

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

Financial assets

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

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

- financial assets at FVTPL;
- held-to-maturity investments and
- loans and receivables.

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

Financial assets at FVTPL

Financial assets are classified as a FVTPL where the financial asset is either held for trading or it is designated as a FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as a FVTPL upon initial recognition if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any dividend or interest earned on the financial asset and is included in the (Loss)/income from investments line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 18.

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

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

Held-to-maturity investments

Promissory notes with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with income recognised on an effective yield basis.

Loans and receivables

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

Impairment of financial assets

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

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

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

Derecognition of financial assets

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

Effective interest method

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

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

Financial liabilities

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:
- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking or
- it is a derivative that is not designated and effective as a hedging instrument.

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any interest paid on the financial liability and is included in the ‘other gains and losses’ line item in the income statement.

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis within finance cost.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk.

Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each consolidated statement of financial position date. The resulting gain or loss is recognised in the consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivative financial instruments are presented as current assets or current liabilities.

The Group designates certain derivative financial instruments as cash flow hedges.

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

3.15 Cash flow hedges

The Group uses derivative financial instruments for hedge accounting as determined in accordance with IAS 39.

The Group applies hedge accounting for cash flow hedges against the risk of decline of the gold prices. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivative financial instruments used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At the inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

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

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

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

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

3.16 Inventories

Refined gold, ore stockpiles and gold-in-process

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

Stores and materials

Stores and materials consist of consumable stores and are stated at the lower of cost and net realisable value. Costs of stores and materials are determined on a weighted average cost basis.

Net realisable value represents the expected estimated selling price for stores and materials less all costs necessary to make the sale.

3.17 Deferred expenditures

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

3.18 Cash and cash equivalents

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

3.19 Provisions

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

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

3.20 Site restoration, decommissioning and environmental obligations

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

Ongoing restoration costs are expensed when incurred.

4. Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying accounting policies

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

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

Economic useful lives of property, plant and equipment

The Group's mining assets, classified within property, plant and equipment, are amortised using the straight-line method over the life-of-mine based on a mine operating plan, which calls for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code. When determining the life-of-mine, assumptions that were valid at the time of estimation may change when new information becomes available.

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

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

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

Non-mining property, plant and equipment are depreciated on a straight-line basis over their economic useful lives. Management periodically reviews the appropriateness of the assets' economic useful lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Depreciation method for property, plant and equipment

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

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

Determination of functional currency

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

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

Cash flow hedge designation

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

Key sources of estimation uncertainty

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

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

Exploration and evaluation assets

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

Impairment of tangible assets

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

Factors which could impact the underlying cash flows include:

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

Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets. Refer to Note 10 for further detail.

Stripping activity asset

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

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

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

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

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

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

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

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

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

Site restoration, decommissioning and environmental obligations

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

Income taxes

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

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

5. Discontinued operations and disposal of subsidiaries

During 2013, the Group completed the transaction for the sale of its operating subsidiaries in Kazakhstan and Kyrgyzstan representing the Kazakhstan business unit for a total consideration of USD 297 million, recognizing a profit from discontinued operations of USD 6 million.

These operating subsidiaries mainly comprised the following mining operations in Northern and Eastern Kazakhstan: the Aksu mine (which consists of the Aksu mine and adjacent Quartzite Hills deposits), the Bestobe mine, the Zholymbet mine and the Akzhal mine. In addition, these assets include development properties in Northern, Eastern and Central Kazakhstan as well as exploration projects at Yuzhny Karaultube and Kaskabulak.

There were no contingent liabilities or deferred consideration applicable to the sale. All the proceeds were received in cash.

6. Segment information

For management purposes the Group is organised by separate business segments identified on a combination of operating activities and geographical area bases with the separate financial information available and reported regularly to the chief operating decision maker ("CODM"), identified as the Management Board (previously, Executive Committee). The following is a description of operations of the Group's seven identified reportable segments and those that do not meet the quantitative reporting threshold for reporting:

- ***Krasnoyarsk business unit*** (Krasnoyarsk region of the Russian Federation) – Extraction, refining and sale of gold from the Olimpiada, Blagodatnoye and Titimukhta mines, as well as research, exploration and development work at the Olimpiada and Blagodatnoye deposits;
- ***Irkutsk alluvial business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – Extraction, refining and sale of gold from several alluvial deposits;
- ***Irkutsk ore business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – Extraction, refining and sale of gold from the Verninskoye mine, research, exploration and development works at the Smezhny and Medvezhy Zapadny deposits;
- ***Yakutia Kuranakh business unit*** (Sakha Republic of the Russian Federation) – Extraction, refining and sale of gold from the Kuranakh mines;
- ***Magadan business unit*** (Magadan region of the Russian Federation) – Represented by OJSC "Matrosova Mine" which performs development works at the Natalka deposit;
- ***Exploration business unit*** (Krasnoyarsk region, Irkutsk region, Amur region, and others) – Research and exploration works in several regions of the Russian Federation;
- ***Capital construction unit*** - Represented by LLC "Polyus Stroy", CJSC "Taigaenergostroy" and CJSC "Vitimenergostroy" which perform construction works at Natalka, Verninskoye, Olimpiada and other deposits.
- ***Unallocated*** – the Group does not allocate segment results of companies that perform management, investing activities and certain other functions. Neither standalone results nor the aggregated results of these companies are required to be disclosed as operating segments because quantitative thresholds are not met.

The reportable gold production segments derive their revenue primarily from gold sales. Starting from 1 January 2014, the CODM performs an analysis of the operating results based on these separate business units and evaluates the reporting segment's results, for purposes of resource allocation, based on the measurements of:

- gold sales;
- ounces of gold sold, in thousands;
- total cash cost per number of ounce of gold sold (TCC);
- earnings before interest, tax, depreciation and amortisation and other items (Adjusted EBITDA) and
- capital expenditures (CAPEX).

Accordingly, the information presented in this note is restated from that provided in prior periods.

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

The Group does not allocate the results of companies that perform management, investing activities and certain other administrative functions within its internal reporting.

	Gold sales	Ounces of gold sold in thousands	Adjusted EBITDA	Total cash cost per ounce of gold sold (USD per ounce)	Capital expenditures
For the year ended 31 December 2014					
Business units					
Krasnoyarsk	1,602	1,219	822	541	84
Irkutsk alluvial	234	190	70	735	17
Irkutsk ore	186	146	89	594	38
Yakutia Kuranakh	175	136	50	868	6
Magadan	-	-	(5)	-	308
Exploration	-	-	(5)	-	6
Capital construction	-	-	(3)	-	54
Unallocated	-	-	(7)	-	12
Total	**2,197**	**1,691**	**1,011**	**585**	**525**
For the year ended 31 December 2013					
Business units					
Krasnoyarsk	1,669	1,198	772	633	217
Irkutsk alluvial	277	205	80	880	18
Irkutsk ore	122	89	37	869	59
Yakutia Kuranakh	191	139	29	1,085	16
Magadan	-	-	-	-	1,024
Exploration	-	-	6	-	20
Capital construction	-	-	(9)	-	68
Unallocated	-	-	(5)	-	18
Total	**2,259**	**1,631**	**910**	**707**	**1,440**

Gold sales reported above represent revenue generated from external customers (note 32). There were no inter-segment gold sales during the years ended 31 December 2014 and 2013. Included within gold sales in 2014 are realised gains on derivatives of USD 41 million (note 18) (2013: nil).

