# Smart organic growth

**Polyus Gold International**
Annual Report 2015

Pavel Grachev
Chief Executive Officer of PJSC Polyus Gold

Polyus is one of the world's leading gold producers, and our development is based on the sound and disciplined principle of smart, organic growth. We are entirely focused on driving value throughout our business, and the following pages describe in more detail our commitment to strong cost control, developing our reserve base and improving operational efficiencies. As we maintain our industry-leading positions, we are confident that this will enable us to continue delivering value and building a sustainable business.

Sergei Nossoff
Executive Director
of Polyus Gold International

Pavel Grachev
Chief Executive Officer
of PJSC Polyus Gold

Read more on pages 16–18


For more information
please visit **www.polyusgold.com**

ICMM
International Council
on Mining & Metals

# At a glance

## Key financial figures

TCC[1]

**$424/oz**

AISC[1]

**$610/oz**

Adj. EBITDA

**$1,268 million**

Adj. EBITDA margin

**58%**

## Key operational figures

LTIFR[2]

**0.08**

Processed ore

**24.7 mt**

Grade in processed ore

**2.4 g/t**

Total gold produced[3]

**1,763 koz**

## Asset portfolio

**6 operating assets**

P&P reserves

**64 moz**

Average reserve grade

**2.2 g/t**

Life of mine[4]

**36 years**

1. Hereinafter Total cash cost (TCC) and All-in sustaining cash cost (AISC) imply costs per ounce sold, not produced. For a definition and calculation, see the section 1.11 on pages 58–59.
2. The lost time injury frequency rate (LTIFR). For a definition and calculation, see the section 2.6 'Health and safety'.
3. Total gold produced represents refined gold output plus gold contained in concentrate.
4. Life of mine (LOM) is calculated as P&P reserves divided by 2015 production.

## Contents

# ...through operational excellence and cost efficiencies

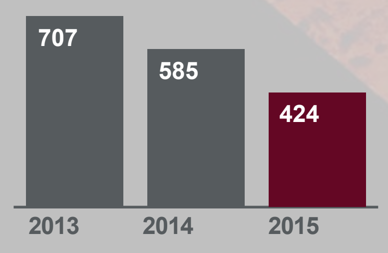
## A disciplined approach

We strive to succeed in ensuring productive operations and cost efficiencies across all aspects of our business.

Our cost performance was outstanding: in 2015 Polyus continued efforts to enhance productivity and cost efficiencies through the Total Operational Efficiency programme (TOE), launched a year ago. In 2015 the programme was rolled out across all our assets, including auxiliary, and, coupled with a weaker rouble, it helped reduce our expenses significantly, with TCC and AISC down 28% and 26% y-o-y, respectively, putting Polyus Gold in the first decile of the global cost curve. In 2015 the programme's positive impact on the Group's earnings was RUB 5.74 billion ($94 million).

In parallel to the TOE programme rollout, we started to deploy the Polyus Production System at our assets, which is a culture of lean manufacturing and a system for the continuous improvement of processes, quality, and organisation of labour to ensure the Group's global competitive edge.

Total cash cost (TCC), $/oz




All-in sustaining cash cost (AISC), $/oz

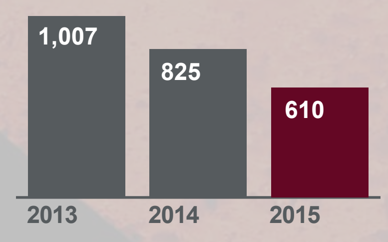



Photo: Gold smelting

## Sustainable growth

The results of our cost improvement initiatives are tangible, and we expect to see more material results in upcoming years as we continue to identify and launch more multifaceted initiatives.

We are determined to be in the first cost decile globally – and the onus will be on us to retain this position going forward.

Smart organic growth...

# ...through developing our reserve base

## A focus on consistent production

**Strategic asset review**
In 2014, key brownfield development options were identified that have the capacity to fully unlock the potential of legacy operations and to fuel the further growth of the Group. In 2015 we proceeded with projects on schedule and recommenced the Natalka project:

- construction and installation works at **the Titimukhta Mill as part of its reconfiguration** continued; a new production circuit is planned to be installed in 2016
- a detailed design of expanded grinding and flotation stages to **expand the Blagodatnoye Mill** was completed and equipment contracting launched
- a pre-feasibility study into **heap leaching at Blagodatnoye** continued, aimed at evaluating potential processing options and ascertaining optimal operational parameters
- the Group continued with second-stage testing of **heap leaching technology at Kuranakh**, with 46 kt of ore stacked during the year
- options to **increase the Verninskoye Mill processing capacity**, from 2.2 to 3.6-5.0 mtpa, are being explored. The Group expects to complete a definitive study into the expansion in 2016
- at **Natalka**, engineering and construction works continued after the reassessment of a project following negative changes in the reserve block model. The Group made further progress on process flowsheet optimisation studies, and expects them to be completed in mid-2016
- the Group is performing exploration works at a number of promising deposits
- in December 2015 a JV with Polymetal was signed to jointly develop the Nezhdaninskoye gold deposit in Yakutia

Photo: Olimpiada mine

## Sustainable growth

Starting from 2018 we expect our brownfields, in conjunction with Natalka, to deliver up to 1 moz of additional annual gold production.

We believe our partnership with Polymetal will allow us to fast track the optimal development of the Nezhdaninskoye gold deposit, and to monetise our resource base.

In addition, we will continue to explore opportunities to unlock the potential of promising exploration assets.

## Smart organic growth...

# ...through maintaining stringent health and safety performance standards

## Putting safety first

Polyus makes every effort to put safety first in everything that we do. Our Lost Time Injury Frequency Rate (LTIFR) has improved by 47% over the past four years. In 2015 the LTIFR fell further, to 0.08, an 11% decrease on 2014.

Our integrated management system, based on ISO 14001 and OHSAS 18001 requirements, continued to be improved in 2015, with two additional Business Units certified under ISO 14001 and OHSAS 18001: Verninskoye and Polyus Logistics. As a result, all our hard-rock mines now comply with these standards.

Furthermore, updated Golden Safety Rules were introduced at all operating mines and professional services. Monitoring is regularly carried out to identify any violations (see the 'Sustainability report' on page 95 for details).

In recognition of our efforts related to HSE and Social Engagement policies and standards, we achieved membership of the International Council on Mining and Metals (ICMM) – Polyus thus became the first company from Eastern Europe and the CIS to join the ICMM.

Nevertheless, further controls and improvements are needed: despite our continuing efforts, in 2015 there was one work-related fatality with our employer (compared to four in 2014).

**Lost Time Injury Frequency Rate (LTIFR), per 200k hours worked**

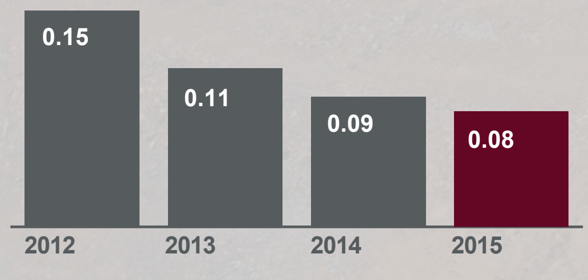



Photo: Dormitories at the Blagodatnoye mine

## Sustainable growth

Safety is of paramount importance: our goal is to reach zero-fatality status through continuous improvements to existing, already robust Health and Safety management systems.

In 2015 DuPont held the first stage of a corporate programme to improve the safety culture across the Group.

In addition, the Group will continue to implement a two-year action plan (2015-2016) to ensure full compliance with ICMM sustainability development principles.

# Maximising the value of our world-class assets

### Titimukhta

- Located in the Krasnoyarsk region
- 6% of the Group's output
- 4% of the Group's adj. EBITDA
- TCC of $498/oz in 2015
- 561 employees
- Processing capacity: 2.4 mtpa

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### Blagodatnoye

- Located in the Krasnoyarsk region
- 24% of the Group's output
- 27% of the Group's adj. EBITDA
- TCC of $345/oz in 2015
- 1,986 employees
- Processing capacity: 6.0 mtpa

Read more on page 32

### Olimpiada

- Located in the Krasnoyarsk region
- 43% of the Group's output
- 48% of the Group's adj. EBITDA
- TCC of $416/oz in 2015
- 3,163 employees
- Processing capacity: 8.0 mtpa

Read more on page 31

Operating mines    Development projects

## Alluvials
- Located in the Irkutsk region
- 10% of the Group's output
- 6% of the Group's adj. EBITDA
- TCC of $582/oz in 2015
- 2,522 employees
- Processing approx. 9.4 million m$^3$

Read more on page 35

## Natalka
- Located in the Magadan region
- One of the biggest gold deposit in Russia and globally with gold reserves of 16 moz.

Read more on page 29

## Verninskoye
- Located in the Irkutsk region
- 9% of the Group's output
- 9% of the Group's adj. EBITDA
- TCC of $417/oz in 2015
- 1,623 employees
- Processing capacity: 2.2 mtpa

Read more on page 34

## Kuranakh
- Located in the Republic of Sakha (Yakutia)
- 8% of the Group's output
- 6% of the Group's adj. EBITDA
- TCC of $598/oz in 2015
- 1,844 employees
- Processing capacity: 3.8 mtpa

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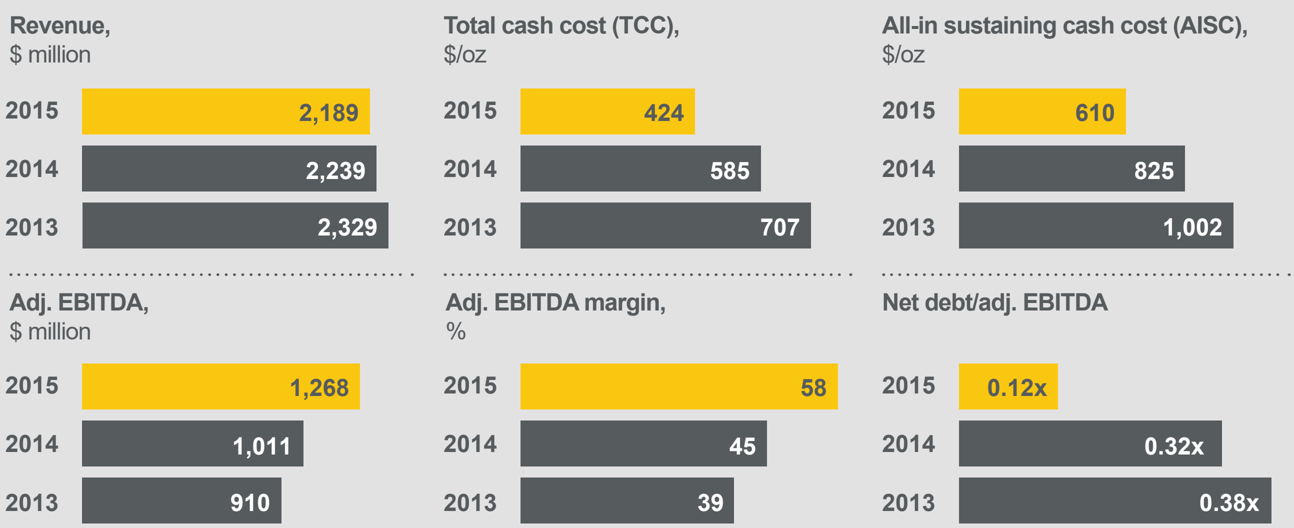
# 1.1 Highlights of the year

## Financial highlights




## Our year in review

**January 2015**
**Fitch rating confirmation**
Fitch confirms ‘BBB-‘ long-term issuer default rating for Polyus; outlook revised from stable to negative.

**February 2015**
**S&P rating confirmation**
S&P confirms ‘BB+’ Long-term Corporate Credit Rating for Polyus Gold; outlook revised from stable to negative.

**February 2015**
**Admission of notes to trading on MOEX**
In addition to the Irish and London stock exchanges, notes are now admitted to trading on the Moscow Exchange.

**September 2015**
**Potential offer for Polyus**
The Independent Committee of the Polyus Gold Board announces a potential cash offer from Wandle to acquire all the issued and to-be-issued share capital of Polyus not already held by Wandle, for $2.97 per share.

**November 2015**
**Update on further Group development**
The acquisition of Polyus by Wandle is completed. PJSC Polyus Gold, a Russia-domiciled public company, is set to become a holding company of the Group and to retain its MOEX listing.

## Operational highlights

**Ore processed,** million t

| | |
|---|---|
| 2015 | 24.7 |
| 2014 | 23.7 |
| 2013 | 22.5 |

**Average grade in ore processed,** g/t

| | |
|---|---|
| 2015 | 2.43 |
| 2014 | 2.51 |
| 2013 | 2.49 |

**Recovery rate,** %

| | |
|---|---|
| 2015 | 84.5 |
| 2014 | 82.2 |
| 2013 | 81.2 |

**Gold production,** koz

| | |
|---|---|
| 2015 | 1,763 |
| 2014 | 1,696 |
| 2013 | 1,652 |

**Lost Time Injury Frequency Rate (LTIFR),** per 200k hours worked

| | |
|---|---|
| 2015 | 0.08 |
| 2014 | 0.09 |
| 2013 | 0.11 |

**Greenhouse gas (GHG) emissions,** ($CO_2$-e)

| | |
|---|---|
| 2015 | 3.29 |
| 2014 | 3.25 |
| 2013 | 3.29 |

### February 2015
### Natalka project update
Final results of the review of mineral resource and ore reserve estimates announced for the Natalka deposit, as well as a project development update.

### April 2015
### New dividend policy and final dividend recommendation
The Group's Board adopts a new dividend policy and recommends a final dividend of US 6.08 cents per ordinary share, or $184.5 million in total.

### June 2015
### ICMM membership
Polyus Gold becomes the first Company from Eastern Europe and the CIS to join the International Council on Mining and Metals.

### December 2015
### LSE delisting
The admission of the Group's shares to trading on the London Stock Exchange and premium listing are cancelled.

### December 2015
### JV with Polymetal at the Nezhdaninskoye gold deposit
Polyus Gold enters into a joint venture with Polymetal to fast track the development of the Nezhdaninskoye gold deposit in Yakutia.

# 1.2 Executive Director's Statement

After a transformative 2014, in 2015 Polyus Gold focused on growth opportunities and productivity improvements. The past year remained challenging from the perspective of gold prices, which continued to drift lower, but Polyus Gold cemented its position as one of the industry's global leaders, delivering further efficiency improvements despite already being the lowest cost producer. Having formulated a robust strategy, our focus will continue to be on its execution to deliver intelligent and sustainable organic growth.

**Dear Ladies and Gentlemen,**
In many respects, 2015 was a year of opportunities for Polyus Gold; however, we were not immune to headwinds – primarily weak commodity prices and sanctions imposed by the US and EU against Russia – which limited access to capital markets for Russian companies and created uncertainty among investors towards the Russian market.

So, how did Polyus respond to these challenges? First, the Strategic Price Protection Programme, which covered around a third of our production volumes, allowed us to sell gold at a premium to the spot price. Second, our costs dropped significantly thanks to the rouble devaluation, continued benefits from the Total Operational Efficiency programme (which yielded $94 million), and operational improvements. The Group continued to strengthen our balance sheet by generating free cash flows and through our activities on capital markets. In particular, The Group placed an inaugural rouble bond issuance in July 2015 and increased the liquidity of our $750 million Eurobond due in 2020 after its admission to trading on the Moscow Stock Exchange.

Thus, as you will see in this Report, we were able to improve our results amid an unfavourable market environment. Our gold output went up another 4%, making 2015 the eighth successive year of production growth. Our average realised price was 5% above the spot, and retreated 6% year-on-year, as compared to 8% for the spot. The financial results were encouraging, with EBITDA progressing 25% y-o-y to $1,268 million and free cash flow advancing by 13% y-o-y to $322 million. Our net debt fell 55% y-o-y during the year, to $146 million, and the net debt-to-EBITDA ratio dropped by 63% y-o-y to 0.12x.

Strong results underpinned execution of the organic growth focused strategy: Polyus moved forward with the development of key brownfield projects, continued the optimisation works of the Natalka project, proceeded with several exploration programmes, and signed a joint venture with Polymetal to fast track the development of the Nezhdaninskoye deposit.

From a shareholder perspective, the major event in the year was an offer received from Wandle Holdings, the entity of our core shareholder, in respect of all shares not held by it. Although the offer price of $2.97 per share provided a premium to the market price, the Independent Committee of the Board assessed the offer as undervaluing the company. Nevertheless, 100% of share capital was consolidated by Wandle on 17 December, and the Group was delisted from the London Stock Exchange. Although the Board always prioritised the development of Polyus Gold International as a public company with a UK listing, they respected the intention of the shareholder. Moreover PJSC Polyus Gold, the direct subsidiary of the Group, will be maintained as a listed company on the Moscow Stock Exchange and the Board will consider upgrading its listing and placing GDRs on the London Stock Exchange in due course. Simply put, the Polyus Gold story as a listed public company will not cease, but continue in a form more typical for public companies with a Russian origin. At the same time, the necessary disclosures on behalf of Polyus Gold International will be sustained.