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

	Year ended 31 December	
	2014	**2013**
(Loss) / profit for the year	**(182)**	**143**
Income tax	222	91
Depreciation and amortisation	182	214
Finance costs	26	14
Interest income on bank deposits	(31)	(27)
Loss / (gain) on derivative financial instruments and investments	934	5
Foreign exchange gain	(123)	(4)
Loss from disposal of property, plant and equipment	-	2
(Reversal of impairment) / impairment losses	(17)	472
Adjusted EBITDA	**1,011**	**910**

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

Cost of gold sales	**1,174**	**1,347**
Adjusted for:		
Depreciation and amortisation (Note 14)	(174)	(209)
Other non-cash items in cost of gold sales	(11)	15
TCC	**989**	**1,153**
Ounces of gold sold, in thousands	1,691	1,631
TCC per ounce of gold sold (USD per ounce)	**585**	**707**

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

7. Cost of gold sales

	Year ended 31 December	
	2014	**2013**
Labour	320	386
Consumables and spares	281	359
Fuel	131	184
Tax on mining	154	166
Power	44	58
Outsourced mining services	19	26
Refining costs	4	6
Other	67	83
Total cash operating costs	**1,020**	**1,268**
Amortisation and depreciation of operating assets (Note 14)	174	209
Total cost of production	**1,194**	**1,477**
Increase in stockpiles, gold-in-process and refined gold inventories	(20)	(130)
Total	**1,174**	**1,347**

(in millions of US Dollars)

8. Selling, general and administrative expenses

	Year ended 31 December	
	2014	**2013**
Salaries	124	151
Taxes other than mining and income taxes	22	25
Professional services	16	21
Amortisation and depreciation (note 14)	4	5
Other	17	24
Total	**183**	**226**

9. Other expenses, net

	Year ended 31 December	
	2014	**2013**
Change in estimations of site restoration, decommissioning and environmental liabilities (note 25)	1	(5)
Change in allowance for reimbursable value added tax	(1)	2
Donations	6	4
Loss on disposal of property, plant and equipment and capital construction-in-progress	-	3
Maintenance expenses related to previously impaired Exploration and evaluation assets	5	8
Other	9	3
Total	**20**	**15**

10. Reversal of impairment / (impairment losses)

	Year ended 31 December	
	2014	**2013**
Mining assets (note 14)	29	-
Stripping activity asset (note 14)	13	-
Capital construction-in-progress (note 15)	5	-
Long-term stockpiles	19	-
Sub-total reversal of impairment	**66**	**-**
Mining assets (note 14)	-	(59)
Stripping activity asset (note 14)	-	(28)
Capital construction-in-progress (note 15)	(11)	(19)
Mine under development (note 16)	(37)	-
Exploration and evaluation assets (note 17)	(1)	(317)
Gold-in-process	-	(15)
Long-term stockpiles	-	(34)
Sub-total impairment	**(49)**	**(472)**
Total reversal of impairment / (impairment losses)	**17**	**(472)**

Yakutia Kuranakh business unit

As at 30 June 2013, the group recorded an impairment charge of USD 138 million in respect of the Kuranakh mine in the Yakutia region, following the significant fall in the gold price which is described in the annual consolidated financial statements for the year ended 31 December 2013. Following a significant devaluation of the Russian Rouble against the USD, a relatively stable gold price and cost cutting initiatives during 2014, a reversal of impairment losses recognised during 2013 was made as of 31 December 2014.

The value-in-use of Mining assets, Stripping activity asset and Capital construction-in-progress as well as the net realisable value of long-term stockpiles of the Yakutia Kuranakh business unit increased above its previously impaired carrying amount. The pre-tax reversal of impairment of USD 66 million was recognised during 2014 (net post-tax USD 61 million).

The key assumptions that were used in the impairment testing were a weighted average long term gold price of USD 1,294 per oz and a post-tax discount rate of approximately 8%.

Natalka mine under development

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

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

The operational considerations reflect the most likely and optimal updated mining plan developed using the revised JORC reserves estimate and with the advice of the mining consultants and incorporate screening techniques including photometric separation.

The financial assumptions include significant judgements associated with forecast gold prices determined at a volatile time for our markets. For instance the RUB has varied between 36 RUB to the USD in August 2014 to 69 in January 2015, and gold prices have been above USD 1,800 and below USD 1,200 per ounce over the past 4 years.

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

- if the Rouble strengthened to above 55 RUB for 1 US Dollar; or
- if the gold price decreased below US Dollar 1,114 per oz; or
- if the discount rate increased above 14%.

In addition, some construction materials related to the Mine under development and Capital construction-in-progress were identified as obsolete as of 31 December 2014 and therefore an impairment provision was recognised.

(in millions of US Dollars)

11. Finance costs

	Year ended 31 December	
	2014	**2013**
Interest on borrowings	100	43
Gain on exchange of interest payments under cross currency swap (note 18)	(16)	-
Gain on exchange of interest payments under interest rate swaps (note 18)	(4)	-
Unwinding of discounts on site restoration, decommissioning and environmental liabilities (note 25)	4	5
Other	2	-
Sub-total finance cost	**86**	**48**
Interest capitalised in the cost of Mine under development and Capital construction-in progress	(60)	(34)
Total finance cost expensed	**26**	**14**

12. Loss on derivative financial instruments and investments, net

	Year ended 31 December	
	2014	**2013**
Revaluation loss on currency collars (note 18)	(547)	-
Revaluation loss on cross currency swaps (note 18)	(403)	-
Realised loss on currency collars (note 18)	(47)	-
Gain on initial exchange of cross currency swaps (note 18)	34	-
Revaluation gain on ineffective part of the revenue stabiliser (note 18)	15	-
Revaluation gain on interest rate swap (note 18)	9	-
Other	5	(5)
Total	**(934)**	**(5)**

13. Income tax expense

	Year ended 31 December	
	2014	**2013**
Current tax expense	220	132
Deferred tax expense / (benefit)	2	(41)
Total	**222**	**91**

The corporate income tax rates in the countries where the Group has a taxable presence vary from 0% (British Virgin Islands) to 20% (in the United Kingdom and in the Russian Federation).

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

	2014	2013
Profit from continuing operations before income tax	**40**	**234**
Income tax at statutory rate applicable to principal entities (20%)	8	47
Allowance for deferred tax assets on derivative financial instruments (note 27)	185	-
Tax effect of non-deductible expenses and other permanent differences	23	6
Unrecognized deferred tax assets and write-off of losses carried forward resulted from impairments	19	47
Income tax effect of impairment reversals	(6)	-
Other	(7)	(9)
Income tax expense	**222**	**91**

(in millions of US Dollars)

14. Property, plant and equipment

	Mining assets	Non-mining assets	Stripping activity assets	Total
Cost				
Balance at 31 December 2012	**2,580**	**78**	**199**	**2,857**
Additions	-	-	38	38
Transfers from capital construction-in-progress (note 15)	371	16	-	387
Reclassifications	22	(22)	-	-
Change in site restoration, decommissioning and environmental obligations (Note 25)	(6)	-	-	(6)
Disposals	(42)	(4)	-	(46)
Disposals of subsidiaries	(353)	(3)	-	(356)
Effect of translation to presentation currency	(167)	(4)	(16)	(187)
Balance at 31 December 2013	**2,405**	**61**	**221**	**2,687**
Additions	-	-	109	109
Transfers from capital construction-in-progress (note 15)	158	5	-	163
Change in site restoration, decommissioning and environmental obligations (Note 25)	8	-	-	8
Disposals	(19)	-	-	(19)
Effect of translation to presentation currency	(1,053)	(27)	(127)	(1,207)
Balance at 31 December 2014	**1,499**	**39**	**203**	**1,741**
Accumulated amortisation, depreciation and impairment				
Balance at 31 December 2012	**(1,003)**	**(28)**	**(23)**	**(1,054)**
Charge	(223)	(4)	(18)	(245)
Reclassifications	(5)	5	-	-
Disposals	38	2	-	40
Disposals of subsidiaries	91	-	-	91
Impairment (note 10)	(59)	-	(28)	(87)
Effect of translation to presentation currency	71	2	1	74
Balance at 31 December 2013	**(1,090)**	**(23)**	**(68)**	**(1,181)**
Charge	(208)	(6)	(16)	(230)
Disposals	17	-	-	17
Reversal of impairment (notes 10)	29	-	13	42
Effect of translation to presentation currency	517	11	33	561
Balance at 31 December 2014	**(735)**	**(18)**	**(38)**	**(791)**
Net book value				
31 December 2013	**1,315**	**38**	**153**	**1,506**
31 December 2014	**764**	**21**	**165**	**950**

During the year ended 31 December 2014, reversal of impairment of mining assets for USD 29 million (including USD 19 million related to mineral rights) and stripping activity assets for USD 13 million was made (note 10).

The carrying values of mineral rights included in mining assets were as follows:

	31 December	
	2014	**2013**
Mineral rights	45	49

Amortisation and depreciation charge is allocated as follows:

	Year ended 31 December	
	2014	**2013**
Cost of gold sales		
continuing operations (note 7)	174	209
discontinued operations	-	4
Selling, general and administrative expenses		
continuing operations (note 8)	4	5
discontinued operations	-	-
Cost of other sales	4	-
Capitalised within capital construction-in-progress	48	27
Total	**230**	**245**

(in millions of US Dollars)

15. Capital construction-in-progress

	Business units					
	Krasnoyarsk	**Capital construction**	**Irkutsk ore**	**Yakutia Kuranakh**	**Other**	**Total**
Balance at 31 December 2012	**78**	**37**	**147**	**36**	**66**	**364**
Additions	210	68	52	16	37	**383**
Transfers to property, plant and equipment (note 14)	(113)	(55)	(149)	(26)	(44)	**(387)**
Disposals of subsidiaries	-	-	-	-	(41)	**(41)**
Impairment (Note 10)	(2)	-	-	(17)	-	**(19)**
Effect of translation to presentation currency	(9)	(2)	(7)	(2)	(2)	**(22)**
Balance at 31 December 2013	**164**	**48**	**43**	**7**	**16**	**278**
Additions	78	54	38	6	29	205
Transfers to property, plant and equipment (note 14)	(87)	(13)	(35)	(4)	(24)	(163)
(Impairment) / reversal of impairment (Note 10)	(6)	(5)	-	5	-	(6)
Effect of translation to presentation currency	(64)	(32)	(19)	(3)	(7)	(125)
Balance at 31 December 2014	**85**	**52**	**27**	**11**	**14**	**189**

Capital construction-in progress principally relates to the following projects:

- expansion of the bio-oxidation facility at Olimpiada, completion of hydraulic tests of new tanks at sulphuric acid stock and the sustaining capital expenditures programme (Krasnoyarsk BU)
- construction of the Peleduy-Mamakan grid in order to provide cheaper and more reliable power supply to Verninskoye (Capital Construction BU)
- a number of projects aimed at improving processing plant efficiency along with the sustaining capital expenditures programme at Verninskoye mill (Irkutsk BU)

(in millions of US Dollars)

16. Mine under development

	2014	2013
Balance at 1 January	**1,573**	**624**
Additions	308	1,024
Change in site restoration, decommissioning and environmental obligations (note 25)	1	(1)
Impairment (note 10)	(37)	-
Effect of translation to presentation currency	(743)	(74)
Balance at 31 December	**1,102**	**1,573**

The carrying values of mineral rights relating to and included within a mine project under development were as follows:

Mineral rights	37	63

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

Included within Mine under development are capitalised borrowing costs consisted of the following:

	Year ended 31 December	
	2014	2013
Interest expenses	60	33
Foreign exchange losses	33	18
Interest income on bank deposits	(7)	(7)
Total	**86**	**44**

Some construction materials related to the Mine under development were identified as obsolete as at 31 December 2014 and therefore an impairment provision was recognised in the amount of USD 37 million (note 10).

(in millions of US Dollars)

17. Exploration and evaluation assets

	Exploration and evaluation assets											
	Chertovo Korito	**Razdo-linskoye**	**Panimba**	**Olympiada**	**Bamsky**	**Smezhny**	**Medvezhy Zapadny**	**Blagodat-noye**	**Other**	**Nezhda-ninskoye**	**Degdekan-skoye**	**Total**
Balance at 31 December 2012	**47**	**27**	**29**	**24**	**22**	**10**	**5**	**-**	**40**	**263**	**52**	**519**
Additions	4	5	-	3	1	6	-	5	2	7	-	**33**
Change in site restoration, decommissioning and environmental obligations (Note 25)	-	-	-	-	-	-	-	-	-	(3)	-	**(3)**
Impairment (notes 10)	-	-	-	-	-	-	-	-	(21)	(248)	(48)	**(317)**
Disposals of subsidiaries	-	-	-	-	-	-	-	-	(19)	-	-	**(19)**
Effect of translation to presentation currency	(3)	(2)	(2)	(2)	(2)	(1)	-	(1)	(2)	(19)	(4)	**(38)**
Balance at 31 December 2013	**48**	**30**	**27**	**25**	**21**	**15**	**5**	**4**	**-**	**-**	**-**	**175**
Additions	4	-	-	2	-	-	1	4	1	-	-	12
Impairment (notes 10)	(1)	-	-	-	-	-	-	-	-	-	-	(1)
Effect of translation to presentation currency	(21)	(12)	(12)	(11)	(9)	(7)	(2)	(2)	-	-	-	(76)
Balance at 31 December 2014	**30**	**18**	**15**	**16**	**12**	**8**	**4**	**6**	**1**	**-**	**-**	**110**

(in millions of US Dollars)

18. Derivative financial instruments and investments

	31 December	
	2014	**2013**
Non-current assets		
Revenue stabiliser	132	-
Gold forward	30	-
Interest rate swaps	9	-
Loans receivable	1	2
Total assets	**172**	**2**
Non-current liabilities		
Cross currency swaps	403	-
Revenue stabiliser	20	-
Sub-total	**423**	-
Current liabilities		
Currency collars	547	-
Total liabilities	**970**	**-**

Strategic Price Protection Programme

In March 2014, CJSC “Gold Mining Company Polyus”, a subsidiary of the Group, initiated a Strategic Price Protection Programme (the “Programme”).