**Sustainability**
The sustainability of our activities and responsible mining are key parts of our strategy. Safety is a top priority for Polyus Gold which places a lot of emphasis on safety performance throughout the Group. Our key aspiration in this case remains the same – to become a zero-fatality company. This should be the goal of every responsible miner, but its commonality should not downplay its importance. Despite our continued efforts to run the operations without fatalities, sadly it is necessary to report one work-related fatality at the Group. This is less than in 2014, when the number was four, but nevertheless the event represents a burden for us all. It also means that our efforts are not complete and that we will strive harder to meet our zero-fatality target.

However, being a responsible company is not only about being a safe operator, although this is of paramount importance. In June 2015 Polyus Gold became the first CIS company to join the International Council on Mining and Metals (ICMM), which reflected our commitment to responsible and sustainable development. Membership provides an opportunity to interact with other member mining companies as we seek to improve best practices. It should also be noted here that all our hard-rock mines are compliant with international environmental and safety standards ISO 14001 and OHSAS 18001. Details are disclosed in our Sustainability report below, which we continue to issue "in accordance" option Comprehensive with the latest GRI G4 Guidelines.

**Board developments**
The past year has seen a number of significant Board changes.

In March 2015 Mr Vitalii Koval was appointed as Non-Executive Director. He was nominated by Lizarazu Limited, a company associated with Mr Oleg Mkrtchan, who became one of the main shareholders of the Group in December 2014. Vitalii has broad experience in finance and management in Ukrainian metals and mining companies. The Board were pleased to welcome Vitalii, who became the ninth member of the Board.

In September 2015 Wandle Holdings informed the Board about its intention to consolidate all the Group's share capital not already held by it. In November 2015 their offer became unconditional and on 3 December Polyus Gold International was delisted from the London Stock Exchange (LSE). As a result, the independent non-executive Directors of the Board made a decision to resign on 17 November.

The subsequent changes to the Board in 2016 are discussed in the Corporate governance report on pages 127–130.

**Reporting**
As Polyus Gold International is no longer a UK premium listed company, it is no longer required to comply with UK disclosure and reporting standards. However, as we have public debt and expect our Russian subsidiary PJSC Polyus Gold to remain public, we would like to maintain these high standards of reporting. PJSC Polyus Gold is finalising the process of identifying potential candidates with the appropriate calibre, experience, and stature to fill the roles of independent Board members on the PJSC Polyus Gold Board, thus reflecting Polyus Gold's status as a world-leading public gold producer.

We will continue to provide quarterly trading updates, while half-year financial reporting will be maintained for both Polyus Gold International and PJSC Polyus Gold. Our audited annual reporting, which has been compliant with the GRI Guidelines for several years, will also continue, especially in light of our membership in the ICMM. All in all, the Board and the management are unanimously of the opinion that high standards of reporting and disclosure must be maintained.

**Strategy and asset development**
During 2015 Polyus advanced each of our development projects.

In March 2015 the Group presented the Strategic Asset Review Programme to develop low-risk, low-cost brownfield projects. Polyus began work on the programme in 2014 and identified a number of attractive opportunities at our Krasnoyarsk, Irkutsk and Kuranakh assets, which will allow us to maximise returns from our extensive resource base and to deliver up to 500 thousand additional ounces a year starting from 2018. The Krasnoyarsk Business Unit will remain the growth platform of the company, with three major projects being identified: reconfiguration of the Titimukhta Mill to process higher-grade ore from Olimpiada; expansion of the Blagodatnoye mill; and the introduction of heap leaching at Blagodatnoye. In addition, at Verninskoye we are planning to increase the capacity of the mill and are studying the potential for combining our other gold deposits in the region into one hub, while at Kuranakh we are examining commissioning a heap leach process. During 2015 Polyus made good progress on all these projects and even produced first gold from the testing vat leaching units at Kuranakh.

At Natalka, our largest greenfield project, the Group completed the review of the mineral resource and ore reserve estimates for the deposit, which now amount to 16.2 million ounces of proved and probable reserves and 36.8 million ounces of measured, indicated and inferred mineral resources. During the year Polyus worked on an operational review of the project, which is expected to be completed in early 2016. Other initiatives included improving blasting methods and ore grade control, while the large-scale pilot plant programme was of primary importance for the project. In December 2015, the main crushed ore conveyor tunnel construction, one of the major remaining infrastructure units, was completed. We now anticipate commissioning of the Natalka project in 2017, with a substantial ramp-up of construction activities beginning in Q2 2016.

# 1.2 Executive Director's Statement continued

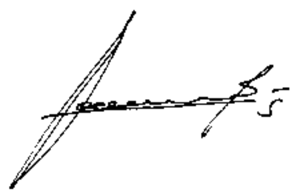
In December 2015 Polyus entered into a joint venture (JV) with Polymetal, a large Russian precious metals producer to develop the Nezhdaninskoye gold deposit located in the Republic of Yakutia. The Group acquired the license for the deposit in 2006, and have conducted an extensive exploration programme and completed a number of technical studies aimed at defining a workable strategy for the development. The remoteness and ore complexity have been the major hurdles to the intensive development of Nezhdaninskoye. In the Board's view, having an experienced partner should facilitate the required progress, while at the same time reducing operating risks for Polyus Gold.

With regards to other activities, Polyus moved forward with our electricity projects and completed construction of the Peleduy-Mamakan grid in the Irkutsk region while progressing with the Razdolinkaya-Taiga grid line in the Krasnoyarsk region. Both lines are being developed in cooperation with the Federal Grid Company (FGC, the national electricity transmission monopoly). The lines are pivotal for the expansion projects the Group has defined, providing cheaper and more reliable electricity for our operations.

Thus our major strategic principles remained intact in 2015, and the Group implemented them in full accordance with our four key goals: to remain the Russian gold champion and one of the industry's global leaders; to continue to deliver sustainable organic growth; to maintain our status as a low-cost producer; and to provide peer-leading returns to our shareholders.

**Looking ahead**
Following my appointment on 3 March 2016 I am delighted to be the Executive Director of Polyus Gold International at a time of ongoing progress and with such strong foundations from which the Group can continue and grow. We expect 2016 to be another year of production growth for Polyus. Given the gold price volatility, it is difficult to provide guidance on our revenue and, as such, the financial results for next year. However, we believe that even in a low-price environment our low-cost assets, the chosen business model and efficiency programme will help us withstand the market turmoil and outperform the industry.

We will strive to preserve our status of being the lowest-cost global producer; however, apart from our own efforts, this hinges on a number of external factors. The start of the year has been beneficial to gold as a commodity and an investment, although we acknowledge the likelihood of there being further volatility in the price of the "yellow metal". However, we are firm believers in the long-term prospects of our major product. As for us, we continue to focus on efficient operational performance and on providing options for intelligent, sustainable organic growth. Internal improvements will continue, aimed at making the company stronger, leaner, and better. Hence, despite the challenges, I see many opportunities for Polyus ahead.



**Sergei Nossoff**
Executive Director
London, 10 March 2016

Photo: Alluvial operations

# 1.3 Chief Executive Officer's review

**Pavel Grachev**
Chief Executive Officer of PJSC Polyus Gold

2015 was a year in which we made important strategic moves forward. We proceeded with our Strategic Asset Review Programme to unlock the full potential of our operations, made another step forward on the optimisation of the Natalka project (which we expect to get off the ground in 2017), and extended a number of efficiency initiatives. Our work during the period was guided by the transformation path we defined last year to introduce best practices and explore new development horizons. In challenging market conditions we were able to deliver and surpass initial plans and expectations, both financially and operationally. We have an outstanding set of low cost, promising assets and aim to develop them to provide growth and at the same time make them more efficient.

**Safety performance**

The safety of our employees is of paramount importance and we are constantly thinking of how we can ensure that operating conditions are as safe as possible. Last year we launched a full-scale safety culture improvement programme, and we achieved meaningful progress on that front. In recognition of our efforts, in June 2015 we were admitted to the International Council on Mining and Metals (ICMM). As the first CIS company in the ICMM we hope to learn more and to further improve our safety performance.

In terms of the LTIFR indicator, it fell 11% in 2015 compared to 2014, to 0.08. Despite our efforts and the progress made in safety, I am deeply saddened to report that there was one work-related employee fatality at our alluvial operations. Although this is an improvement on the previous year, when four deaths were recorded, I, along with everyone at Polyus, find this tragic incident to be unacceptable. We remain steadfast in our focus on safety, and we believe that this commitment will allow us to become a zero-fatality company.

**Operational highlights**

Operationally, we managed to outperform our production guidance by delivering 1,763 koz of gold produced (4% up over 2014), which made 2015 the eighth successive year of growth for Polyus. Our hard-rock units continued to demonstrate solid progress with respect to major operational metrics.

Stripping works to cut back the pit continued at our flagship Olimpiada mine, and we expect them to be finished within the year. Olimpiada delivered a year-on-year gold production increase, based on higher recoveries and processing volumes, with its two mills running well ahead of nominal capacity. The same was seen at Blagodatnoye, our lowest-cost mine, where treatment volumes exceeded the installed capacity of the plant by 25%. At Verninskoye we achieved the design recovery level of 86%, as undertaken. Of particular note were substantial successes achieved at our oldest hard-rock asset, Kuranakh, where recoveries rose by 1.6 ppts, to 88.4%. In 2015 first gold at the heap leaching unit was also churned out at Kuranakh.

A major disappointment during the year came from our alluvial operations, as a result of issues with declining grades. However, thanks to significant efforts from our team we hope that these issues will be resolved in the medium-term.

I am confident that the groundwork undertaken during the year will serve as a firm platform for continuing progress in 2016.

**Cost savings**

In 2015 the Company attained the status of being the lowest-cost global producer, with TCC down 28% y-o-y to $424/oz and AISC down by 26% to $610/oz. To a large extent this was as a result of the rouble devaluation, however our optimisation and efficiency efforts also played an important part in achieving these figures. Among our Russian peers, we demonstrated the biggest progress in cost reduction. Our Total Operational Efficiency programme, which was rolled out at all production units, delivered a meaningful $94 million positive impact on our earnings and we expect further improvements going into 2016 and beyond.

While having the status of being the lowest-cost gold miner is highly advantageous to us, we are very aware of the fact that in this respect we are dependent on currency fluctuations. That is why internally we measure the pace of efficiency gains in roubles, not US dollars. Rouble cost reduction remains our priority in this respect, thus our status of being the lowest-cost global producer will depend on further achievements in productivity and cost optimisations. To achieve this target we started, in parallel with the TOE programme, to introduce a broader complex of initiatives which we have called the Polyus Production System. The system is based on the best practice experience globally and represents for us a culture of lean manufacturing as well as a system for the continuous improvement of processes, quality, and labour organisation to ensure the Group's global competitive edge and to secure step-change improvements in efficiency.

**Capital control**

With regard to capital allocation, our goal remains unchanged – finding the golden mean between maintaining a strong balance sheet, defining ways to achieve long-term value growth, and providing sustainable returns to shareholders.

We believe we were successful in this regard in 2015. Our balance sheet continued to remain strong, with the net debt-to-EBITDA ratio being down over the course of the year to 0.12x. We revived the Natalka project and launched the ambitious Strategic Asset Review programme to fully unlock the potential of our legacy operations. Despite this, our capex spending of $268 million was down 49% compared to 2014.

Looking ahead to 2016, we expect the year to be capex intensive with several brownfield projects on stream and Natalka scheduled to be launched in 2017. We are continuing to invest in our second electricity project – the Razdolinkaya–Taiga grid in the Krasnoyarsk region after the completion of the Peledui-Mamakan grid line in the Irkutsk region in 2015.

**Financial results**

As previously highlighted, the pricing environment remained under pressure in 2015, with gold spot prices retreating 8% on a year-on-year basis. This fact, however, only emphasises the success we achieved with our financial results. I am happy to report another year of EBITDA margin improvement: from 45% in 2014 to 58% in 2015, the record-high annual average in Polyus' history, with adjusted EBITDA progressing by 25% compared to 2014, to $1,268 million. Our free cash flow increased by 13% year-on-year, to $322 million. These financial results were driven by the continuing implementation of our efficiency measures, the rouble devaluation, overall production growth, and the Strategic Price Protection Programme, which enabled us to sell our gold at a premium to the market price.

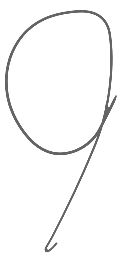
The results we achieved in the period are very satisfactory and our goal is to maintain them in 2016. Our cost-cutting initiatives continue to contribute meaningful results, which have also been helped by the weaker local currency. As the remainder of our currency-collar contracts expired in 2015, we start to benefit from the rouble depreciation in full in 2016. We also successfully restructured and enhanced (at zero cost) our gold hedging programme, which is now in place until 2020 and covers around 48% of expected production for 2016.

# 1.3 Chief Executive Officer's review continued

**Outlook**
We enter 2016 against a backdrop of uncertain and volatile market conditions. Despite this, I am confident that the Group is well positioned to withstand these persisting headwinds. Our focus will remain on further cost optimisations, free cash flow generation, and identifying new growth opportunities. 2016 is also expected to be capex intensive, as we prepare for the next stage of growth at our existing and greenfield operations.

As announced in our FY 2015 trading update, we expect our 2016 gold output to be above what was seen in the previous year, i.e. in the range of 1.76-1.80 moz.

**Thanks**
The results we achieved in 2015 would not have been possible without our employees, who have worked tirelessly throughout the year. I would like to thank them and their families for their ongoing hard work, commitment and contribution to Polyus. Their support and dedication will be key in achieving new targets in 2016 and beyond.



**Pavel Grachev**
Chief Executive Officer of PJSC Polyus Gold
10 March 2016

Photo: Olimpiada open-pit

# 1.4 Market overview

### Demand

Overall demand for gold turned out to be broadly flat y-o-y in FY 2015, at 4,212 t, decreasing by a mere 14 t, with growth in net investment and central bank demand offset by declines in jewellery and technology. Jewellery, with a 57% share in total demand, remained the single-largest consumer group, although its contribution was down 2 ppts y-o-y from 59% in FY 2014, following a 3% drop in demand. This decrease was on account of economic turbulence in Turkey, the Middle East, and Russia, although this was to some extent offset by positive developments in India. Investment demand was up 8% y-o-y, with a pick-up in bar and coin purchases supported by lower outflows from exchange-traded funds. Central banks continued to diversify reserves into gold, providing a 1% y-o-y growth in demand, with Russia and China topping the list of the largest buyers. Purchases from the technology sector, in contrast, demonstrated a fifth consecutive year of decline (down 5% y-o-y in FY 2015), primarily on account of substitutions and savings in the wireless industry and dentistry.

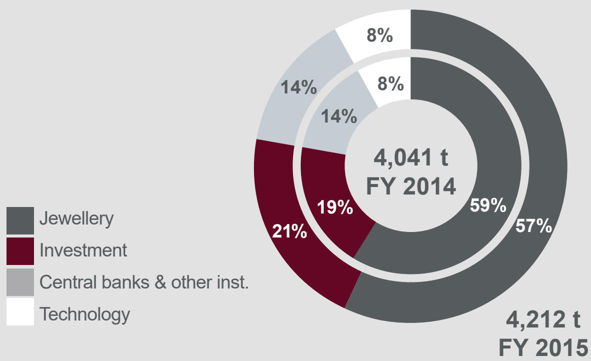
### Supply

In FY 2014 a continued increase in mine production helped offset further losses from recycling; however, this was not the case in FY 2015. As widely anticipated, mine production in FY 2015 reached its peak by adding only 1% y-o-y, while the supply of gold from scrap continued its downward trend from FY 2009, contracting by 7% y-o-y. Of particular note, mine output in Q4 2015 amounted to 810 t of gold produced (a decline of 3% q-o-q and 9% y-o-y), which marked the first quarterly decline since Q4 2008 and the first y-o-y drop in Q4 in over seven years. The overall gold supply thus contracted by 4% y-o-y to 4,258 t, the lowest level since FY 2009. Further production cuts are expected in FY 2016 owing to optimisation measures, mine closures, and lower grades.

### Prices

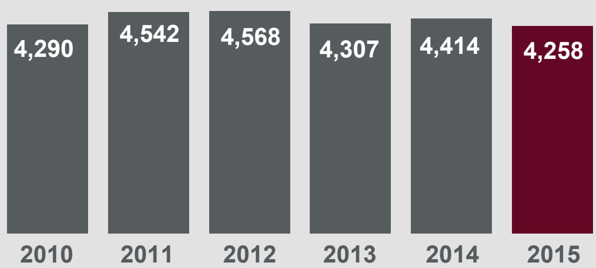
Expectations of higher US interest rates in FY 2016 had a major negative impact on gold prices in FY 2015, which fell 8% y-o-y to average $1,160/oz. Q4 2015 was the weakest quarter, with an average price of $1,106/oz as the long-awaited Federal Reserve rate hike took place in December 2015. However, concerns over global growth, turbulence on financial markets, low inflation expectations, contracting oil prices, and doubts over the anticipated rate of interest rate hikes in the US all helped gold reassume its safe haven status. This has led to FY 2016 seeing the most impressive start to the year since FY 1980.