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

- zero cost Asian gold collars (“revenue stabiliser”) and
- gold forward contracts.

Revenue stabiliser

The revenue stabiliser component represents a series of zero cost Asian barrier collar agreements to purchase put options and sell call options with “knock-out” and “knock-in” barriers. The allocation of volumes, strikes and barriers between years under the revenue stabiliser agreements is presented below:

(in millions of US Dollars)

	Years ended 31 December					
	2014	**2015**	**2016**	**2017**		**2018**
Revenue stabiliser volumes under put and call option agreements (thousand ounces)						
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)						
Total as per options agreements	225	300	300	75	675	225
Exercised	(225)	-	-	-	-	-
Outstanding as of 31 December 2014	-	300	300	75	675	225
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)						
Total as per options agreements	60	120	120	60	180	180
Exercised	(60)	-	-	-	-	-
Outstanding as of 31 December 2014	-	120	120	60	180	180
Total outstanding as of 31 December 2014 under Tranches 1 and 2	**-**	**420**	**420**	**135**	**855**	**405**
Weighted average strikes and barriers as per put and call option agreements (USD per ounces)						
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)						
First three years (put)						
Strike	1,383	1,383	1,383	1,383	-	-
Knock-out barrier	950	950	950	950	-	-
First three years (call)						
Strike	1,518	1,518	1,518	1,518	-	-
Knock-in barrier	1,662	1,662	1,662	1,662	-	-
Fourth year (put)						
Strike	-	-	-	-	1,037	1,037
Knock-out barrier	-	-	-	-	907	907
Fourth year (call)						
Strike	-	-	-	-	1,559	1,559
Knock-in barrier	-	-	-	-	1,748	1,748
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)						
First three years (put)						
Strike	1,359	1,359	1,359	1,359	-	-
Knock-out barrier	950	950	950	950	-	-
First three years (call)						
Strike	1,425	1,425	1,425	1,425	-	-
Knock-in barrier	1,525	1,525	1,525	1,525	-	-
Fourth year (put)						
Strike	-	-	-	-	1,100	1,100
Knock-out barrier	-	-	-	-	900	900
Fourth year (call)						
Strike	-	-	-	-	1,500	1,500
Knock-in barrier	-	-	-	-	1,650	1,650
Weighted average strikes and barriers for Tranches 1 and 2						
First three years (put)						
Strike	1,377	1,377	1,377	1,373	-	-
Knock-out barrier	950	950	950	950	-	-
First three years (call)						
Strike	1,491	1,491	1,491	1,476	-	-
Knock-in barrier	1,623	1,623	1,623	1,601	-	-
Fourth year (put)						
Strike	-	-	-	-	1,050	1,065
Knock-out barrier	-	-	-	-	905	903
Fourth year (call)						
Strike	-	-	-	-	1,546	1,533
Knock-in barrier	-	-	-	-	1,728	1,705

As a result of Tranche 1 of the revenue stabiliser, the Group ensures a minimum weighted average price of USD 1,383 per ounce for 300 thousand ounces of gold output annually during the first three years of the Programme, provided the gold price does not fall below USD 950 per ounce. During the first three years the Group benefits from price increases until the gold price reaches USD 1,662 per ounce, in which case the weighted average price is capped at USD 1,518 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted average price of USD 1,037 per ounce for the price-protected amount of 900 thousand ounces, provided the gold price does not fall below USD 907 per ounce. Additionally, in the fourth year of the Programme, the Group will have an obligation to sell 900 thousand ounces of gold at USD 1,559 per ounce should the gold price exceed USD 1,748 per ounce.

(in millions of US Dollars)

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

The revenue stabiliser options are exercised quarterly in equal amounts.

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

The revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the Cash flow hedge revaluation reserve within Equity, whilst the remaining change in the fair value of USD 15 million is reflected in the Consolidated statement of profit or loss (note 12).

During the year ended 31 December 2014, under Tranches 1 and 2, USD 132 million was recognised in the Cash flow hedge revaluation reserve within Equity and following the sale of the hedged volume of gold and the exercise of certain options USD 35 million was subsequently reclassified to Gold sales within the Consolidated statement of profit or loss.

Gold forward

During the year ended 31 December 2014, the Group has entered into financing contracts to sell a total of 310 thousand ounces of gold monthly in equal quantities over a period of two years starting from 1 July 2014 and ending on 30 June 2016 at a fixed price of USD 1,321 per ounce. The gold forwards (thousand ounces) are exercised in the following years:

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

The gold forward contract is designated as a cash flow hedge. Any change in the forward fair value is recognised in Cash flow hedge revaluation reserve within Equity. During 2014, USD 36 million was recognised in the Cash flow hedge revaluation reserve within Equity and following the sale of the hedged amount of gold USD 6 million were reclassified from the Cash flow hedge revaluation reserve within Equity into Gold sales within the Consolidated statement of profit or loss. The remaining balance is expected to be monthly evenly reclassified to the Consolidated statement of profit or loss through to June 30, 2016.

(in millions of US Dollars)

The fair value is determined using the Black-Scholes valuation technique. Input data used in the valuation model (forward gold prices and volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13.

The Group performs prospective and retrospective effectiveness testing for the instruments designated as a cash flow hedge at least at each reporting date.

Currency collars
During 2014, in order to economically hedge its Russian rouble denominated expenses, CJSC "Gold Mining Company Polyus" simultaneously purchased put options and sold call options for the total amount of USD 1,900 million allocated monthly as following:

	2014	2015
Volume of option agreements (million USD)	400	1,500
Exchange rates for puts, RUB/USD	36.83	37.47
Exchange rates for calls, RUB/USD	40.06	40.38

The effect of the USD 400 million options matured in 2014 resulted in a loss of USD 47 million as presented in note 12 within Realised loss on currency collars line.

The Group classifies these contracts as financial instruments at FVTPL. The fair value is determined using the Black-Scholes valuation technique using the inputs (forward currency exchange rates and volatility) which are observable in the market and correspondently classified as Level 2 in accordance with the hierarchy of fair value. The change in the fair value of the currency collars for 2014 resulted in a revaluation loss of USD 547 million (note 12).

Cross currency swaps
During 2014, CJSC "Gold Mining Company Polyus", a subsidiary of the Group, signed a 5 year RUB 36 billion credit facility agreement with Sberbank (note 26). The interest rate for this credit facility is 10.35%.

The revenue of the Group is linked to US dollars, because the gold price is denominated in US dollars. The Group entered into cross currency swaps with leading Russian banks for a total amount of USD 1,023 million to economically hedge interest payments and principal amounts exchange.

According to the cross currency swap agreements the Group will quarterly pay to the banks LIBOR + Margin 2.32% in USD and receive from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group will exchange principal amounts paying USD 1,023 million and receiving RUB 35,999 million.

According to IAS 39 the swaps were not eligible to be designated as cash flow or fair value hedges. The Group accounted for these derivative financial instruments at fair value which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps for 2014 resulted in a revaluation loss of USD 403 million recognised in the Consolidated statement of profit or loss (note 12). The gain on the exchange of interest payments in amount of USD 16 million is recognised within the Finance cost (note 11). A gain on initial exchange of nominal amounts under the cross currency swap agreements in the amount of USD 34 million was recognised during the year (note 12).

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

Interest rate swaps
During the year 2014, CJSC "Gold Mining Company Polyus", a subsidiary of the Group, entered into an interest rate swap agreements with leading Russian banks, according to which the Group pays semi-annually and until 29 April 2020 LIBOR+3.55% in USD and receives 5.625% in USD in respect of a USD 750 million nominal amount. The purpose of this swap is to decrease the effective interest rate for the USD 750 million Eurobonds (note 26).

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

Gain on changes in the fair value of the interest rate swaps in the amount of USD 9 million is recognised in the Consolidated statement of profit or loss (note 12). The gain on interest paid and received during 2014 under interest rate swap agreements in the amount of USD 4 million is recognised within the Finance costs (note 11).

Maturity profile of undiscounted contractual payments on derivative financial instruments
The fair value measurement is based on inputs (forward USD LIBOR rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

Presented below is the maturity profile of undiscounted contractual receipts / (payments) in millions of US Dollars on the Group's derivative financial instruments based on USD/RUB exchange rate, spot gold price and LIBOR as of 31 December 2014.

	2015	2016	2017	2018	2019	2020	Total
Revenue stabiliser	74	74	23	-	-	-	171
Gold forward	19	9	-	-	-	-	28
Currency collars	(423)	-	-	-	-	-	(423)
Cross currency swaps	38	38	38	38	(372)	-	(220)
Interest rate swaps	13	13	13	13	13	4	69
Total	**(279)**	**134**	**74**	**51**	**(359)**	**4**	**(375)**

19. Inventories

	31 December 2014	31 December 2013
Inventories expected to be recovered after 12 months		
Stockpiles	224	292
Gold-in-process	3	3
Sub-total	**227**	**295**
Inventories expected to be recovered in the next 12 months		
Stockpiles	79	111
Gold-in-process	63	87
Refined gold	17	28
Stores and materials	292	480
Less: Net realisable value provision for stores and materials	(11)	(4)
Sub-total	**440**	**702**
Total	**667**	**997**

(in millions of US Dollars)

20. Other receivables

	31 December	
	2014	**2013**
Other receivables	22	39
Less: Allowance for doubtful debts	(11)	(12)
Total	**11**	**27**

Substantially all gold sales are made to banks in Russian Roubles (linked to the official exchange rate of USD to RUB at the date of transaction and at a gold price with a reference to London Metal Exchange quotations) with immediate payment terms.

Other receivables include amounts receivable from sales of electricity, transportation, handling, warehousing services and other services.

21. Taxes receivable

	31 December	
	2014	**2013**
Reimbursable value added tax	45	218
Other prepaid taxes	2	7
Income tax prepaid	1	25
Total	**48**	**250**

22. Bank deposits

	31 December	
	2014	**2013**
Bank deposits denominated in:		
- USD	**269**	**48**

Bank deposits have an original maturity within a period of three to twelve months, and accrue interest at the following rates:

Interest rates on bank deposits denominated in:		
- USD	1.4-3.6%	6.6-7.1%

(in millions of US Dollars)

23. Cash and cash equivalents

	31 December 2014	31 December 2013
Bank deposits		
- RUB	50	453
- USD	1,093	191
Current bank accounts		
- RUB	12	73
- USD	42	91
Other cash and cash equivalents	20	1
Total	**1,217**	**809**

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

	2014	2013
Interest rates on bank deposits denominated in:		
- RUB	8.9-25.0%	4.0-5.1%
- USD	0.6-6.0%	4.0-7.5%

24. Share capital

The authorised share capital of the Company comprises 3,600 million ordinary shares with a par value of GBP 0.0001 per share.

The issued and fully paid up share capital of the Company comprises 3,032 million ordinary shares issued at a premium, resulting in share capital of USD 482,000 and additional paid-in-capital of USD 2,152 million.

Dividends to shareholders of the Company

		Year ended 31 December 2014	Year ended 31 December 2013
Dividend declared and paid during the year:			
	USD million	500	320
	US cents per share	0.16	0.11

The Board of Directors approved the payment by the Company of a special dividend of US 16.49 cents per ordinary share (the “Special Dividend”) or USD 500 million in total. Dividends were paid in full in December 2014.

(in millions of US Dollars)

25. Site restoration, decommissioning and environmental obligations

	Business units							
	Krasnoyarsk	**Irkutsk alluvial**	**Irkutsk ore**	**Yakutia Kuranakh**	**Magadan**	**Exploration**	**Kazakhstan**	**Total**
Balance at 31 December 2012	**41**	**7**	**14**	**12**	**2**	**8**	**35**	**119**
Change in estimation (notes 9, 14, 16, 17)	(8)	-	(1)	(1)	(1)	(4)	-	(15)
Unwinding of discount on site restoration, decommissioning and environmental obligations (note 11)	3	1	-	1	-	-	-	5
Disposal of subsidiaries (note 5)	-	-	-	-	-	-	(35)	(35)
Effect of translation to presentation currency	(3)	(1)	(1)	-	-	-	-	(5)
Balance at 31 December 2013	**33**	**7**	**12**	**12**	**1**	**4**	**-**	**69**
Change in estimation (notes 9, 14, 16, 17)	6	-	1	1	1	1		10
Unwinding of discount on site restoration, decommissioning and environmental obligations (note 11)	2	-	1	1	-	-	-	4
Effect of translation to presentation currency	(16)	(3)	(6)	(6)	(1)	(2)		(34)
Balance at 31 December 2014	**25**	**4**	**8**	**8**	**1**	**3**	**-**	**49**

The principal assumptions used for the estimation of site restoration, decommissioning and environmental obligations were as follows:

	31 December	
	2014	**2013**
Discount rates (RUB)	8.8-9.5%	5.8 - 8.7%
Inflation rates (RUB)	7.0 -11.8%	5.0 - 6.5%
Expected maturity of liability	2015-2045	2014 - 2045

The present value of costs to be incurred for settlement of the site restoration, decommissioning and environmental obligations is as follows:

	31 December	
	2014	**2013**
Due from 2nd to 5th year	7	8
Due from 6th to 10th year	16	15
Due from 11th to 15th year	18	28
Due from 16th to 20th year	7	17
Due thereafter	1	1
Total	**49**	**69**

(in millions of US Dollars)