**Global gold demand breakdown in 2014–2015**




Source: World Gold Council

**Global gold production,**
t




Source: World Gold Council

**LBMA gold price dynamics in FY 2014–2015,**
$/oz


Source: The London Bullion Market Association

Photo: Slime gold from Alluvials

# 1.5 Strategy

| Strategic objectives | Achievements in 2015 |
|---|---|
| 1 Maintaining stringent health and safety standards | • A continued decrease in the LTIFR: by 11% y-o-y to 0.08<br>• Zero serious or catastrophic environmental incidents<br>• The first company from Eastern Europe and the CIS to join the International Council on Mining and Metals (ICMM)<br>• All hard-rock mines now comply with ISO 14001 and OHSAS 18001<br>• In collaboration with DuPont consultants, completing the first stage of a corporate programme to improve safety culture across the Group |
| 2 Delivering more profitable ounces through organic growth | • 8th consecutive year of production growth<br>• The mills at Olimpiada, Blagodatnoye, Verninskoye, and Kuranakh operated at above-nominal capacity<br>• Average recoveries improved further, by 2.3 ppts to 84.5%, chiefly due to significant progress at Olimpiada, Verninskoye, Kuranakh and Titimukhta<br>• The Group made progress on key growth projects in accordance with its plans. First gold was produced at Kuranakh from test heap leaching units<br>• The Group made good progress on the Natalka project optimisation, after changes to the reserve block model and the pace of construction works increased at the mine in mid-2015, with a view to launching in 2017<br>• Successful efforts to monetise the Nezhdaninskoye deposit resource base through a JV with Polymetal |
| 3 Improving cost management and operating efficiencies | • A weaker rouble and ongoing efficiency programmes pushed the costs incurred by Polyus to new lows:<br>- TCC fell by 28% y-o-y, to $424/oz<br>- AISC retreated 26% y-o-y, to $610/oz<br>• The Total Operational Efficiency programme was rolled out across all units, with a total of 88 initiatives launched and a $94 million positive impact on earnings<br>• Implementation of the Polyus Production System began, with the deployment of a number of model areas<br>• These cost reductions enabled Polyus to attain the first decile of the global cost curve |
| 4 Maximising benefits to stakeholders | • Continued support of charity and sponsorship initiatives, with total investments standing of $5.1 and $1.4 million, respectively<br>• A total of $211 million paid in tax (as one of the largest taxpayers in regions of our presence)<br>• The dividend policy was amended so that 30% of adjusted net income is paid as a regular dividend |
| 5 Continued focus on corporate governance | • Another year of adhering to the highest standards of corporate governance and disclosure<br>• Over 90% of Polyus Gold employees were certified and signed personal undertakings to comply with anti-corruption law and policies<br>• The 2014 Annual Report was prepared in accordance with GRI G4 Guidelines and Mining and Metals Sector Supplement requirements |

| Targets for 2016 | Risks to strategy |
|---|---|
| • A further reduction in the LTIFR<br>• A zero fatality rate<br>• The continued implementation of a two-year action plan (2015-2016) to ensure full compliance with ICMM sustainability development principles<br>• The Group's service companies achieving compliance with ISO 14001 and OHSAS 18001 | • Environmental risk<br>• Regulatory risk<br><br>For additional information, see section 1.10 'Principal risks and uncertainties' on pages 40-51 |
| • The continued realisation of growth projects, with a view to preparing for the next stage of production growth<br>• The finalisation of the optimization works of the Natalka flowsheet, as well as further ramp-ups of active onsite construction works | • Market risks<br>• Mineral resources and ore reserves<br>• Natural hazards and technology disasters<br>• Capital construction/ project risks<br>• Regulatory risks<br>• Supply chain risks<br><br>For additional information, see section 1.10 'Principal risks and uncertainties' on pages 40-51 |
| • Continue to identify and launch more multifaceted initiatives under the TOE programme<br>• Proceed with the rollout of the Polyus Production System, with an aim to cover all operations by the end of 2017<br>• Retain the status of being the lowest-cost producer globally<br>• Offset inflationary pressures | • Market risks<br>• Supply chain risks<br>• Natural hazards and technology disasters<br><br>For additional information, see section 1.10 'Principal risks and uncertainties' on pages 40-51 |
| • Continuous improvements to labour conditions and social security<br>• Conducting active and regular dialogue with all levels of government authorities<br>• A balanced financial policy | • Regulatory risk<br>• Market risk<br><br>For additional information, see section 1.10 'Principal risks and uncertainties' on pages 40-51 |
| • Responding to the change in ownership and the resultant need to revisit our Board structure and approach going forward, we will endeavour to maintain the highest standards of corporate governance across the Group | • Regulatory risk<br>• Political and country risks<br><br>For additional information, see section 1.10 'Principal risks and uncertainties' on pages 40-51 |

# 1.6 Business model

## Capital drivers

### Financial
We pursue a prudent financial policy, based on achieving the right balance between targeted investments in growth and appropriate cash returns to shareholders.

### Natural
Polyus strives to develop its extensive resource base both safely and in an environmentally friendly manner in order to ensure that current and future needs are met. The Group is committed to continuous improvement in this area and targets a reduction in environmental impacts from its activities.

### Operational
Polyus is focused on continuously improving all aspects of our operations by striving for the smart growth of brownfields and through achieving operational efficiency and developing greenfields.

### Human
Our success is not possible without a human component. The more we invest in attracting and retaining a diverse, committed and talented workforce, the more we are strengthened as an entity. We have consolidated our positions by rolling out incentive schemes across all Business Units and improving working and social/recreational conditions.

### Social
Polyus acts responsibly when it comes to developing the social aspects of its business, through providing a safe and healthy environment for our workforce, and making social investments as well as charitable and sponsorship contributions.

### 1. Exploration and evaluation
The Group has an experienced in-house exploration team with significant geological knowledge and capabilities, allowing us to keep searching for the most promising deposits. Our twofold exploration strategy comprises maximising opportunities related to near-mine exploration and searching for promising greenfield projects that will expand the Polyus resource base. Exploration activities are performed in our core regions of operation.

### 5. Sales of gold
We produce dore gold and slime at mines, which is then sent to refinery plants to produce 99.99% pure gold bullion. These gold bars conform to the highest standards set by the London Bullion Market Association. We sell almost all our gold to Russian commercial banks, and our sales policy is fully transparent. Most sales are made at spot prices, with the remainder executed through the Strategic Price Protection Programme. A small portion of gold is sold to third parties as concentrate.

**2. Development**
Polyus has extensive experience in delivering growth through developing greenfield and brownfield projects. In 2014 key brownfield development options were identified. The largest greenfield project remains Natalka, which is to be commissioned in 2017.

**3. Mining and processing**
Polyus Gold boasts an extensive mining background, along with highly qualified in-house operational and technological knowledge and capabilities. We endeavour to produce smart ounces by focusing on operational excellence and cost efficiency. We are mindful of our ongoing sustainability obligations, including those related to rehabilitation at the end of the asset life.

**4. Production**
We continue to attain new highs: this year was the eighth consecutive year of production growth. This outstanding result was helped made possible by developing and employing best operating practices and technologies, which drive efficiencies across all assets and ensure commitment to protecting the health and safety of our employees.

**6. Delivering value to all stakeholders**
Our top priorities are sustainable results for all our stakeholders and being totally committed to ecological and health and safety standards. We work closely with government authorities, communities, employees, contractors, customers, and suppliers to ensure that Polyus respects the interests of all respective parties. Society's expectations are increasing, and we will continue to listen carefully to our stakeholders, with a view to creating mutual value.

## Key stakeholders

**Investors**
Polyus' primary focus is on maximizing returns for our shareholders. We balance smart growth via prudent capex and high-yield growth projects with cash returns to our investors. We are committed to transparency through open communication with all of our investors, using best practices to give shareholders a full picture of Polyus' performance.

**Employees**
People are the key contributors to our success and the foundation for future progress. We invest in our employees throughout the length of their careers, offering diverse employment opportunities, options for development, fair and competitive compensation and benefits that are clearly connected with performance.

**Communities**
Our operations provide employment and career development opportunities for local communities as well as business prospects for local suppliers. We undertake capital expenditures to construct, support and develop existing infrastructure, bringing further benefit to our communities.

**Partners**
As a national gold mining champion with a presence in several Russian regions, we always seek to balance our global, domestic and local partners, and encourage the further development of local partners.

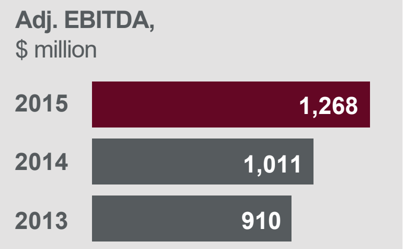
# 1.7 Key performance indicators

## We monitored our performance in 2015 against a set of key financial, operational and sustainability metrics for the previous year

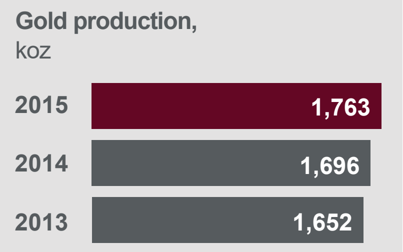
Despite the struggling gold price, combined with expectations of US monetary policy tightening, low inflation, slowing economic growth in China, and a new wave of geopolitical tension, we nevertheless managed to outperform our key performance indicators (KPIs) through the further application of our efficiency programmes, implementing more stringent controls over operational and capital expenses, and new sustainability initiatives. Outlined below are the relevance of our KPIs to the Group's strategy, their performance against 2014 KPIs, and a description of related initiatives.

**KPI definition** | **Dynamics**

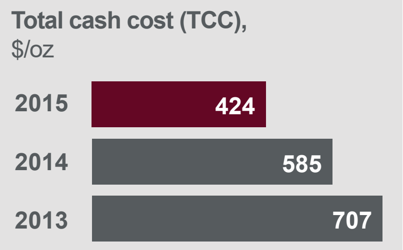
Adjusted EBITDA is defined by the Group as profit before finance costs, income tax, income/(losses) from investments (including derivatives), depreciation, amortisation and interest paid, and adjusted for one-off items.



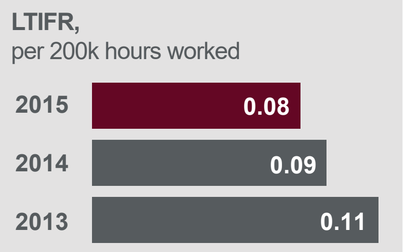

The amount of gold produced from Polyus hard-rock mines and alluvial operations within the reporting period. Gold production volumes are measured in millions of troy ounces.




Total cash cost (TCC) per ounce sold is the cost of producing and selling an ounce of gold, which includes mining, processing, transportation, refining, as well as general costs from both mine and alluvial operations.




The Lost Time Injury Frequency Rate (LTIFR) is a key measure of how Polyus delivers on its commitment to the health and safety of its entire workforce, including contractors.



| Relevance to strategy | FY 2015 performance | Looking ahead |
|---|---|---|
| This is a key financial measure used across the Group to indicate the ability to generate operating cash flows, which are a major source of funds for the capital expenditure programme, working capital requirements, and credit portfolio servicing. | The Group's adjusted EBITDA rose 25% y-o-y, to $1,268 million, and was above the internal target. This reflects operating cost improvement measures, a weaker local currency, and positive effects from the Strategic Price Protection Programme. | Polyus makes all necessary efforts to stimulate adjusted EBITDA growth through continuous improvement, achieved by driving sustainable cost reduction and operating efficiency initiatives. For additional information, see section 1.11 'Management discussion and analysis (MD&A) on financial performance' on page 60 |
| Gold production is an indication of the operational performance of Polyus and demonstrates the ability of the Group's operational and managerial teams to meet mining plan targets. | The gold output of Polyus went up a further 4%, beating both the previous year's result and internal targets. Thus 2015 saw the eighth successive year of production growth. | Polyus has a strong production growth profile, allowing the Group to maintain steady operational progress geared towards delivering key brownfield and greenfield projects. For additional information, see section 1.8 'Operational review' on page 30 |
| TCC is a key measure of the effectiveness of Group operations. Polyus pays significant attention to production expenses by monitoring and benchmarking the efficiency and effectiveness of its assets and implementing best practices to control expenses. | Polyus continues to focus on efficient operational performance which, coupled with a weaker rouble, were the main reasons for lower TCC. The positive dynamics exceeded the Group's initial expectations. | The business efficiency programme contributed $94 million to earnings in 2015. The next stage of the programme envisages the implementation of more multifaceted and intensive measures to contain cost inflation and improve productivity. For additional information, see section 1.11 'Management discussion and analysis (MD&A) on financial performance' on page 58 |
| Polyus tracks a range of safety performance indicators and data to measure the efficiency of the Group's health and safety initiatives, in order to monitor their application across operations and to pursue the goal of operating in a safe and responsible manner. | In FY 2015 the LTIFR decreased by 11% y-o-y to 0.08. | Polyus aims to become a zero fatality company by further improving existing Health and Safety management systems. For additional information, see section 2.6 'Health and safety' on pages 98 to 99 |

# 1.8 Operational review

Vladimir Polin
Managing Director of JSC Polyus

**Highlights**
2015 saw another strong year of operational performance for Polyus Gold. We delivered 1,763 koz, exceeding our initial internal expectations and our guidance of 1,630 to 1,710 koz. Each hard-rock mine contributed to this outstanding result; at the same time, the performance of alluvials was disappointing – this was due to issues with declined grades.

Recoveries were the major driver of outperformance at hard-rock mines. Recoveries progressed by 2.3 ppts y-o-y to 84.5%, a very satisfactory result for us, chiefly brought about by productivity improvements at Olimpiada, Verninskoye, Kuranakh, and Titimukhta. Processed ore volumes were up 4% y-o-y, reaching 24.7 mt in 2015, following significant progress at the flagship Olimpiada mine, as well as at Blagodatnoye, Verninskoye, and Kuranakh. At all these mines mills ran at higher-than-nominal capacity. At the same time, ore treatment volumes at Titimukhta retreated 23% y-o-y to 1.5 mt, due to selective processing initiatives.

The average grade in ore mined was down 14% y-o-y, to 1.9 g/t, as a result of continuing extensive stripping works at Olimpiada, where ore was mined only in the cutback zone. Elsewhere in the portfolio the mined grade was stable, or slightly up y-o-y. The decrease in average grade in processed ore was far less noteworthy, 4% y-o-y to 2.4 g/t, with a major effect coming again from Olimpiada, where the bulk of plant feed was taken from previously created stockpiles; however, the increasing of ore processing from stockpiles resulted in a lower average grade in stockpiles at year end. As the cutback is due to end in 2016, we expect grades at Olimpiada to normalise.

**Productivity improvements**
In 2015 we rolled out our Total Operational Efficiency (TOE) Programme across all Group units, including auxiliary ones. Overall, the estimated positive impact of this programme on the Group's earnings was $94 million, and we expect further contributions going forward. Operationally, the major beneficiary of the programme was recoveries which, as mentioned above, advanced 2.3 ppts y-o-y. This was to some extent a logical and expected result, as the major financial effect from TOE initiatives has and will come from the processing side, while their biggest provider will be the Krasnoyarsk BU, the Group's largest production cluster.

In parallel to the TOE programme we embarked on a more ambitious project, the Polyus Production System, which aims to create a culture of lean manufacturing and a system for continuous improvement of processes, quality, and the organisation of labour to ensure the Group's global competitive edge. There are a number of successful examples of production or business system implementation globally and in Russia. However, in realising our project we adjust these practices to our own needs and thus generate a proper framework of principles and approaches. In 2015 we deployed several model areas at our operations, mostly at the Krasnoyarsk Business Unit. This process will continue in 2016, with an aim to cover all the assets of the Group, including auxiliary ones, by the end of 2017.

**Development projects**

Our key development projects are those defined by the Strategic Asset Review Programme, published in March 2015. During the year the Group worked on each of these projects and, overall, progress was made according to schedule. Construction and installation works began at the Titimukhta Mill, as part of the mill's reconfiguration to process higher grades from Olimpiada and the launch of a new production circuit, which is planned for the summer of 2016. With regard to the Blagodatnoye expansion, the detailed design of expanded grinding and flotation stages was completed, and equipment contracting commenced. Top-tier international engineering consultancy companies have been engaged to assist Polyus Gold in executing a heap leaching pre-feasibility study at Blagodatnoye. The aims of this study are to assess potential processing options and to identify optimal operating parameters. Pilot plant installation is in progress.

At Kuranakh the Group continued with second-stage testing of heap leaching technology, with 45.9 kt of ore (with an average grade of 0.8 g/t) stacked during the year and the first 1 koz of gold produced at the testing vat leaching facility.

At Verninskoye, Polyus Gold is actively exploring the possibility of increasing the mill's processing capacity, from 2.2 to 3.6-5.0 mtpa. In 2016 the Group expects to complete a definitive study into this potential expansion. Polyus is also actively looking at integrating its assets (Verninskoye, Alluvials, an exploration asset at Chertovo Koryto) in the region into a single hub.

As part of continuous efforts to monetise the large resource base, we started trial mining at the Poputninskoye mine, which is in close proximity to our major Krasnoyarsk assets. Although not large, the mine makes up part of the so-called Razdolinsky ore cluster, which we see as providing excellent prospects for asset development and integration with existing operators.

**Natalka**

We halted active construction works at the Natalka deposit in November 2014, after receiving updated Mineral Resource and Ore Reserves estimates. In February 2015 new estimates for Natalka were completed, which amounted to 16.2 moz of proven and probable ore reserves (a 48% decrease in comparison with the previous model) and 36.8 moz of measured, indicated and inferred resources (a 38% decrease on previous estimates).

We then initiated engineering studies aimed at minimising outstanding capital expenditure and optimising infrastructure built to date. At the same time, the Company maintained an ongoing dialogue with local authorities and regulators and held talks with a number of potential partners in relation to project development.