26. Borrowings

		Nominal rate %	31 December 2014	31 December 2013
Notes due in 2020 (Eurobonds)	(i)	5.625%	745	744
Sberbank credit facility to CJSC “Gold Mining Company Polyus”	(ii)	10.35%	596	-
Unicredit Bank credit facility to CJSC “Gold Mining Company Polyus”	(iii)	3 months USD LIBOR + 2.75%	190	-
Unicredit Bank credit facility to OJSC “Matrosova Mine”	(iii)	6 months USD LIBOR + 2.02%	47	56
Unicredit Bank credit facility to OJSC “Pervenets”	(iii)	3 months USD LIBOR + 2.4%	-	22
Société Générale credit facility to CJSC “Gold Mining Company Polyus”	(iv)	3 months USD LIBOR + 3.5%	50	-
Société Générale export financing credit facility agreement to CJSC “Gold Mining Company Polyus”	(iv)	6 months USD LIBOR + 0.55%	14	26
Société Générale credit facility to OJSC “Pervenets”	(iv)	3 months USD LIBOR + 2.4%	-	22
Deutsche Bank credit facility to OJSC “Matrosova Mine”	(v)	6 months USD LIBOR + 1.35%	15	20
Deutsche Bank letters of credit with deferred payment issued by the order of OJSC “Matrosova Mine”	(v)			
- nominated in USD		6 month USD LIBOR + 2.4%	-	21
- nominated in EUR		Cost of fund (COF) + 2.7%	48	92
VTB Bank letters of credit with deferred payment issued by the order of OJSC “Matrosova Mine”	(vi)			
- nominated in USD		6 months USD LIBOR + 1.7%	-	49
- nominated in EUR		Euribor +1.8%	21	32
Rosbank credit facility to CJSC “Gold Mining Company Polyus”	(vii)	3 months USD LIBOR + 3.5%	49	-
Rosbank letters of credit with deferred payment issued by the order of CJSC “Gold Mining Company Polyus”	(vii)	6 months USD LIBOR + 2.35%	38	22
HSBC credit facility	(viii)	3 months USD LIBOR+3%	-	100
Sub-total			**1,813**	**1,206**
Less: Short-term borrowings and current portion of long-term borrowings due within 12 months			(90)	(269)
Long-term borrowings			**1,723**	**937**

Summary of borrowing agreements

(i) Notes due in 2020 (Eurobonds)

On 29 April 2013, the Company issued USD 750 million Notes maturing in 2020 with a fixed coupon rate of 5.625% paid semi-annually. The Notes are accounted for at amortised cost at the effective interest rate. Interest expense in the amount of USD 43 million (2013: USD 29 million) was fully capitalised into the Mine under development balance at the effective interest rate of 5.835%.

(ii) Sberbank

On 11 April 2014, CJSC “Gold Mining Company Polyus”, subsidiary of the Group, entered into a five year RUB 36 billion credit facility agreement with Sberbank as a lender. The Group intends to use the proceeds for refinancing of its existing loans and for general corporate purposes, including financing of capital investment projects. The facility has a bullet principal repayment at 10 April 2019 with prepayment options for the borrower. Interest expense in the amount of USD 12 million was capitalised into the Mine under development balance at the effective interest rate of 10.5%. As of 31 December 2014, RUB 2 billion (USD 40 million) was not utilised.

(iii) Unicredit Bank

On 15 August 2014, CJSC “Gold Mining Company Polyus”, entered into a five year USD 190 million term loan facility agreement with Unicredit Bank as a lender to fund general corporate purposes.

On 26 April 2013, OJSC “Matrosova Mine”, a subsidiary of the Group, entered into a USD 59 million (USD equivalent of EUR 48 million) credit facility agreement arranged by Unicredit Bank and guaranteed by OeKB (the Austrian export credit agency) to fund the acquisition of mining equipment. Scheduled repayments were made during 2014. The maturity of the outstanding amounts varies from 2015 to 2021.

On 4 October 2011, OJSC “Pervenets”, a subsidiary of the Group, entered into a three year USD 100 million term loan facility agreement with Société Générale as a lender to fund general corporate purposes. On 6 October 2011, Société Générale transferred USD 50 million of the facility [see note (iv) below] to a new lender Unicredit Bank. The facility was to be repaid in nine equal instalments at intervals of three months starting from 4 October 2012. As of 31 December 2014, the facility was fully repaid.

(iv) Société Générale

On 7 November 2014, CJSC “Gold Mining Company Polyus”, entered into a five year USD 50 million term loan facility agreement with Société Générale as a lender to fund general corporate purposes. The facility is to be repaid in thirteen equal instalments at intervals of three months starting from 7 December 2016.

As of 31 December 2014, USD 14 million was outstanding out of a USD 68 million export financing credit facility agreement between CJSC “Gold Mining Company Polyus” and Société Générale for financing to be used for the purchase of mining equipment. The facility was established for facilitation of exports from the United States of America and guaranteed by Export-Import Bank of the United States. The maturity of the outstanding amounts varies from 2015 to 2016. The credit facility is secured by the pledge of plant and equipment with a net book value of USD 17 million (31 December 2013: USD 47 million).

On 4 October 2011, OJSC “Pervenets” entered into a three year USD 100 million term loan facility agreement with Société Générale as a lender to fund general corporate purposes. On 6 October 2011, Société Générale transferred USD 50 million of the facility to a new lender, Unicredit Bank [see note (iii) above]. The facility was to be repaid in nine equal instalments at intervals of three months starting from 4 October 2012. As of 31 December 2014, the facility was fully repaid.

(v) Deutsche Bank

On 7 August 2013, OJSC “Matrosova Mine” entered into a USD 22 million credit facility agreement arranged by Deutsche Bank and guaranteed by EKN (the Swedish export credit agency) to fund the acquisition of mining equipment. Scheduled repayments were made during 2014. The maturity of the outstanding amounts varies from 2015 to 2018.

As of 31 December 2014, OJSC “Matrosova Mine” had outstanding a number of letter of credit agreements with Deutsche Bank nominated in Euro for the acquisition of mining equipment with deferred payment terms. The maturity of the outstanding amounts varies from 2015 to 2017.

During 2014, letters of credit nominated in USD issued by Deutsche Bank to OJSC “Matrosova Mine” were fully repaid.

(vi) VTB Bank

As of 31 December 2014, OJSC “Matrosova Mine” had outstanding a number of letter of credit agreements with VTB Bank nominated in EURO for the acquisition of mining equipment with deferred payment terms. The maturity of the outstanding amounts varies from 2015 to 2017.

During the year 2014, letters of credit nominated in USD issued by VTB Bank to OJSC “Matrosova Mine” were fully repaid.

(vii) Rosbank

On 7 November 2014, CJSC “Gold Mining Company Polyus”, entered into a five year USD 50 million term loan facility agreement with Rosbank as a lender to fund general corporate purposes. The facility is to be repaid in thirteen equal instalments at intervals of three months starting from 7 December 2016. The facility is accounted for at amortised cost at the effective interest rate.

As of 31 December 2014, CJSC “Gold Mining Company Polyus” had an outstanding letter of credit agreement with Rosbank for the acquisition of mining equipment with deferred payment terms. The maturity of the outstanding amounts varies from 2015 to 2016.

(viii) HSBC

During the year 2014, a three year USD 100 million credit facility with HSBC was fully repaid.

Unused credit facilities

On 14 November 2014, CJSC “Gold Mining Company Polyus” entered into a five year RUB 40 billion (approximately USD 711 million) credit line with VTB Bank to fund its general corporate purposes. The interest rate is subject to a separate agreement under each of the credit line drawdowns.

Other matters

CJSC “Gold Mining Company Polyus” guaranteed liabilities of all the companies in the Group for all borrowings.

There were a number of financial covenants under several loan agreements in effect as of 31 December 2014 according to which the respective subsidiaries of the Company and the Company itself are limited in:

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

The Group was in compliance with these covenants as of 31 December 2014.

The fair value of the Notes due in 2020 are within Level 1 of the fair value hierarchy. Whilst measured at amortised cost, the fair value of all of the borrowings, except for the Notes due in 2020, are within Level 2 of the fair value hierarchy in accordance with IFRS 13. The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB interest rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value. The fair value of the borrowings as of 31 December 2014 was equal to USD 1,437 million, while as of 31 December 2013 they approximated their book value, except for the Notes due in 2020, whose fair value was equal to USD 728 million.