During 2015 we made further progress on process flow sheet optimisation studies, with a view to having them completed in 1H 2016. Among other initiatives, the team is focusing on improving blasting methods and ore grade controls. A large-scale pilot plant programme has been a priority and has delivered positive results. The programme is designed to unlock potential flow sheet simplification options and to date is progressing according to schedule. Our construction efforts have largely been focused on auxiliary facilities and onsite infrastructure. December 2015 saw the completion of a major remaining infrastructure unit – the main crushed ore conveyor tunnel construction. Other areas of construction included a tailings thickener, the ore crushing and conveyor complex, a 110 kV power line, the main step-down substation, a circulating pump, and slurry pump stations. Taking everything into account, we now anticipate the Natalka project to be commissioned in 2017, with a substantial ramp-up in construction activities from Q2 2016.

Photo: Olimpiada mine

### Consolidated operating results

| | FY 2015 | FY 2014 | y-o-y change |
|---|---|---|---|
| **Gold production koz** | | | |
| Olimpiada | **743.1** | 726.0 | 2% |
| Blagodatnoye | **424.6** | 393.8 | 8% |
| Titimukhta[5] | **102.3** | 92.6 | 10% |
| Poputninskoye | **2.4** | - | N.M. |
| Verninskoye | **161.1** | 145.8 | 10% |
| Alluvials | **168.2** | 190.2 | (12%) |
| Kuranakh | **144.7** | 137.3 | 5% |
| **Refined gold** | **1,746.4** | **1,685.8** | **4%** |
| Gold contained in concentrate | **17.0** | 9.7 | 79% |
| Gold payable in concentrate | **12.6** | 7.2 | 75% |
| **Total gold produced[6]** | **1,763.4** | **1,695.5** | **4%** |
| **Mining works and ore processing** | | | |
| Total rock moved, 000 m³ | **64,089** | 65,905 | (3%) |
| Average stripping ratio, m³/t | **2.5** | 2.3 | 9% |
| Total ore mined, kt | **21,785** | 24,346 | (11%) |
| Total ore processed, kt | **24,740** | 23,743 | 4% |
| Recovery rate, % | **84.5** | 82.2 | 2.3 ppts |
| **Total doré and slime gold production, koz** | **1,767.4** | **1,706.3** | **4%** |

5. Including refined gold produced from ore purchased from the 3rd party-owned Veduga mine under an off-take agreement.
6. Total gold produced represents refined gold output plus gold contained in concentrate.




## Olimpiada

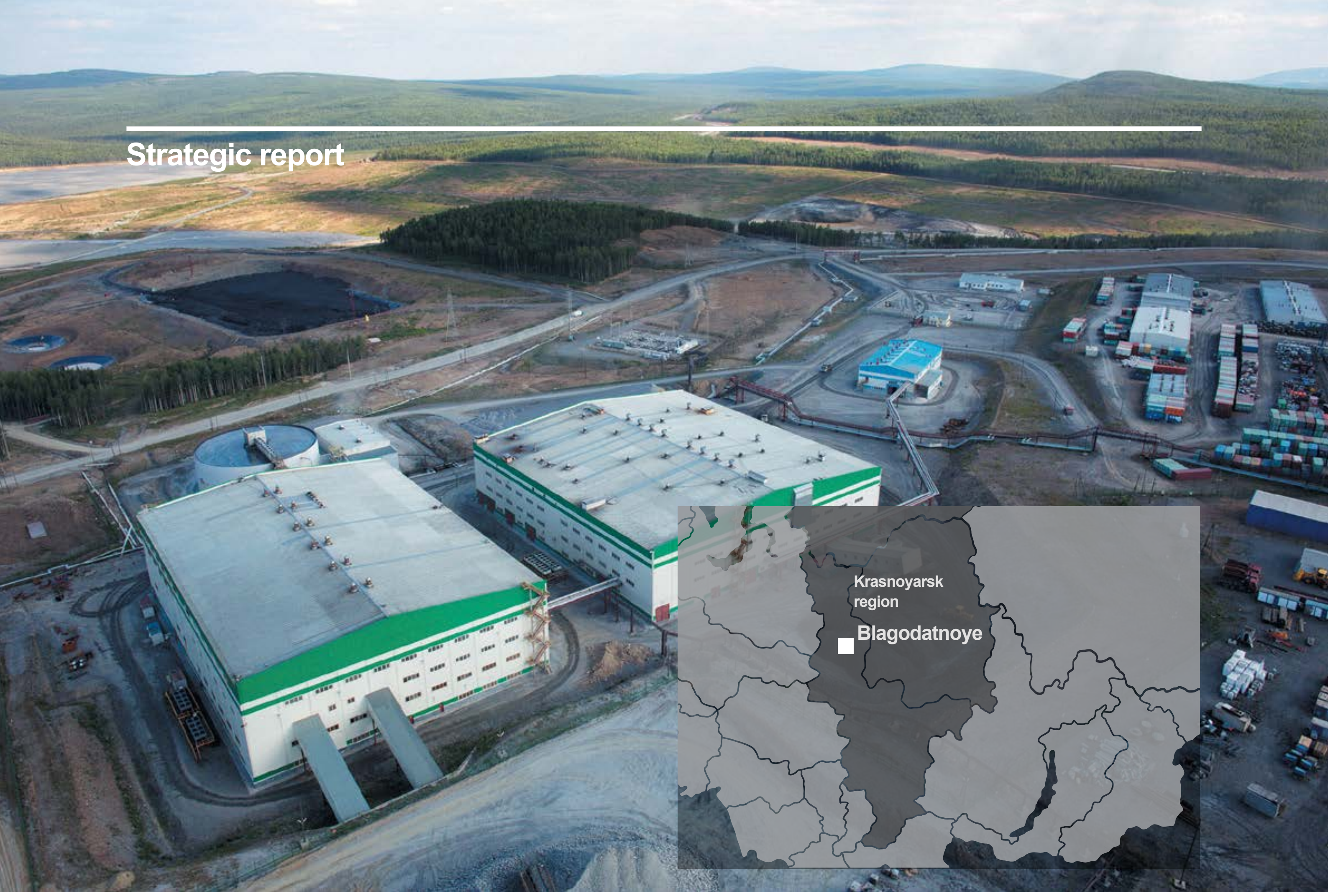
The Olimpiada mine is located 500 km north of the local centre Krasnoyarsk. Currently two mills operate here, with a total capacity of 8 mtpa. Olimpiada is Russia's largest gold mine.The deposit contains primary sulphide ores. These consist of metasomatic ore bodies, with rare impregnations of sulphide minerals. The average gold grade of the deposit is 3.5 g/t.

Olimpiada is an open-pit mine with surface stockpiling. Rock is removed by excavation and hauling after blasting. Ore is processed using the gravity and flotation concentration method, with subsequent bio-oxidation of the flotation concentrate and sorption leaching of the bioleach product using the carbon-in-leach (CIL) process. In 2015 Olimpiada produced 743 koz of gold, which represented a 2% y-o-y increase. Separately, 17 koz of gold contained in concentrate was produced, marking a 79% y-o-y rise This growth was achieved thanks to a number of implemented efficiencies, which improved recoveries by 3.8 ppts y-o-y to 79.6%. Two mills surpassed nominal capacity by 19%, and processed 11% more ore than a year ago. The cutback at Olimpiada continued in 2015, with ore being mined only in the cutback zone. Most ore supplied to the mill was reclaimed from stockpiles. This led to a 54% y-o-y planned decrease in ore mined, as well as a lower grade in ore mined. The grade of treated ore was also down slightly, by 12% to 3.2 g/t, as the outperformance in processing led to a depletion in stockpiles and, consequently, a lower grade. As a result of mining-related depletion the Ore Reserve estimate fell by 1% y-o-y, to 29.1 moz.

| | Overview |
|---|---|
| Location | Krasnoyarsk region |
| Commissioned | 1996 |
| Mining/processing type | Open pit, flotation-bioleach |
| Ore Reserve (JORC)[7] | 29.1 moz |
| Processing capacity | 2 plants with total capacity of 8.0 mtpa |
| Ore grade (JORC) | 3.3 g/t |
| LOM[8] | 38 years |

| | FY 2015 | FY 2014 | y-o-y change |
|---|---|---|---|
| Rock moved, km$^3$ | **22,340** | 24,122 | (7%) |
| Stripping ratio, m$^3$/t | **7.7** | 3.6 | 114% |
| Ore mined, kt | **2,777** | 6,005 | (54%) |
| Grade in ore mined, g/t | **2.67** | 3.68 | (27%) |
| Ore processed, kt | **9,506** | 8,526 | 11% |
| Grade in ore processed, g/t | **3.18** | 3.63 | (12%) |
| Recovery, % | **79.6** | 75.8 | 3.8 ppts |
| Dore gold production, koz | **758.4** | 726.2 | 4% |
| Refined gold production, koz | **743.1** | 726.0 | 2% |
| Gold contained in concentrate, koz | **17.0** | 9.7 | 79% |

7. JORC Reserves and Resources are also available at http://www.polyusgold.com/operations/reserves_and_resources/
8. Life-of-mine calculated as Ore Reserves divided by 2015 production.




## Blagodatnoye

The Blagodatnoye deposit is located 25 km from the Olimpiada mine.

Blagadatnoye ores consist of quartz–micaceous schists, with impregnated and vein-impregnated sulphide mineralisation. The main forms of gold in the ores are free, connected with barren minerals and in aggregates.

Blagodatnoye operates as an open-pit mine with surface stockpiling. The mill was commissioned in 2010, and ore is processed by gravity concentration, flotation, and CIL methods. The plant has a processing capacity of 6.0 mtpa.

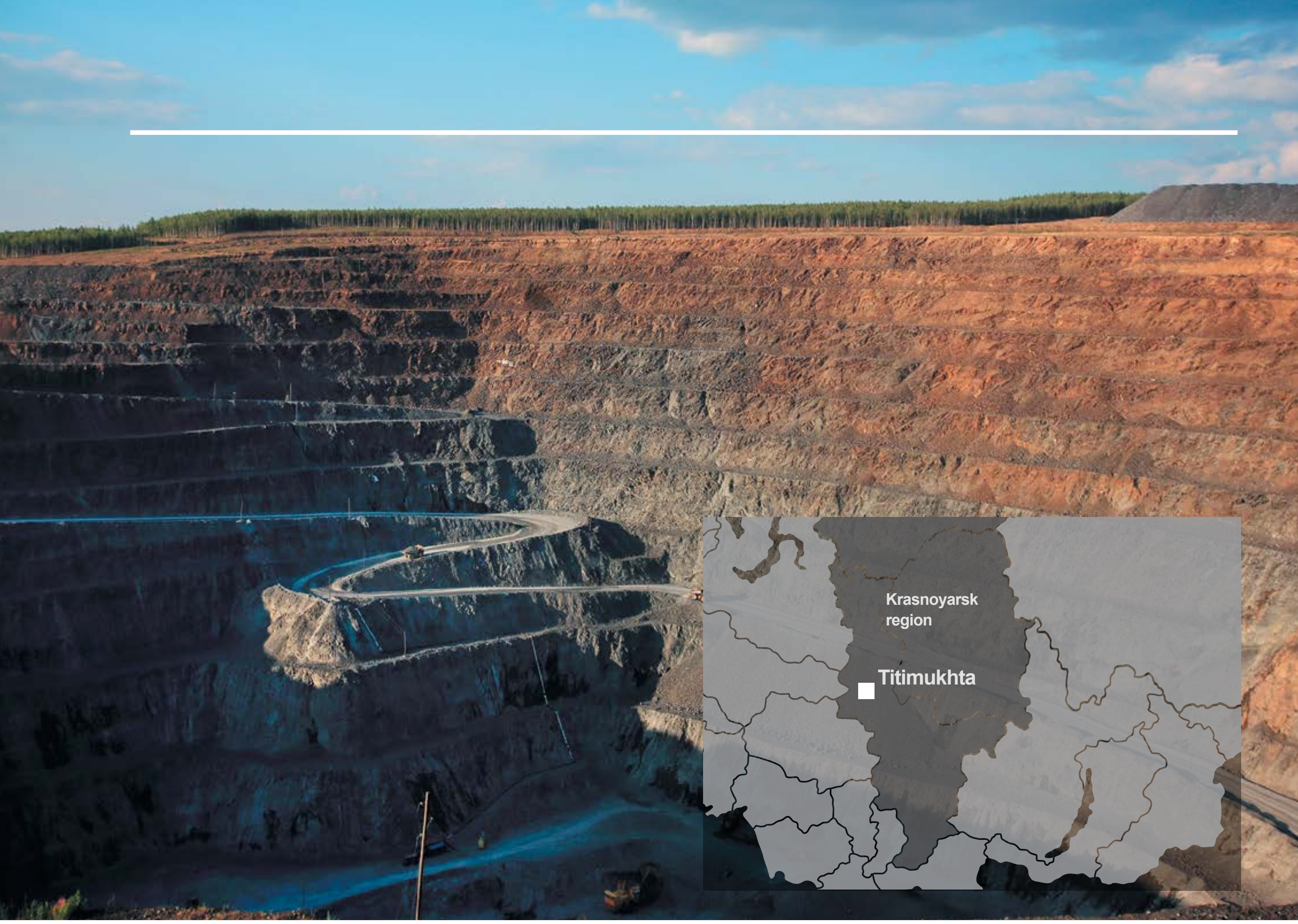
In 2015 Blagodatnoye produced 425 koz of gold, a 8% increase y-o-y. The rise was due to a higher average grade in processed ore (+2% y-o-y) and an increased volume of processed ore (+4% y-o-y), which in turn was due to the increased amount of ore mined (+3% y-o-y). At the same time, recoveries were down slightly, by 0.2 ppts, to 87.8%. Overall performance of the lowest-cost asset in the Group's portfolio was stable, with the mill continuing to operate at well above nominal capacity (7.5 mt in 2015, vs. 7.3 mt in 2014).

Growth options at Blagodatnoye include expanding the capacity of the mill to 8.0 mtpa and commissioning heap leaching from stockpiled ores at the mine.

As a result of mining-related depletion, the Ore Reserve estimate fell by 6% y-o-y to 8.2 moz

| | **Overview** |
|---|---|
| Location | Krasnoyarsk region |
| Commissioned | 2010 |
| Mining/processing type | Open pit, gravity, flotation cyanide leaching |
| Ore Reserve (JORC) | 8.2 moz |
| Processing capacity | 6.0 mtpa |
| Ore grade (JORC) | 2.3 g/t |
| LOM | 19 years |

| | **FY 2015** | **FY 2014** | **y-o-y change** |
|---|---|---|---|
| Rock moved, km$^3$ | **16,433** | 14,696 | 12% |
| Stripping ratio, m$^3$/t | **1.8** | 1.6 | 13% |
| Ore mined, kt | **7,628** | 7,392 | 3% |
| Grade in ore mined, g/t | **1.97** | 2.00 | (2%) |
| Ore processed, kt | **7,512** | 7,251 | 4% |
| Grade in ore processed, g/t | **1.99** | 1.96 | 2% |
| Recovery, % | **87.8** | 88.0 | (0.2 ppts) |
| Dore gold production, koz | **421.0** | 402.7 | 5% |
| Refined gold production, koz | **424.6** | 393.8 | 8% |




## Titimukhta

The Titimukhta deposit is located 9 km northwest of the Olimpiada deposit, and contains quartz vein and veinlet stockwork. Ores are of the same process type – free milling – and do not contain arsenic.

The sulphide mineralisation of ore is 2% to 3%. Gold is primarily found in ores in free form and in intergrowths with bismuth minerals.

Due to the deposit's close proximity to Olimpiada, ores from Titimukhta are processed through an older mill at the Olimpiada site. The process used for Titimukhta gold recovery at the former Olimpiada mill is resin-in-leach (RIL).

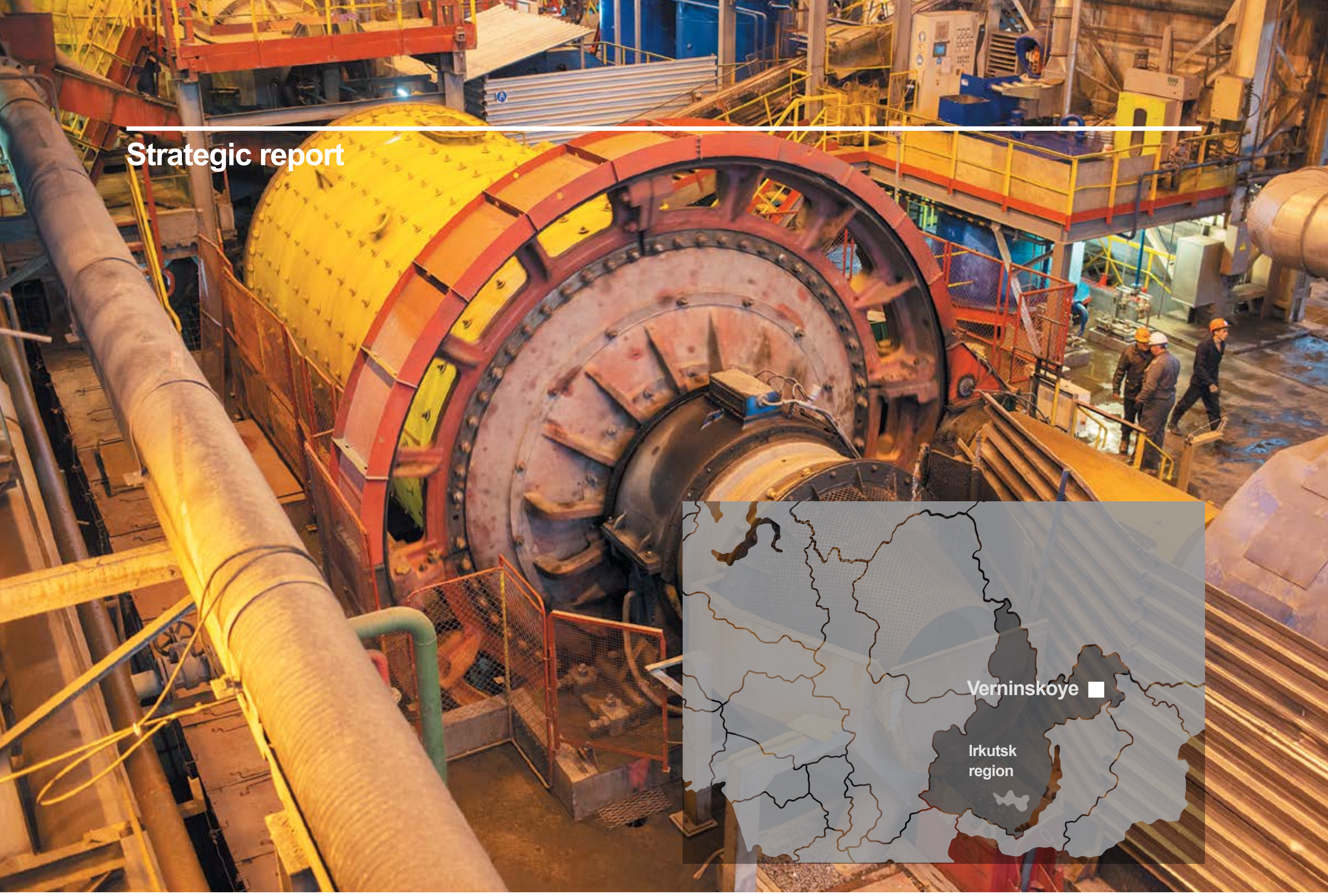
In 2015 Titimukhta produced 102 koz of gold, which represented a 10% y-o-y increase. This growth was possible primarily as a result of deploying selective processing initiatives, which allowed higher grades of ore to be processed, as well as higher recoveries to be achieved (87.2%, vs. 83.7% in 2014). These mining optimisations resulted in a substantial decrease in volumes of waste mass moved and a simultaneous increase in the amount of ore mined. As a result, the mine's stripping ratio fell by 69% y-o-y, to 1.2.

As a result of mining-related depletion the Ore Reserve estimate fell by 13% y-o-y, to 1.3 moz.

| | Overview |
|---|---|
| Location | Krasnoyarsk region |
| Commissioned | 2009 |
| Mining/processing type | Open pit, RIP, cyanide leaching |
| Ore Reserve (JORC) | 1.3 moz |
| Processing capacity | 2.4 mtpa |
| Ore grade (JORC) | 4.0 g/t |
| LOM | 13 years |

| | FY 2015 | FY 2014 | y-o-y change |
|---|---|---|---|
| Rock moved, $km^3$ | **5,092** | 9,640 | (47%) |
| Stripping ratio, $m^3/t$ | **1.2** | 3.9 | (69%) |
| Ore mined, kt | **3,225** | 2,242 | 44% |
| Grade in ore mined, g/t | **1.58** | 1.66 | (5%) |
| Ore processed, kt | **1,514** | 1,978 | (23%) |
| Grade in ore processed, g/t | **2.43** | 1.85 | 31% |
| Recovery, % | **87.2** | 83.7 | 3.5 ppts |
| Dore gold production, koz[9] | **103.1** | 100.1 | 3% |
| Refined gold production, koz | **102.3** | 92.6 | 10% |

9. Includes gold produced from purchased ore from the Veduga mine.




## Verninskoye

The Verninskoye deposit is located in the northern part of the Irkutsk region.

Gold mineralisation occurs in the form of auriferous quartz-sulphide veins and as part of disseminated sulphide minerals within sedimentary rocks.

The mine was commissioned in December 2011, and ore is processed through gravity concentration, flotation, and CIL. The plant has a processing capacity of 2.2 mtpa.

In 2015, 161 koz of gold was produced at the mine, which represented a 10% y-o-y increase. This growth was achieved through a sizeable, though planned, increase in recoveries, as the Verninskoye plant reached its design recovery level of 86%, up from the average of 79% in 2014. There were no other significant parameter changes during the year. The mill processed 2.3 mt, 5% above nominal capacity, and representing y-o-y growth of 4%.

The Group continued to assess expansion options at Verninskoye, with a view to expanding production at the mill from the current 2.2 mtpa to 3.6-5.0 mtpa. A definitive study into the mine's expansion is expected to be completed in 2016.

As a result of mining-related depletion the Ore Reserve estimate fell by 7% y-o-y, to 3.8 moz.

| | **Overview** |
|---|---|
| Location | Irkutsk region |
| Commissioned | 2011 |
| Mining/processing type | Open pit, gravity, flotation and cyanide leaching |
| Ore Reserve (JORC) | 3.8 moz |
| Processing capacity | 2.2 mtpa |
| Ore grade (JORC) | 2.6 g/t |
| LOM | 24 years |

| | **FY 2015** | **FY 2014** | **y-o-y change** |
|---|---|---|---|
| Rock moved, km$^3$ | **6,026** | 4,910 | 23% |
| Stripping ratio, m$^3$/t | **1.2** | 0.7 | 71% |
| Ore mined, kt | **3,954** | 4,716 | (16%) |
| Grade in ore mined, g/t | **2.09** | 1.90 | 10% |
| Ore processed, kt | **2,284** | 2,203 | 4% |
| Grade in ore processed, g/t | **2.63** | 2.72 | (3%) |
| Recovery, % | **86.1** | 79.4 | 6.7 ppts |
| Dore gold production, koz | **166.1** | 149.9 | 11% |
| Refined gold production | **161.1** | 145.8 | 10% |


## Alluvials

Our alluvial operations are in the Irkutsk region, close to the Verninskoye mine.

Stripping is performed by walking excavators and bulldozers, depending on the characteristics of gold-bearing placers.

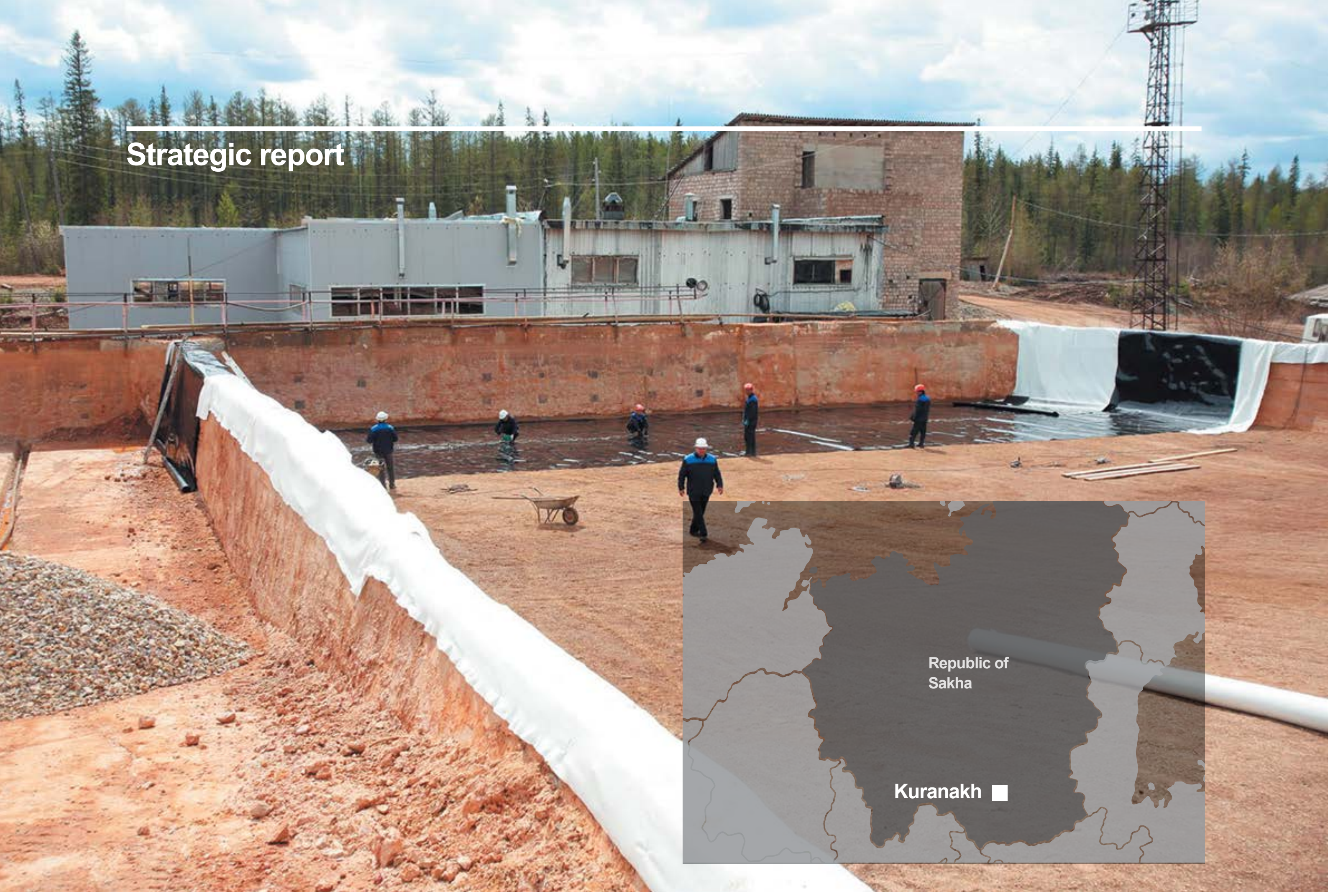
Walking excavators are used in the development of deep-seated deposits. When utilising open-cast mining techniques, gold-washing is performed using various types of jigging equipment. Gold is recovered using the gravity separation method, without the use of chemical agents.

In 2015 Alluvials produced 168 koz of gold, and it was the only asset within the Group's portfolio to register a fall in production (12% y-o-y). The reason for the drop was a sudden decline in grades at certain production units in 1H 2015. The operational team put in great efforts to resolve this issue, which was geological and not operational in nature. In 2H 2015 grades began to improve; however, further steps are needed to restore the previous level of average grades in some areas.

As a result of mining-related depletion the Ore Reserve estimate fell by 18% y-o-y, to 0.9 moz.

| | Overview |
|---|---|
| Location | Irkutsk region |
| Mining/processing type | Sands washing |
| Ore Reserve (JORC) | 0.9 moz |
| Processing capacity | 10 million $m^3$ pa |
| Ore grade (JORC) | 0.7 $g/m^3$ |
| LOM | 5 years |

| | FY 2015 | FY 2014 | y-o-y change |
|---|---|---|---|
| Sands washed, $km^3$ | **9,370** | 9,139 | 3% |
| Average grade, g/t | **0.56** | 0.65 | (14%) |
| Gold in slime, koz | **168.3** | 189.9 | (11%) |
| Refined gold production | **168.2** | 190.2 | (12%) |




## Kuranakh

The Kuranakh mine is located in the Aldan region of the Republic of Sakha (Yakutia). Gold ore is mined from numerous deposits at the Kuranakh ore field, which all exhibit common geological structures, morphologies, and lithologies. Ores are of the quartz–pyrite type.

Mining at the Kuranakh ore deposits is based on open-cut, drilling, and blasting operations. The processing plant uses RIP sorption technology, with subsequent electrolysis and smelting.

In 2015, 145 koz of gold was produced at Kuranakh, a 5% rise on 2014, which was due to higher recoveries (+1.6 ppts y-o-y) and increased processed ore volumes (+2% y-o-y). All other major operational indicators were broadly flat y-o-y. The rise in recoveries was driven by better sorption unit performance and improvements at the agitation tank and in one of the thickeners.

During the year the team worked actively to prepare for heap leaching installation by testing vat leaching units. First gold from heap leaching was poured in 2H 2015.

As a result of mining-related depletion the Ore Reserve estimate decreased by 8% y-o-y, to 2.4 moz.

| | **Overview** |
|---|---|
| Location | Republic of Sakha (Yakutia) |
| Commissioned | 1965 |
| Mining/processing type | Open pit, RIP cyanide leaching |
| Ore Reserve (JORC) | 2.4 moz |
| Processing capacity | 3.8 mtpa |
| Ore grade (JORC) | 1.4 g/t |
| LOM | 17 years |

| | **FY 2015** | **FY 2014** | **y-o-y change** |
|---|---|---|---|
| Rock moved, $km^3$ | **13,432** | 12,537 | 7% |
| Stripping ratio, $m^3/t$ | **2.8** | 2.6 | 8% |
| Ore mined, kt | **3,996** | 3,991 | 0% |
| Grade in ore mined, g/t | **1.31** | 1.27 | 3% |
| Ore processed, kt | **3,863** | 3,785 | 2% |
| Grade in ore processed, g/t | **1.32** | 1.29 | 2% |
| Recovery, % | **88.4** | 86.8 | 1.6 ppts |
| Dore gold production, koz | **146.2** | 137.5 | 6% |
| Refined gold production | **144.7** | 137.3 | 5% |

Photo: Mamakanskaya hydropower station, owned by Polyus Energy

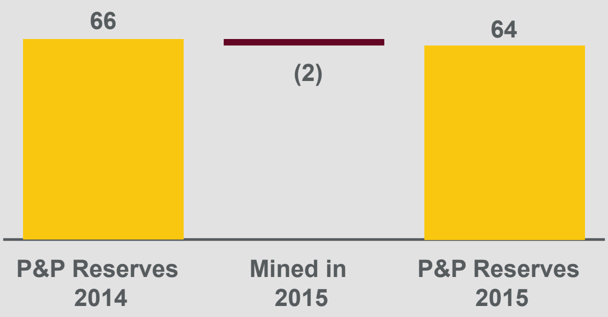
# 1.9 Mineral Resources and Ore Reserves

The JORC (2004) resources and reserves estimates for the Group's deposits together with JORC (2012) estimates for Natalka did not materially change in 2015, but for the mining–related reserve depletion in 2015.

Thus the Group's total measured, indicated and inferred resources for 2015 remain the same and amounted to 127.3 moz, while total proven and probable reserves resulted in 64.3 moz.

The Group's mining annual reserve depletion totaled 1.5 moz which was updated in accordance with the current years extraction by the Group's geological department department (Petr Kushnarev[10] – Head of the Reserve Estimates Department)

**Proved & Probable Ore Reserves reconciliation for 2015,** moz




**Polyus Gold Ore Reserves as at 31 December 2015**

| | Reserves | | |
|---|---|---|---|
| | Proven & Probable | | |
| Deposit | Ore mt | Grade g/t | Gold moz |
| Olimpiada | 274.6 | 3.29 | 29.1 |
| Blagodatnoye | 113.2 | 2.26 | 8.2 |
| Titimukhta | 10.2 | 4.00 | 1.3 |
| Verninskoye[11] | 46.6 | 2.55 | 3.8 |
| Alluvials | 42.8 | 0.66 | 0.9 |
| Kuranakh | 53.9 | 1.38 | 2.4 |
| **Subtotal operating mines** | **541.4** | **2.63** | **45.7** |
| **Mine under development** | | | |
| Natalka | 319.0 | 1.58 | 16.2 |
| **Exploration project** | | | |
| Chertovo Koryto | 34.5 | 2.12 | 2.4 |
| **Total** | **894.9** | **2.23** | **64.3** |

10. Petr Kushnarev – member of the Council of the Australian Institute of Geoscientists (# 4887) Head of the Reserves Estimates Department, Polyus Gold.
11. Hereinafter include the Smezhny deposit.

**Polyus Gold Mineral Resources as at 31 December 2015**

| | Resources | | | | | |
|---|---|---|---|---|---|---|
| | Measured & Indicated | | | Inferred | | |
| Deposit | Ore mt | Grade g/t | Gold moz | Ore mt | Grade g/t | Gold moz |
| Olimpiada | 304.3 | 3.38 | 33.0 | 160.3 | 2.78 | 14.3 |
| Blagodatnoye | 144.3 | 2.30 | 10.7 | 11.6 | 1.94 | 0.7 |
| Titimukhta | 17.5 | 3.19 | 1.8 | 1.6 | 1.72 | 0.1 |
| Verninskoye | 75.1 | 2.55 | 6.0 | 110.1 | 1.95 | 6.9 |
| Alluvials | 63.2 | 0.74 | 1.5 | 3.3 | 0.90 | 0.1 |
| Kuranakh | 85.3 | 1.71 | 4.7 | 7.8 | 1.35 | 0.3 |
| **Subtotal operating mines** | **689.7** | **2.60** | **57.7** | **294.6** | **2.37** | **22.5** |
| **Mine under development** | | | | | | |
| Natalka | 559.0 | 1.43 | 25.7 | 218.0 | 1.58 | 11.1 |
| **Exploration project** | | | | | | |
| Chertovo Koryto | 50.5 | 1.84 | 3.0 | 2.1 | 1.64 | 0.1 |
| Panimba | 16.0 | 2.32 | 1.2 | 24.4 | 1.79 | 1.4 |
| Razdolinskaya (incl. Poputninskoye) | 9.8 | 3.94 | 1.2 | 17.6 | 3.50 | 2.0 |
| Medvezhy Zapadny | 0.0 | 0.00 | 0.0 | 23.5 | 1.83 | 1.4 |
| **Subtotal exploration projects** | **76.3** | **2.21** | **5.4** | **67.5** | **2.24** | **4.9** |
| **Total** | **1,324.9** | **2.09** | **88.8** | **580.2** | **2.06** | **38.5** |

# 1.10 Principal risks and uncertainties

The Group's activities are associated with a variety of risks that could affect its operational and financial results and, consequently, shareholder returns. The Group can confirm that a robust assessment of the principal risks facing the Group has been carried out, including those that might threaten its business model, future performance, solvency, or liquidity when considering the going-concern statement on page 68.