(in millions of US Dollars)

27. Deferred tax liabilities

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

	Year ended 31 December	
	2014	**2013**
Net deferred tax liability at beginning of the year	**134**	**209**
Recognised in the consolidated statement of profit or loss	2	(41)
Recognised in the consolidated statement of comprehensive income	19	
Effect of translation to presentation currency	(52)	(19)
Other	-	12
Deferred tax liability disposed as a result of discontinued operations	-	(27)
Net deferred tax liability at end of the year	**103**	**134**

Deferred taxation is attributable to tax losses carried-forward and the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

	31 December	
	2014	**2013**
Property, plant and equipment	147	135
Inventory	60	84
Derivative financial instruments and investments	27	-
Accounts receivable		1
Offset of deferred tax asset and liability within the same taxable entity	(84)	(86)
Total deferred tax liabilities	**150**	**134**
Tax losses carried-forward	116	69
Offset of deferred tax asset and liability within the same taxable entity	(84)	(86)
Property, plant and equipment	1	-
Accrued expenses	14	17
Total deferred tax assets	**47**	**-**

Unrecognised deferred tax asset

Unrecognised deferred tax asset resulting from losses on derivative financial instruments	185	-
Unrecognized deferred tax assets resulted from impairments	38	50
Unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit	22	38
Total	**245**	**88**

Deferred tax assets on losses from derivative financial instruments and those resulted from impairments were not recognised as of 31 December 2014 because there is no evidence that those tax losses might be utilised.

Tax losses carried forward expire in periods up to ten years, and some are not recognised as management does not believe it is probable that future taxable profit will be available against which the respective entities can utilise the benefits.

Unrecognised deferred tax liability

The unrecognised deferred tax liability for taxable temporary differences associated with investments in subsidiaries	63	26

(in millions of US Dollars)

The deferred tax liability presented above was not recognised because the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

28. Trade, other payables and accrued expenses

	31 December	
	2014	**2013**
Trade payables to third parties	21	32
Other payables		
Other accounts payable and accrued expenses	31	90
Wages and salaries payable	57	86
Dividends payable to non-controlling interests	2	6
Interest payable	24	10
Total other payables	**114**	**192**
Accrued annual leave	19	36
Total	**154**	**260**

The average credit period for trade payables at 31 December 2014 was 18 days, (2013: 19 days). No interest was charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

29. Taxes payable

	31 December	
	2014	**2013**
Value added tax	3	13
Income tax payable	11	1
Tax on mining	11	8
Social taxes	6	23
Property tax	2	3
Other taxes	3	5
Total	**36**	**53**

30. Related parties

Related parties include substantial shareholders, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of business, enter into purchase and service transactions with related parties.

The Group had no transactions with its shareholders during 2014 and 2013.

Entities under common ownership

The Group had no balances and investments with entities under common control as of 31 December 2013 and 2014.

Following the disposal of the Company’s shares by one of the principal shareholders in February 2013 certain entities ceased to be related parties.

(in millions of US Dollars)

Transactions with entities under common control:

	Year ended 31 December	
	2014	**2013**
Interest income	-	1
Key management personnel		
Short-term compensation of key management personnel	31	48
including termination benefits to the former key management personnel	8	12

31. Commitments and contingencies

Commitments

Capital commitments

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

	31 December	
	2014	**2013**
Contracted capital expenditure commitments	23	146
- including contracted capital expenditure commitments related to the Natalka project	11	69

Operating leases: Group as a lessee

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2063.

Future minimum lease payments due under non-cancellable operating lease agreements at the end of the year were as follows:

	2014	2013
Due within one year	3	4
From one to five years	8	14
Thereafter	20	35
Total	**31**	**53**

Contingencies

Litigations

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

Insurance

The insurance industry is not yet well developed in the Russian Federation and many forms of insurance protection common in more economically developed countries are not yet available on comparable terms. The Group does not have full insurance coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations, other than limited coverage required by law.

The Group, as a participant in exploration and mining activities, may become subject to liability for risks that cannot be insured against, or against which it may elect not to be insured because of high premium costs. Losses from uninsured risks may cause the Group to incur costs that could have a material adverse effect on the Group's business and financial condition.

Taxation contingencies in the Russian Federation

Commercial legislation in the Russian Federation, including tax legislation, is subject to varying interpretations and frequent changes. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed with additional taxes, penalties and interest.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also, according to the clarification of the Russian Constitutional Court, the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayer has obstructed or hindered a tax inspection.

Management of the Group is confident that applicable taxes have all been accrued and, consequently, creation of provisions is not required.

Under the Russian tax legislation, the authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by the authorities could affect the Group's previously submitted and assessed tax declarations.

With regards to matters where practice concerning payment of taxes is unclear, management estimate that there were no tax exposures at 31 December 2014 and 2013.

Environmental matters

The Group is subject to extensive federal and local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns.

The Group's management believes that its mining and production technologies are in compliance with existing Russian environmental legislation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernises technology to meet more stringent standards.

The Group is obliged under the terms of various laws, mining licences and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses site restoration, decommissioning and environmental obligations for its operations. Estimations are based on management's understanding of the current legal requirements and the terms of the licence agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional site restoration, decommissioning and environmental obligations.

Operating environment

Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

(in millions of US Dollars)

Because the Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in an increase of interest rates on domestic borrowings. The exchange rate of the Russian Rouble depreciated significantly. These developments have resulted in reduced access of the Russian economy to international capital and export markets, capital flight, further weakening of the Rouble and other negative economic consequences.

The impact of further political and economic developments in the Russian Federation on future operations and financial position of the Group is at this stage difficult to determine.

32. Financial instruments risk management activities

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt which is borrowings (note 26) less banks deposits (note 22) and cash and cash equivalents (note 23), and equity of the Group.

Major categories of financial instruments

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

	31 December	
	2014	**2013**
Financial assets		
Cash and cash equivalents	1,217	809
Bank deposits	269	48
Derivative financial instruments and investments	171	-
Trade and other receivables	11	27
Loans receivable	1	2
Total financial assets	**1,669**	**886**
Financial liabilities		
Borrowings	1,813	1,206
Derivative financial instruments and investments	970	-
Trade and other payables	135	224
Total financial liabilities	**2,918**	**1,430**

Derivative financial instruments are carried at fair value.

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

Gold price risk

The Group is exposed to changes in the gold price due to its significant volatility. According to the approved hedging strategy the Group may hedge up to 1/3 of its annual gold sales.

(in millions of US Dollars)

During 2014, the Group entered into a number of derivative transactions (revenue stabiliser and gold forward agreements) under a Strategic Price Protection Programme to limit its exposure to future possible fluctuations of gold price (as detailed further in note 18).

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

If the gold price was 10% higher / lower during 2014 gold sales for the year would have increased / decreased by USD 181 million / USD 175 million respectively.