The Board are aware of the best practice guidance driven by the Combined Code regarding disclosing the process of considering longer-term forecasts and the associated consideration of risks and uncertainties and potential sensitivities to those forecasts.

Successful risk management requires, among other things, identifying and assessing potential threats and developing measures to mitigate them.

The Group's financials depend largely on the price of gold. The gold market follows cyclical patterns and is sensitive to general macroeconomic trends. Gold price risks are linked to the macroeconomic indicators which affect the Group's overall performance.

The Group constantly monitors gold markets, implements cost optimisation measures, reviews its investments programmes, and concludes deals with derivatives.

2015 saw some geopolitical and regional risks related to the conflict in Ukraine, as well as risks related to sanctions imposed by the US and the EU against Russia the year before.

Following the decision to refine the Natalka project parameters, longer-term risks arose related to the construction works at the deposit and an underrun of the target recovery rate.

The Group's risk management process was overseen by the Risk Committee, made up of three independent non-executive Directors (up to their resignation on 17 November 2015) and two non-executive Directors. The Committee sought to ensure that a robust framework was in place for identifying and assessing the key risks to the business, and while the Committee has not met since the delisting, risks continue to be considered by the Board up to the date of authorising the Annual Report. Further details on changes to the Board's governance following the LSE delisting are given on pages 127–132 below.

The principal risks and uncertainties are shown below, together with related mitigation measures.

## Mineral resources and ore reserves

(nature of the risk and its assessment remained the same as compared to 2014)

**Risk description**

The Group's activities are reliant on the quantity and quality of mineral resources and ore reserves available to it

**Background**

Mineral resources and ore reserves are difficult to quantify.

The estimates of viable reserves may depend to a certain extent on the amount and quality of exploration works, which are amended on the basis of the results of drilling and the average recovery rate of the reserves estimated.

Based on new geological data received from the international consultants Micromine and AMC Consulting, the implementation of the Natalka project was revised in view of the geological, economic, and technological components (see section 1.8 'Operational review' on page 29).

**Potential impact**

If the quantity and quality of mineral resources and ore reserves are not as expected, the gold deposit may not be economically viable to mine and the mineral reserves could consequently be re-evaluated downwards. A significant decline in the price of gold could also seriously erode margins and affect the viability of operations. Thereafter the mineral resources may be revised downwards.

**Risk treatment**

The Group implements geological surveys, which are undertaken using cutting-edge technologies. The Group engages independent international experts to conduct audits on prospective or existing deposits, and the Group's actions are guided by the conclusions and recommendations of these experts.

To optimise capital and operating expenditure, the Group continues or suspends the development of deposits, depending on the results of macro environment and geological exploration.

# 1.10 Principal risks and uncertainties continued

## Natural hazards and technology disasters

(nature of the risk and its assessment remained the same as compared to 2014)

Risk description

The Group is exposed to a number of risk factors directly related to its production activities, including flooding, pit slope and rim slides, tailing dam breaches, accidents caused by the use of mining equipment, and explosives

**Background**

The Group's activities take place in remote regions of Russia, from Krasnoyarsk to Magadan, and often at sites having a difficult geology and which are also subject to extreme weather. In such conditions, the risk of target production underperformance as a result of equipment failure and accidents increases, which leads to extra facilities and equipment servicing and maintenance costs.

**Potential impact**

These risks could result in the suspension of ore production and end-to-end gold recovery, an increase in operational costs, and adverse social, safety and environmental impacts.

**Risk treatment**

The Group aims to mitigate the risk of business interruptions through various processes, including the strict enforcement of maintenance regimes and effective risk management.

The latter includes identifying potential threats, modelling risk scenarios, a detailed analysis of potentially negative events, and implementing a number of risk mitigation measures, including the introduction of property and business interruption insurance programmes.

## Capital construction and project risks

(nature of the risk remained the same as compared to 2014; potential impact increased due to the resumption of construction works at the Natalka project)

**Risk description**

### The implementation of the Group's investment projects is subject to geological, market, operational and compliance risks

**Background**

During the development phase of any major project there are significant risks caused by fluctuations in the prevailing price of gold, changes in exchange rates, and the effects of inflation.

As a result of various economic and political factors, it is likely that the Russian Government will revisit its investment priorities, taking into account their social consequences and regional effects.

Uncertain macroeconomic trends may impact some of the Group's investment projects, and in some cases could lead to such projects being postponed indefinitely.

**Potential impact**

The occurrence of identified risks may result in late commissioning, increased project costs, reduced profitability, lower project efficiency, and revocation of mining and exploration licenses.

**Risk treatment**

To reduce these project risks the Group has elaborated procedures for the careful and comprehensive study, selection and analysis of proposed investment projects. Each project is considered by the Investment Committee of the Group.

Control over investment projects is exercised at all stages of their implementation.

To mitigate risks, there is ongoing control over the deadlines for providing equipment datasheets. Tenders are organised to engage equipment suppliers together with construction and installation vendors. The construction process is also overseen. Independent consultants are engaged, with expertise in constructing metals and mining facilities. To reduce risks, the Group has cargo transit, construction and installation insurance programmes, as well as third-party liability and business interruption insurance programmes.

# 1.10 Principal risks and uncertainties continued

## Regulatory risk

(nature of the risk and its assessment remained the same as compared to 2014)

**Risk description**

The activities of the Group may be adversely affected by the failure to obtain mining and exploration licenses from government or regulatory authorities, or by the revocation of these licenses

**Background**

The Group holds a significant number of mining and exploration licenses for gold and other minerals.

The terms of these licenses require the Group to comply with a range of industrial standards, employ qualified personnel, ensure the use of appropriate plant and machinery (as well as quality assurance and quality control systems), maintain relevant documentation, and provide information to the licensing authorities when requested.

**Potential impact**

Failure to comply with the requirements and terms of mining and exploration licenses issued by Russian state authorities may result in the premature termination or non-renewal of licenses, or in the delayed issue of licenses. Obtained licenses may also impose certain restrictions on the Group's operational activities and cause reputational damage.

Alternatively, financial or legal sanctions could be imposed on the Group. Failure to secure new licenses or to renew existing ones could lead to the cessation of mining at the Group's sites or an inability to expand operations.

**Risk treatment**

The Group constantly focuses on strengthening controls over compliance with license agreements and industrial standards. These control activities include the analysis, and immediate response to, comments or reports made by state regulatory and supervisory authorities in connection with inspections of the Group's business activities, as well as improving measures to eliminate health and safety hazards.

## Political risks:

### 1. Deoffshorisation risk

(nature of the risk remained the same as compared to 2014, while its assessment decreased due to adoption of recent changes in the Deoffshorisation law which specified the most disputed issues)

**Risk description**

Russian legislative changes aimed at the deoffshorisation of the Russian economy may negatively affect the Group's operations and financial position

**Background**

Russia, like a number of other countries in the world, is actively involved in discussing measures against tax evasion related to the transfer of a profit centre to a jurisdiction that has a more favourable tax regime in order to minimise tax payments. Some of these initiatives have already been introduced into Russian tax legislation by Federal Law No. 376-FZ[12] (the "New Law"), which came into force on 1 January 2015.

The New Law introduced "controlled foreign companies" rules pursuant to which the undistributed profits of organisations which do not qualify for tax exemptions and are controlled by Russian tax residents (legal entities or individuals) should be subject to taxation in Russia.

In addition, the New Law introduced the concept of tax residency for legal entities, whereby legal entities will be deemed to be Russian tax residents if their place of management is located in Russia. The carrying out of various functions in Russia for the benefit of a foreign legal entity may under certain circumstances lead to the foreign entity being recognised as a Russian tax resident subject to Russian taxation.

The beneficial ownership concept, which is broadly in line with the concept developed by the Organisation for Economic Co-operation and Development (the "OECD"), has also been added to the Russian Tax Code by this law.

On 4 November 2014, the Russian President signed a law that ratifies the Convention on Mutual Administrative Assistance in Tax Matters developed by the Council of Europe and the Organisation for Economic Co-operation and Development, which the Russian Federation signed in 2011. The convention enables the Russian tax authorities to obtain information for tax purposes from a large number of countries, including certain offshore jurisdictions that adhered to the convention (Cyprus, Luxemburg, Malta, etc.). Such data, particularly, encompass "tax rulings", the joint conduct of tax audits, the overseas collection of tax liabilities, and injunctive measures.

12. Federal Law No. 376-FZ "On Amending Parts I and II of the Russian Tax Code and Certain Legislative Acts of the Russian Federation" (with regard to the taxation of controlled foreign companies' profit and the income of foreign legal entities) dated 24.11.2014.

# 1.10 Principal risks and uncertainties continued

## 1. Deoffshorisation risk continued

**Potential impact**
The Russian legislative changes to initiate the deoffshorisation of the country's economy create tax risks in Russia that may be considerably more significant than those that exist in countries with more developed tax systems. Currently, it is hard to predict how the new concepts will be applied, and there is uncertainty over how the Russian tax authorities will interpret the new concepts. These tax risks impose additional burdens and costs on the Group's operations and require additional management resources. Furthermore, these risks and uncertainties complicate the Group's tax planning and decision-making, potentially exposing it to significant fines, penalties, and enforcement measures, and could adversely affect its business, operational results, and financial condition.

**Risk treatment**
The Group recognises the potential impact of Russian legislative changes and carefully monitors developments in this area. The Group is reconsidering the expediency of the future use of its foreign corporate structure.

The Group has a successful history of doing business in Russia, as well as in applying best practices and knowledge in corporate and tax law, licensing and other legal issues. The Group's financial, tax and legal departments carefully monitor current legislation and anticipated changes and apply them in their daily activities.

The Group intends to undertake any further actions taking into consideration the potential consequences of amendments to Russian laws that could affect the Group's strategic priorities including seeking the advice from external consultants if required.

## 2. Country and regional risks

(nature of the risk and its assessment remained the same as compared to 2014)

**Risk description**

The Group's operations may be adversely affected by geopolitical instability, international conflicts (including military), and the imposition of economic and administrative sanctions

**Background**

The Group, as a company incorporated in Jersey, must ensure its compliance with applicable EU requirements and the sanctions regime introduced as a result of the situation in Ukraine. This regime includes, but is not limited to, freezes on the assets of certain companies and individuals, visa restrictions, and restrictions on certain operations in the stock and money markets. Bearing in mind that the Group's main production assets are located in the Russian Federation, expansion of the sanctions to the metals and mining sector may cause difficulties in the implementation of investment projects in terms of supplies of imported equipment and raising funds on EU and US markets.

**Potential impact**

Potential default on warranty and post-warranty maintenance of equipment manufactured in Ukraine.

Failure to implement and inability to execute new contracts for the supply of equipment, machines, components, and spare parts manufactured in Western countries.

In addition, the US/EU sanctions could apply to US and EU employees or Directors of the Group and its subsidiaries, meaning that such individuals could not enter into transactions to which sanctions apply.

**Risk treatment**

The Group, in cooperation with its legal advisors, has developed an internal policy aimed at ensuring compliance with applicable laws and other requirements that apply to the Group in connection with the sanctions regime. In addition, the Group is taking actions to diversify the purchase of equipment, materials, and reagents and to find alternative sources of financing.

# 1.10 Principal risks and uncertainties continued

## Supply chain risks

(nature of the risk and its assessment remained the same as compared to 2014)

**Risk description**

There exist risks associated with the lack of declared for purchase/materials and technical resources/works/ services of the required quality at a time when they are needed. In such a case, with a wide range of purchased materials and technical resources/works/ services, the complexity of production and distance barriers for customers in remote locations with extreme weather conditions and poorly developed transport infrastructure make the process of purchasing/ implementing and delivering even more complicated

**Background**

The delivery of supplies to areas where the Group operates may be disrupted, or transportation costs may increase. In winter the minimum air temperature at the major production sites (Olimpiada and Blagodatnoye) in the Krasnoyarsk region is -61°C and the annual average is -5°C. The main transhipment terminal at Lesosibirsk, which is designed to handle, tranship, store, and deliver all supplies to sites, is connected by a 320-km unfinished road with a ferry crossing the Yenisei River, or, in winter months, an ice crossing of the frozen river. The route is impassable for between two and three months each year. The mud season periods also significantly challenge the timely procurement of materials and technical resources for capital construction projects at all Business Units.

Due to these reasons, many types of works/ services can be purchased solely based on seasonality. The economic and political environment, the sanctions, and unstable situations in countries where certain vendors operate create additional risks. There are also some additional constraints at federal level, legislative requirements, and regulations from supervisory and oversight authorities.

**Potential impact**

The lack of declared for purchase/materials and technical resources/works/services of the required quality at a time when they are needed could affect the Group's ability to conduct operations and to continue developing mines. The inability to obtain consumables, materials and equipment in time could adversely affect the introduction of both new production capacity and existing production plans.

**Risk treatment**

There are stringent quality controls in place over deliveries of materials and technical resources/ works/ services prior to acceptance. To mitigate risks, the Group insures its cargoes. The Group also has an adequate stock of spare parts and other inventory to avoid production interruptions during the spring and autumn mud seasons and plans the implementation of vital projects in a proper manner.

## Energy supply risks

(nature of the risk remained the same as compared to 2014, while its probability decreased due to completion of the Peleduy-Mamakan grid construction)

**Risk description**

Group entities located in remote regions of the Far East and Siberia may experience energy supply shortages

**Background**

There is a deficit of generating and power grid facilities in the Krasnoyarsk region (the Olimpiada and Blagodatnoye deposits) and in the Irkutsk region (the Verninskoye deposit). This necessitates using self-generated energy sources to cover own power supply needs and leads to higher electricity costs. The implementation of new power line construction projects may come under threat from poor road infrastructure and harsh climatic conditions.

**Potential impact**

An inadequate energy supply may threaten the development of the Verninskoye and Blagodatnoye expansions and could lead to an increase in electricity expenditure.

**Risk treatment**

To improve power supply reliability and reduce operating costs, the Group participates in the creation of an energy network infrastructure within the regions of its activity (Krasnoyarsk and Irkutsk).

The construction of power substations and high-voltage transmission lines connected to the Siberian and Yakutia federal grids will provide operating plants with a reliable power supply, and is also intended to incentivise the development of new deposits.

In addition, to reduce dependence on external suppliers, the Group mines its own coal deposit, and delivers extracted coal to power stations at the Olimpiada and Blagodatnoye mines.

# 1.10 Principal risks and uncertainties continued

## Environmental risk

(nature of the risk and its assessment remained the same as compared to 2014)

**Risk description**

The Group's activities may cause a significant environmental impact

**Background**

Mining operations create physical damage to the soil landscape, causing loss of flora and fauna species associated with the cover, resulting in disturbed soil texture, affecting aerodynamic and hydrological regimes across huge areas, and changing terrain. Spoils from mining operations and waste products from ore processing may be toxic, thus necessitating careful handling and disposal.

During mining operations, spalls are moved large distances, thus changing the chemical constitution of dismantled subsoil (slightly acidifying it). The disturbance of the hydrological regime results either in mire formation or in excavation dewatering.

**Potential impact**

The reputational and financial costs of environmental failures in the course of mining operations and mineral resources processing can be significant. For more details, see the section 2.7 'Environmental Stewardship' on pages 100 to 107.

**Risk treatment**

Soils in the regions where the Group operates have very low fertility due to the harsh climatic conditions, however, the soil-vegetation layer is always removed and stockpiled for further reclamation. Tails from mining operations are collected in separate tailing ponds, and isolated from the surrounding landscape by a dam, where safety is constantly monitored. The bypass channel was constructed at the Krasnoyarsk Business Unit to prevent possible negative effects from flooding at the tailing pond. The Group provides extensive ecological monitoring at the sites of operations affected by its activities and at certain places where spoil heaps are located (including control of sub-soil acidification) under the license agreement, and as part of environmental control measures at factories.

In 2015 the Group also performed an Environmental Risk Assessment of Alluvial Operations. The Plan of Risk Prevention was developed, and tasks related to the future sustainable development strategy were identified. In relation to biodiversity, compensation measures such as fish replacement were taken in 2014-2015 for a number of open-pit operations, including Titimukhta, Vostochny (Olimpiada), Blagodatnoye, and the Small Tyryda river.

## Macroeconomic risks

(nature of the risk and its assessment remained the same as compared to 2014)

Macroeconomic risks that apply to the Group include: price risk, foreign exchange risk, interest rate risk, inflation, and certain other macroeconomic factors. These risks are described in section 1.11 ‘Management discussion and analysis (MD&A) on financial performance’ on pages 68–69.

# 1.11 Management discussion and analysis (MD&A) on financial performance

**Mikhail Stiskin**
Chief Financial Officer of PJSC Polyus Gold

**FY 2015 – financial highlights**

1. Gold sales up 5% y-o-y to 1,768 koz driven by progress at all hard-rock mines.
2. Revenue down 2% y-o-y to $2,189 million owing to the 8% decrease in global gold prices offset by higher sales volumes and the positive effect of the Strategic Price Protection Programme.
3. Adjusted EBITDA moved up 25% y-o-y to $1,268 million as a result of reduction in costs and higher sales volumes.
4. The adjusted EBITDA margin was up 13 ppts y-o-y to 58%.
5. Profit for the period totalled $1,119 million, compared to a net loss of $182 million in FY 2014.
6. Adjusted net profit was up 47% y-o-y to $901 million.
7. Cash and cash equivalents and bank deposits at the end of FY 2015 totalled $2,039 million, a 37% increase over the end of FY 2014, reflecting strong cash flow generation.
8. Net cash inflow from operations amounted to $1,076 million, up 24% y-o-y as a result of increased operating profit and the continued benefits of stringent working capital control.
9. Capex of $268 million, a 49% y-o-y decrease, resulted from reduced spending on Natalka, a weaker rouble, and successful capital control measures.
10. Net debt amounted to $146 million, down 55% y-o-y, thanks to robust free cash flow[13] generation.
11. Net debt/adjusted EBITDA fell 63% y-o-y to 0.12x at the end of the period owing to both higher EBITDA and lower net debt.
12. Sizable cost reductions, with TCC down 28% y-o-y to $424/oz and AISC down 26% to $610/oz, were due to the rouble depreciation and the deployment of efficiency programmes.

13. Free cash flow is defined as net operating cash flow minus investment cash flow net of change in deposits and interest paid.

**Highlights**

| $ million (if not mentioned otherwise) | FY 2015 | FY 2014 | y-o-y change | 2H 2015 | 1H 2015 |
|---|---|---|---|---|---|
| Gold production (koz) | **1,763** | 1,696 | 4% | 979 | 784 |
| Gold sold (koz) | **1,768** | 1,691 | 5% | 969 | 799 |
| Average realised gold price (excl. effect of Strategic Price Protection Programme[14]) ($/oz) | **1,155** | 1,275 | (9%) | 1,117 | 1,202 |
| Average realised gold price (incl. effect of Strategic Price Protection Programme) ($/oz) | **1,221** | 1,300 | (6%) | 1,192 | 1,257 |
| Total revenue | **2,189** | 2,239 | (2%) | 1,170 | 1,019 |
| Operating profit | **1,141** | 846 | 35% | 610 | 531 |
| Profit/(loss) for the period | **1,119** | (182) | N.M. | 536 | 583 |
| Earnings/(loss) per share – basic and diluted (US cents) | **34** | (5) | N.M. | 16 | 18 |
| Adjusted net profit[15] | **901** | 615 | 47% | 469 | 432 |
| Adjusted net profit margin (%) | **41** | 27 | 14 ppts | 40 | 42 |
| Cash and cash equivalents and bank deposits | **2,039** | 1,486 | 37% | 2,039 | 1,377 |
| Net cash inflow from operations[16] | **1,076** | 866 | 24% | 561 | 515 |
| Capital expenditure[17] | **268** | 525 | (49%) | 172 | 96 |
| Adjusted EBITDA[18] | **1,268** | 1,011 | 25% | 679 | 589 |
| Adjusted EBITDA margin (%) | **58** | 45 | 13 ppts | 58 | 58 |
| Net debt[19] | **146** | 327 | (55%) | 146 | 375 |
| Net debt/adjusted EBITDA (last 12 months) (x) | **0.12** | 0.32 | (63%) | 0.12 | 0.31 |
| Total cash cost (TCC) per ounce sold ($/oz)[20] | **424** | 585 | (28%) | 414 | 436 |
| All-in sustaining cash cost (AISC) per ounce sold ($/oz)[21] | **610** | 825 | (26%) | 605 | 617 |

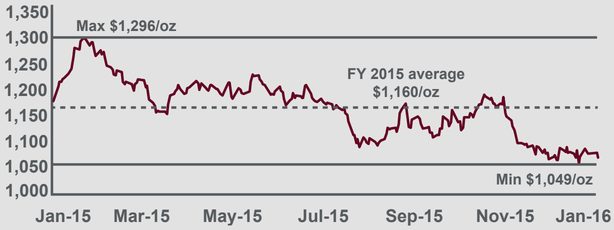
14. The Strategic Price Protection Programme comprises a series of zero-cost Asian gold collars ("revenue stabiliser") and gold forward contracts covering 575 koz in FY 2015.
15. Adjusted Net Profit is defined by the Group as a net profit adjusted for reversal of impairment/impairment losses, impact from derivative financial instruments, foreign exchange gain/loss and associated income tax related to one-off items.
16. Interest paid for the period has been reclassified in the cash flow from operating activities into financing activities. Amounts for the comparative period were also restated.
17. Capital expenditure figures are presented on an accrual basis.
18. Adjusted EBITDA is defined by the Group as profit before finance costs, income tax, income/(losses) from investments (including derivatives), depreciation, amortisation and interest paid, and adjusted for one-off items. The Group has made these adjustments in calculating Adjusted EBITDA to provide a clearer view of the performance of its underlying business operations and to generate a metric that it believes will give greater comparability over time with peers in its industry. The Group believes that Adjusted EBITDA is a meaningful indicator of its profitability and performance. This measure should not be considered as an alternative to profit for the period and operating cash flows based on IFRS, and should not necessarily be construed as a comprehensive indicator of the Group's measure of profitability or liquidity.
19. Net debt is defined as short- and long-term debt, less cash and cash equivalents and short-term bank deposits. Short-term bank deposits with an original maturity of more than three months can be withdrawn on demand and therefore have the same liquidity as cash and cash equivalents. Net debt excludes derivative financial instrument assets/liabilities, site restoration and environmental obligations, deferred tax and other non-current liabilities. Net debt should not be considered as an alternative to current and non-current loans and borrowings, and should not necessarily be construed as a comprehensive indicator of the Group's overall of liquidity.
20. For a definition and calculation of total cash costs per ounce sold, see the section Total cash costs.
21. For a definition and calculation of all-in-sustaining costs per ounce sold, see the section All-in-sustaining costs.

# 1.11 Management discussion and analysis (MD&A) on financial performance continued

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

**Gold price dynamics**
The market price of gold is a significant factor that influences the Group's profitability and operating cash flow generation. In FY 2015 the average London Bullion Market Association (LBMA) gold price was $1,160/oz, 8% below the FY 2014 average of $1,266/oz.

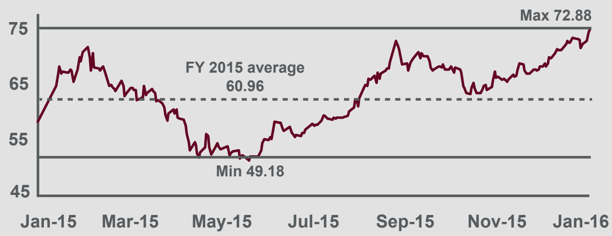
**LBMA gold price dynamics in FY 2015,** $/oz




Source: London Bullion Market Association

**Rouble exchange rate dynamics**
The Group's revenue from gold sales is linked to the US dollar (USD), whereas most of the Group's operating expenses are denominated in Russian roubles (RUB). The strengthening of the RUB against the USD can negatively impact the Group's margins by increasing the USD value of its RUB-denominated costs, while a stronger USD positively affects its margins as it reduces the USD value of the Group's RUB-denominated costs. In FY 2015 the average RUB/USD exchange rate was 60.96, down 37% y-o-y from 38.42 in FY 2014. The main reason for the depreciation of the Russian currency was the fall in the oil price ($59/bbl Brent in FY 2015, vs. $96/bbl Brent in FY 2014). As shown in the following section, the weaker RUB positively affected the Group's operating margins in FY 2015, due to the majority of its costs being RUB-denominated, and the USD being the reporting currency.

**RUB/USD dynamics in FY 2015**




Source: Central Bank of Russia

**Inflationary trends**
All the Group's operations are located in Russia. The Russian Consumer Price Index (CPI), calculated by the Central Bank of Russia, rose to 12.9% in FY 2015, compared to 11.4% in FY 2014. Inflation negatively impacts mining operations and increases production costs.

## Financial review
## Profit and loss statement review

### Revenue analysis

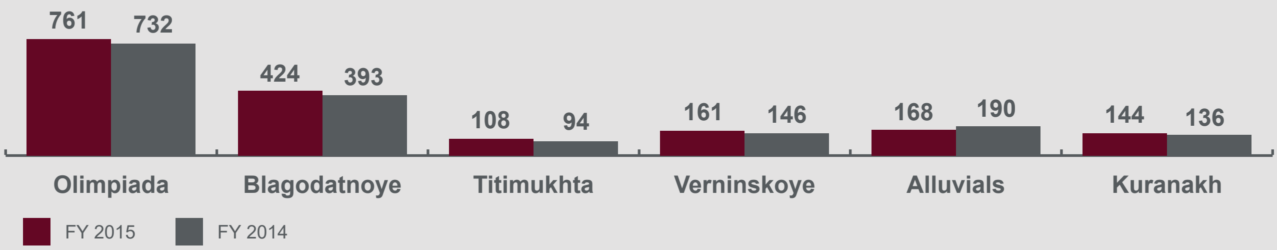
| | FY 2015 | FY 2014 | y-o-y change | 2H 2015 | 1H 2015 |
|---|---|---|---|---|---|
| Gold sales (koz) | **1,768** | 1,691 | 5% | 969 | 799 |
| Average realised gold price (excl. effect of Strategic Price Protection Programme, SPPP) ($/oz) | **1,155** | 1,275 | (9%) | 1,117 | 1,202 |
| Average realised gold price (incl. effect of SPPP) ($/oz) | **1,221** | 1,300 | (6%) | 1,192 | 1,257 |
| Average afternoon gold LBMA price fixing ($/oz) | **1,160** | 1,266 | (8%) | 1,115 | 1,206 |
| Premium/(discount) of av. selling price (incl. effect of SPPP) over/(under) av. LBMA price fixing ($/oz) | **61** | 34 | 79% | 77 | 51 |
| Gold sales ($ million) | **2,159** | 2,197 | (2%) | 1,154 | 1,005 |
| Other sales ($ million) | **30** | 42 | (29%) | 16 | 14 |
| **Total revenue ($ million)** | **2,189** | **2,239** | **(2%)** | **1,170** | **1,019** |

The Group's revenue from gold sales in FY 2015 was 2% down y-o-y, to $2,159 million, as a result of a pullback in realised gold prices, notwithstanding higher sales volumes. In FY 2015, gold sales rose by 5% y-o-y to 1,768 koz, however the average realised gold price amounted to $1,221/oz, down 6% y-o-y. The Strategic Price Protection Programme (SPPP) launched by the Group in 2014 mitigated the decrease in gold prices, as the average LBMA price fell 8% y-o-y to $1,160/oz. The programme covered 575 koz of gold sold during FY 2015 via gold collar and gold forward programmes. The positive effect from the SPPP on the FY 2015 average selling price amounted to $66/oz. The Group's FY 2015 average selling price was 5% above the average LBMA price for the period, while in 2H 2015 the difference amounted to 7%.

### Revenue breakdown by mine, FY 2015

| $ million | Olimpiada | Blagodatnoye | Titimukhta[22] | Verninskoye | Alluvials | Kuranakh | Other |
|---|---|---|---|---|---|---|---|
| Gold sales | 952 | 525 | 134 | 189 | 191 | 165 | 3 |
| Other sales | - | - | - | 3 | 5 | 5 | 17 |
| **Total sales** | **952** | **525** | **134** | **192** | **196** | **170** | **20** |

**Gold sold by mine,** koz[23]




22. 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.
23. Sales volumes exclude gold produced from the Poputninskoye deposit, where trial mining was launched in FY 2015.

# 1.11 Management discussion and analysis (MD&A) on financial performance continued

## Cash costs analysis

### Cost of sales breakdown

| $ million | FY 2015 | FY 2014 | y-o-y change | 2H 2015 | 1H 2015 |
|---|---|---|---|---|---|
| **Cash operating costs** | **765** | **1,020** | **(25%)** | **412** | **353** |
| Depreciation and amortisation (D&A) of operating assets | **126** | 174 | (28%) | 62 | 64 |
| **Total cost of production** | **891** | **1,194** | **(25%)** | **474** | **417** |
| Increase in gold-in-process and refined gold inventories | **(15)** | (20) | (25%) | (4) | (11) |
| **Cost of gold sales** | **876** | **1,174** | **(25%)** | **470** | **406** |

The Group's cash operating costs dropped by 25% y-o-y, to $765 million in FY 2015, with the major contributors to the overall decline being labour, consumables and fuel expenses.

A $94 million positive effect from the Total Operational Efficiency programme, operational optimisation initiatives coupled with the weaker rouble caused the abovementioned cost decrease and helped offset the increase in variable costs (resulting from higher production and sales volumes) and also helped mitigate the impact from economy wide inflation which amounted to 12.9% for FY 2015.

### Cash operating costs – breakdown by item

| $ million | FY 2015 | FY 2014 | y-o-y change |
|---|---|---|---|
| Labour | **239** | 320 | (25%) |
| Consumables and spares | **205** | 281 | (27%) |
| Tax on mining | **140** | 154 | (9%) |
| Fuel | **74** | 131 | (44%) |
| Power | **35** | 44 | (20%) |
| Outsourced mining services | **12** | 19 | (37%) |
| Other | **60** | 71 | (15%) |
| **Total** | **765** | **1,020** | **(25%)** |

As all the Group's labour expenses are denominated in the local currency, rouble depreciation was a key factor in declining labour costs, coupled with a decline in headcount. This was partially compensated by annual salary indexation.

Consumables and spare parts expenses fell by 27% y-o-y, as a result of the weaker rouble, the implementation of cost reduction programmes, operational efficiencies, and the optimisation of the consumption of materials across the Group. That, coupled with management's efforts to improve procurement, helped mitigate an increase in prices for major consumables and spare parts.

Fuel costs fell by 44% y-o-y, driven by improvements to procurement (resulting in a decrease in the purchase price), as well as a decrease in transportation costs at the Krasnoyarsk Business Unit and a favourable forex effect.

The Group reduced its electricity costs by 20% y-o-y, as a result of optimisation measures and a weaker rouble, although this was partially offset by annual tariff indexation and overall higher production volumes.

The 37% y-o-y decline in the cost of outsourced mining services resulted primarily from their reduction at Alluvials.

Other costs contracted 15% y-o-y, due to the rouble weakening and decreases in insurance, rent, repair, and maintenance expenses.

**Cash operating costs – breakdown by Business Unit**

| | Krasnoyarsk | | Verninskoye | | Alluvials | | Kuranakh | |
|---|---|---|---|---|---|---|---|---|
| $ million | **FY 2015** | FY 2014 | **FY 2015** | FY 2014 | **FY 2015** | FY 2014 | **FY 2015** | FY 2014 |
| Labour | **105** | 151 | **26** | 31 | **37** | 55 | **27** | 34 |
| Consumables and spares | **153** | 217 | **28** | 37 | **15** | 20 | **18** | 24 |
| Tax on mining | **108** | 117 | **11** | 10 | **11** | 14 | **9** | 12 |
| Fuel | **43** | 71 | **9** | 11 | **16** | 24 | **9** | 15 |
| Power | **19** | 23 | **3** | 4 | **6** | 7 | **11** | 17 |
| Outsourced mining services | **-** | - | **-** | - | **6** | 17 | **2** | 3 |
| Other | **80** | 90 | **5** | 11 | **10** | 4 | **11** | 14 |
| **Total** | **508** | **669** | **82** | **104** | **101** | **141** | **87** | **119** |

## Selling, general, and administrative expenses

The Group's selling, general, and administrative (SG&A) expenses fell by 9% y-o-y, to $166 million, owing to the weaker rouble and expense optimisation measures. Salaries, the main SG&A component, fell 17% y-o-y, while expenses on professional services went up mostly due to the PGIL delisting procedures' costs.