Interest rate risk
The Group is exposed to interest rate risk as it borrows funds. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's current policy considering the relatively low LIBOR rates is to borrow funds in USD with floating interest rates. During 2014, the Group, in order to align its borrowings with the policy, entered into a number of derivative transactions (note 18):

- to swap cash flows under a 36 billion Rouble denominated credit facility from Sberbank with a fixed interest rate of 10.35% into USD dollar denominated cash flows with a floating interest rate of LIBOR+2.32%. The credit facility was initially arranged in RUB with the view to swapping it into a USD denominated cash flow, because this was more cost effective than obtaining funding directly in USD (Note 26) and
- to swap interest payments under the 750 million Eurobond from a fixed rate of 5.625% into a floating rate of LIBOR+3.55% (Note 26).

If the interest rate was 1% higher / lower during 2014 interest expense (as well as equity and retained earnings) for the year would have increased / decreased by USD 18 million. 1% is the sensitivity rate used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible / negative change in interest rates.

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

During 2014, the Group entered into a number of derivative agreements, in the form of currency collars (note 18) in order to economically hedge its Russian rouble denominated expenses.

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

	31 December	
	2014	**2013**
Assets		
USD	1,581	292
EURO (presented in USD at closing exchange rate)	17	2
Total	**1,598**	**294**
Liabilities		
USD	2,135	1,099
EURO (presented in USD at closing exchange rate)	71	129
Total	**2,206**	**1,228**

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

(in millions of US Dollars)

The table below details the Group's sensitivity to changes in exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in the respective currencies.

If the USD or EURO exchange rate had increased by 25% for 2014 and 10% for 2013 compared to RUB as of the end of respective year, the Group would have incurred the following losses:

	31 December	
	2014	**2013**
Loss (USD exchange rate increased compared to RUB)	139	81
Loss (EURO exchange rate increased compared to RUB)	13	13

Credit risk

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

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

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

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

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

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

Although the Group sold more than 88% of the total gold sales in 2014 to four major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore the credit risk related to trade receivables is minimal. There were no outstanding receivables for gold sales as of 31 December 2014.

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

	Year ended 31 December	
	2014	**2013**
VTB Bank	841	446
Otkritie Bank	704	1,057
MDM Bank	298	125
Bank of Moscow	85	391
Other banks	269	240
Gold sales	**2,197**	**2,259**

(in millions of US Dollars)

Liquidity risk

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

For assessing own credit risk, a proxy CDS for the industry is used since Polyus does have quoted CDS.

Historically the Group has not relied extensively on external financing. Following the development of new capital projects during 2013, the Group issued notes in 2013 and arranged certain external finance facilities with banks during 2014 (note 26).

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

Presented below is the maturity profile of the Group's financial liabilities and derivative financial instruments as at 31 December 2014 based on undiscounted contractual payments / (receipts), including interest payments:

	Borrowings				
	Principal	Interest	Derivative financial instruments	Trade and other payables	Total
Due in the first year	90	118	279	111	598
Due in the second year	38	116	(134)	-	20
Due in the third year	87	115	(74)	-	128
Due in the fourth year	136	111	(51)	-	196
Due in the fifth year	710	76	359	-	1,145
Due in the period between sixth to eight years	764	22	(4)	-	782
Total	**1,825**	**558**	**375**	**111**	**2,869**

Presented below is the maturity profile of the Group's financial liabilities and derivative financial instruments as at 31 December 2013 based on undiscounted contractual payments, including interest payments:

	Borrowings				
	Principal	Interest	Derivative financial instruments	Trade and other payables	Total
Due in the first year	269	61	-	214	544
Due in the second year	118	45	-	-	163
Due in the third year	26	44	-	-	70
Due in the fourth year	19	44	-	-	63
Due in the fifth year	9	43	-	-	52
Due in the period between sixth to eight years	771	58	-	-	829
Total	**1,212**	**295**	**-**	**214**	**1,721**

33. Events after the reporting date

There have been no material reportable events since 31 December 2014 and the date of signing the report.

(in millions of US Dollars)

34. Investments in significant subsidiaries

34.1 Information about significant subsidiaries of the Group

Subsidiaries	Nature of business	Effective % held[1] at 31 December 2014	2013
Incorporated in Russian Federation			
OJSC "Polyus Gold" [2]	Management company	95	95
CJSC "Gold Mining Company Polyus"	Mining (open pit)	95	95
OJSC "Aldanzoloto GRK"	Mining (open pit)	95	95
OJSC "Lenzoloto"	Market agent	61	61
CJSC "ZDK Lenzoloto"	Mining (alluvial)	63	63
CJSC "Lensib"[3]	Mining (alluvial)	38	38
CJSC "Svetliy"	Mining (alluvial)	53	53
CJSC "Marakan"	Mining (alluvial)	53	53
CJSC "Dalnaya Taiga"	Mining (alluvial)	52	52
CJSC "Sevzoto" [3]	Mining (alluvial)	41	41
OJSC "Matrosova Mine"	Mining (development stage)	95	95
CJSC "Tonoda"	Mining (exploration stage)	95	95
OJSC "Pervenets"	Mining (open pit)	95	95
OJSC "South-Verkhoyansk Mining Company"	Mining (exploration stage)	95	95
LLC "Polyus Stroy"	Construction	95	95
Incorporated in British Virgin Islands			
Polyus Exploration Limited	Geological research	98	95
Jenington International Incorporated	Market agent	95	95

[1] Effective % held by the Company, including holdings by other subsidiaries of the Group.
[2] Effective % includes 92.95% of ordinary shares held directly by the Company as at 31 December 2014 and 2013.
[3] The Company maintains control of these entities as it continues to govern their financial and operating policies and manage returns from them through its ability to appoint the majority in the Board of Directors. A majority of the Board members for these entities are representatives of the Company and they are therefore consolidated even though the effective interest is less than 50% as at 31 December 2014 and 2013 and for the years then ended. Direct ownership in those subsidiaries by the immediate parent is in each case exceeds 50%, and there are no other additional agreements or other instances which could have set limits on the Company's ability to execute its control over its subsidiaries.

(in millions of US Dollars)

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

The summarised financial information below represents amounts before intragroup eliminations.

Summarized statements	**OJSC "Polyus Gold" consolidated**		**OJSC "Lenzoloto" consolidated**	
	2014	**2013**	**2014**	**2013**
Information as at 31 December				
Current assets	2,009	1,995	155	176
Non-current assets	2,996	3,822	46	69
Current liabilities	830	536	16	25
Non-current liabilities	2,373	1,158	10	14
Equity attributable to the shareholders of the subsidiary	1,656	3,848	110	127
Non-controlling interests	146	275	65	79
Information for the years ended 31 December				
Revenue	2,197	2,259	234	277
(Loss) / profit for the year	(1,081)	(61)	89	(2)
(Loss) / profit attributable to non-controlling interests	(18)	(4)	37	13
Total comprehensive (loss) / income	(2,720)	(380)	89	(2)
Net cash inflow from operating activities	673	428	65	74
Net cash (outflow) / inflow from investing activities	(1,169)	(1,161)	(61)	5
Net cash inflow / (outflow) from financing activities	992	636	(10)	(83)
Dividends paid to non-controlling interests	10	43	10	26

34.3 Significant restrictions on the Company's ability to access or use the assets and settle the liabilities of the group

The basis of distribution of accumulated retained earnings for companies operating in the Russian Federation is defined by legislation as the current year net profit of the company, as calculated in accordance with Russian accounting standards. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.