**SG&A breakdown by item**

| $ million | **FY 2015** | FY 2014 | y-o-y change | 2H 2015 | 1H 2015 |
|---|---|---|---|---|---|
| Labour | **103** | 124 | (17%) | 50 | 53 |
| Taxes other than mining and income taxes | **12** | 22 | (45%) | 6 | 6 |
| Professional services | **31** | 16 | 94% | 25 | 6 |
| Amortisation and depreciation | **3** | 4 | (25%) | 1 | 2 |
| Other | **17** | 17 | 0% | 10 | 7 |
| **Total** | **166** | **183** | **(9%)** | **92** | **74** |

# 1.11 Management discussion and analysis (MD&A) on financial performance continued

## Total cash costs (TCC)

### TCC calculation

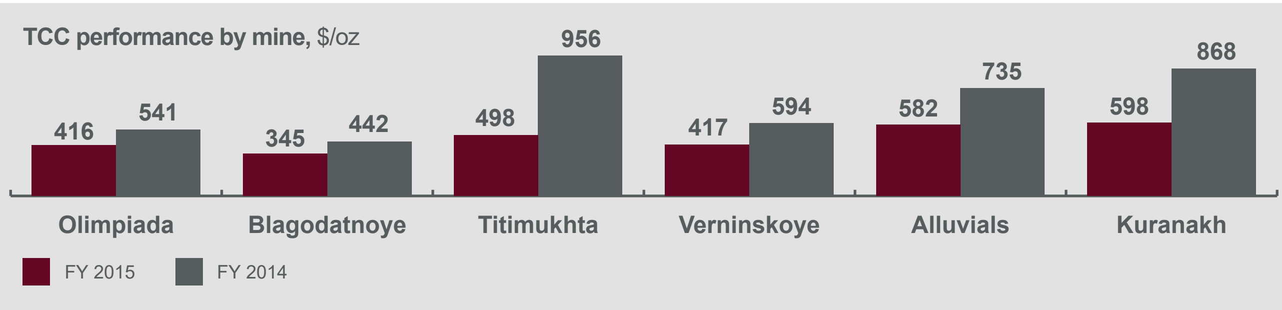
| $ million | FY 2015 | FY 2014 | y-o-y change | 2H 2015 | 1H 2015 |
|---|---|---|---|---|---|
| **Cost of gold sales** | **876** | **1,174** | **(25%)** | **470** | **406** |
| – property, plant and equipment depreciation | **(126)** | (174) | (28%) | (62) | (64) |
| – provision for annual vacation payment | **(1)** | 1 | N.M. | (2) | 1 |
| – employee benefit obligations cost | **(4)** | (1) | N.M. | (4) | - |
| – change in allowance for obsolescence of inventory | **-** | (14) | N.M. | (1) | 1 |
| + non-monetary changes in inventories | **4** | 3 | 33% | (1) | 5 |
| **TCC** | **749** | **989** | **(24%)** | **400** | **349** |
| Gold sold (koz) | **1,768** | 1,691 | 5% | 969 | 799 |
| **TCC per ounce sold ($/oz)** | **424** | **585** | **(28%)** | **413** | **436** |

The Group's TCC saw another year of decline in FY 2015, falling by 28% y-o-y to $424/oz. Helped by the weaker rouble, higher production and sales volumes, and a positive impact from cost savings programmes, all mines demonstrated y-o-y cost improvements, despite persisting pressures from inflation.

Titimukhta achieved the biggest cost reduction in FY 2015, lowering TCC by 48% y-o-y to $498/oz, with a number of mining and processing improvements implemented during the year, including a switch to selective processing.

At the Group's largest mines, Olimpiada and Blagodatnoye, TCC fell by 22-23% y-o-y, on account of lower labour costs, as well as lower costs related to materials, spares, and fuel. The rouble depreciation was an important reason for the decline in costs, however the full-scale rollout of the Total Operational Efficiency programme at the Krasnoyarsk assets also had a large positive impact on costs.

Verninskoye decreased its TCC by 30% y-o-y, to $417/oz, based both on stellar operational performance and lower costs. The main positive contributing factor on the production side was a 6.7 ppts increase in recoveries, which reached the design target parameter of 86%. The biggest cost reductions were seen in materials, electricity, and fuel, driven by the rouble devaluation and efficiency initiatives, which helped offset the negative impact of higher expenses on reagents and explosives.



Alluvials achieved the least reduction among the Group's assets in FY 2015, lowering costs by 21% y-o-y to $582/oz, due to a decline in grades at some mining areas. To partially offset this, the amount of sands washed increased, which led to a rise in fuel, materials, and spare parts costs. However, the weaker rouble and lower contractors' expenses helped mitigate the effect of lower grades.

At Kuranakh, TCC were down 31% y-o-y, to $598/oz, owing to cost reductions on labour, electricity, fuel, and materials. This was achieved through the sustained rollout of operating efficiency programmes, optimisations, and improvements on the processing side, which, in addition to cost cutting, helped increase recovery by 1.6 ppts y-o-y to 88.4%. The rouble depreciation and optimisation of personnel expenses also had an effect.

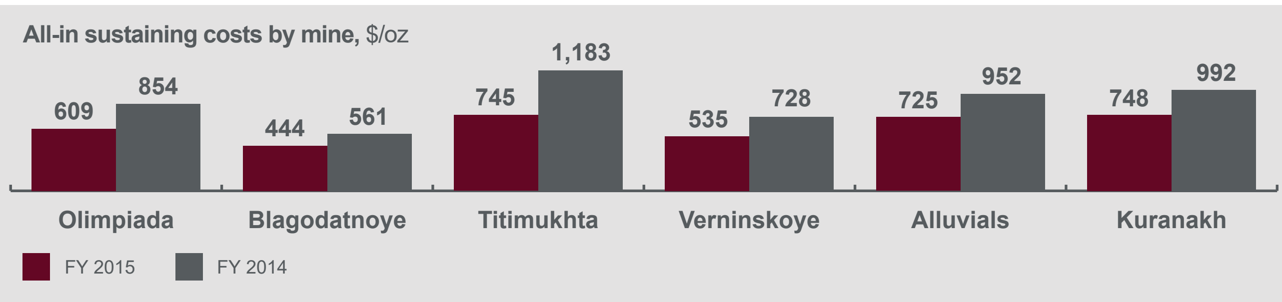
**All-in sustaining costs (AISC)**

The Group's AISC followed TCC dynamics by falling 26% y-o-y, to $610/oz in the reference period. At this level, the Group is located at the very beginning of the global AISC curve[24]. The key factors behind the upbeat AISC performance were lower TCC and SG&A, as well as a 48% drop in maintenance capex.

In terms of individual mine performance, the most substantial cost decrease occurred at Titimukhta – down 37% y-o-y, to $745/oz. AISC at the lowest-cost asset – Blagodatnoye – fell 21% y-o-y to $444/oz.

**All-in sustaining costs calculation**

| $ million | FY 2015 | FY 2014 | y-o-y change | 2H 2015 | 1H 2015 |
|---|---|---|---|---|---|
| **Total TCC** | **749** | **989** | **(24%)** | **400** | **349** |
| + selling, general and administrative expenses | **166** | 183 | (9%) | 92 | 74 |
| – amortisation and depreciation | **(3)** | (4) | (25%) | (1) | (2) |
| + research expenses and other sustaining expenses | **1** | - | N.M. | 1 | - |
| + stripping activity asset additions | **104** | 109 | (5%) | 47 | 57 |
| + sustaining capital expenditure | **51** | 99 | (48%) | 37 | 14 |
| + unwinding of discounts on decommissioning liabilities | **4** | 4 | 0% | 2 | 2 |
| **Adding back expenses excluded from cost of gold sales** | | | | | |
| + provision for annual vacation payment | **1** | (1) | N.M. | 2 | (1) |
| + employee benefit obligations cost | **4** | 1 | N.M. | 4 | - |
| + change in allowance for obsolescence of inventory | **-** | 14 | N.M. | 1 | (1) |
| **Total all-in sustaining costs** | **1,077** | **1,394** | **(23%)** | **585** | **492** |
| Gold sold (koz) | **1,768** | 1,691 | 5% | 969 | 799 |
| **All-in-sustaining cost ($/oz)** | **610** | **825** | **(26%)** | **604** | **617** |




24. According to MetalsFocus.

# 1.11 Management discussion and analysis (MD&A) on financial performance continued

**Adjusted EBITDA**

Lower costs were the major reason for the rise in the Group's adjusted EBITDA – up 25% y-o-y, to $1,268 million in FY 2015, while the adjusted EBITDA margin advanced 13 ppts y-o-y, to 58%. Apart from the robust cost performance, higher sales volumes, and a $116 million positive effect from the SPPP (or $66/oz) also contributed to the y-o-y earnings growth.

**Adjusted EBITDA calculation**

| $ million | FY 2015 | FY 2014 | y-o-y change | 2H 2015 | 1H 2015 |
|---|---|---|---|---|---|
| **Operating profit for the year** | **1,141** | **846** | **35%** | **610** | **531** |
| Depreciation and amortisation | **128** | 182 | (30%) | 66 | 62 |
| Reversal of impairment | **(22)** | (17) | 29% | (18) | (4) |
| Other | **21** | - | N.M. | 21 | - |
| **Adjusted EBITDA** | **1,268** | **1,011** | **25%** | **679** | **589** |
| Adjusted EBITDA margin (%) | **58** | 45 | 13 ppts | 58 | 58 |

**Adjusted EBITDA bridge,** $ million


All the Group's mines made a contribution to the overall EBITDA growth, with the biggest progress being seen at Titimukhta, where optimisation programmes were implemented during the year. Alluvials saw the smallest increase, due to a decline in production caused by lower grades. Olimpiada and Blagodatnoye remained the main contributors to the Group's earnings.

**FY 2015 adjusted EBITDA breakdown by mine, $ million**

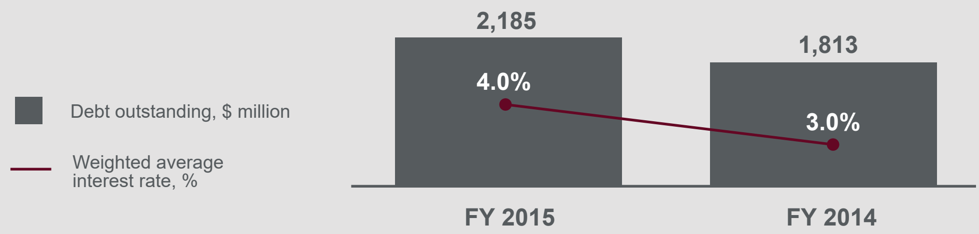
| $ million | FY 2015 | FY 2014 | y-o-y change |
|---|---|---|---|
| Olimpiada | **605** | 490 | 23% |
| Blagodatnoye | **348** | 305 | 14% |
| Titimukhta | **54** | 27 | 100% |
| Verninskoye | **115** | 89 | 29% |
| Alluvials | **76** | 70 | 9% |
| Kuranakh | **70** | 50 | 40% |
| Other | **-** | (20) | N.M. |
| **Total** | **1,268** | **1,011** | **25%** |

### Finance cost analysis

| $ million | FY 2015 | FY 2014 | y-o-y change |
|---|---|---|---|
| Interest on borrowings | **134** | 100 | 34% |
| Gain on exchange of interest payments under cross currency swap | **(39)** | (16) | N.M. |
| Gain on exchange of interest payments under interest rate swaps | **(13)** | (4) | N.M. |
| Unwinding of discounts on decommissioning liabilities | **4** | 4 | 0% |
| Other | **2** | 2 | 0% |
| **Sub-total finance cost** | **88** | **86** | **2%** |
| Interest capitalised in the cost of mine under development and capital construction-in-progress | **(40)** | (60) | (33%) |
| **Total finance cost expensed** | **48** | **26** | **85%** |

The Group's total finance costs in FY 2015 amounted to $48 million, compared to $26 million in FY 2014. Capitalised interest related to the Natalka project fell 33% y-o-y, to $40 million, as construction works at the mine were temporarily scaled down in FY 2015. Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps), totalled $134 million in FY 2015, representing a 34% increase on FY 2014. The growth in interest payments resulted from higher gross debt and an increase in the average interest rate to 4.0%, which is still one of the lowest among Russian peers.

**Weighted average interest rate dynamics**




### Foreign exchange gain and derivatives

The Group's foreign exchange gain in FY 2015 amounted to $149 million, 21% above the FY 2014 level due to the revaluation of USD-denominated bank deposits.

In 2H 2015 the Group restructured the existing two tranches of the revenue stabiliser programme and launched Tranche 3.

**Valuation and hedge accounting of derivative financial instruments as at 31 December 2015**

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

# 1.11 Management discussion and analysis (MD&A) on financial performance continued

**Revenue stabiliser**
During 2H 2015 the Group completed the restructuring of Tranches 1 and 2 of the revenue stabiliser programme and began signing agreements under Tranche 3. The restructuring of Tranches 1 and 2 resulted in the closing out of part of the fourth-year options and the lowering of barriers on the remaining options for the first three years.

The allocation of volumes, strikes, and barriers between the years under the revenue stabiliser agreements after restructuring is presented in note 13 to the Group's FY 2015 financial statements.

Tranches 1 and 2 of the revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the cash flow hedge revaluation reserve within equity, while the remaining change in the fair value of the $19 million gain is reflected in the consolidated statement of profit or loss (note 10).

During FY 2015, under Tranches 1 and 2, $115 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, $91 million was subsequently reclassified to gold sales within the consolidated statement of profit or loss.

Tranche 3 is accounted at fair value through profit and loss. The gain resulting from the change in fair value totalled $45 million and is presented in the note 10 to the consolidated statement of profit or loss.

During the year ended 31 December 2015 the Group partially restructured its revenue stabiliser programme, taking advantage of gold price movements during the year. The restructuring was done at zero cost – the Group neither paid nor received any cash consideration in any of the transactions. The Group focused on deleveraging the revenue stabiliser structure, i.e. removing some of the fourth-year options in exchange for revising strikes and barriers in other parts of the structure.

The Group's priority is to secure 2016-17 cash flows, and currently around 48% of the projected 2016 output is protected under various derivatives contracts.

In FY 2015 the positive effect on revenue from the revenue stabiliser contracts amounted to $91 million.

**Forward contracts**
During FY 2015, a $15 million gain was recognised in the cash flow hedge revaluation reserve within equity, and following the sale of the hedged amount of gold, $25 million was reclassified from the cash flow hedge revaluation reserve within equity into gold sales within the consolidated statement of profit or loss. All forward agreements will expire by 30 June 2016.

The positive effect on revenue from gold forward contracts in FY 2015 amounted to $25 million, as gold traded below the fixed contract price of $1,321/oz.

The combined effect in FY 2015 of gold-linked derivatives (revenue stabiliser and forward contracts) on revenue amounted to $116 million.

**Currency collars**
During the year ended 31 December 2015 all remaining outstanding options matured and resulted in a gain of $53 million recognised in the profit or loss statement due to the revaluation of the currency collars. No further currency collars options remained outstanding as of 31 December 2015.

### Cross-currency and interest rate swaps

In April 2014 the Group signed a five-year RUB36 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 economically to hedge interest payments and the exchange of principal amounts. According to the cross-currency swap agreements the Group pays banks a quarterly LIBOR+Margin of 2.32% in USD and receives from banks 10.35% in RUB, and upon maturity (on 9 April 2019) the Group will exchange principal amounts, paying in USD and receiving RUB.

In July 2015 the Group placed RUB15 billion in bonds. To economically hedge interest payments and principal amounts exchange for these RUB bonds the Group entered into cross currency swaps with leading Russian banks, for a total amount of RUB 10 billion. According to the cross currency swap agreements, the Group will semi-annually pay to the banks a 6MLIBOR + Margin of 4.45% in USD and receive from the banks 12.1% in RUB; and upon maturity (on 16 July 2021) the Group will exchange principal amounts, paying $173 million and receiving RUB 10 billion.

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 overall positive effect in FY 2015 on finance cost from cross-currency and interest rate swaps amounted to $52 million. This was recorded in Finance Costs as a realised gain on the exchange of interest payments under interest rate and cross currency swaps.

### Income taxes

The Group's overall income tax amounted to $194 million in FY 2015, a decrease of 12% y-o-y, despite a substantial increase in profit before taxes. That was due to the fact that the FY 2014 profit before tax was substantially affected by losses on derivative financial instruments and investments, which was not the case in FY 2015.

### Net profit

The Group's FY 2015 net profit totalled $1,119 million, as compared with the net loss of $182 million recorded in FY 2014. Adjusted net income (see the reconciliation below) stood at $901 million, 47% above the FY 2014 result, chiefly due to the rise in operating profit.

**Adjusted net profit calculation**

| $ million | **FY 2015** | FY 2014 | y-o-y change | 2H 2015 | 1H 2015 |
|---|---|---|---|---|---|
| **Net profit** | **1,119** | **(182)** | **N.M.** | **536** | **583** |
| + reversal of impairment losses | **(22)** | (17) | 29% | (18) | (4) |
| + impact from derivative financial instruments | **(12)** | 934 | N.M. | 133 | (145) |
| + impact from forex | **(149)** | (123) | 21% | (154) | 5 |
| + income tax related to one-off items | **(35)** | 3 | N.M. | (28) | (7) |
| **Adjusted net profit** | **901** | **615** | **47%** | **469** | **432** |

# 1.11 Management discussion and analysis (MD&A) on financial performance continued

### Statement of financial position review

**Debt**

As of 31 December 2015 the Group's gross debt amounted to $2,185 million, up 21% from $1,813 million at the end of FY 2015. 98% of gross debt remains long term, with only $38 million due in FY 2016.

Due to an increase in bank loans (up 32% y-o-y), the share of the $750 million Eurobond 2020 in gross debt decreased by 7 ppts y-o-y, to 34%. However, following the placement of RUB15 billion in bonds in July 2015, the overall share of public debt was 40% in FY 2015, broadly in line with the FY 2014 level.

**Debt breakdown by type**

| $ million | FY 2015 | 1H 2015 | FY 2014 |
|---|---|---|---|
| Eurobonds | **746** | 746 | 745 |
| RUB bonds | **137** | - | - |
| Deferred payments under letters of credit | **38** | 47 | 107 |
| Bank loans | **1,264** | 959 | 961 |
| **Total** | **2,185** | **1,752** | **1,813** |

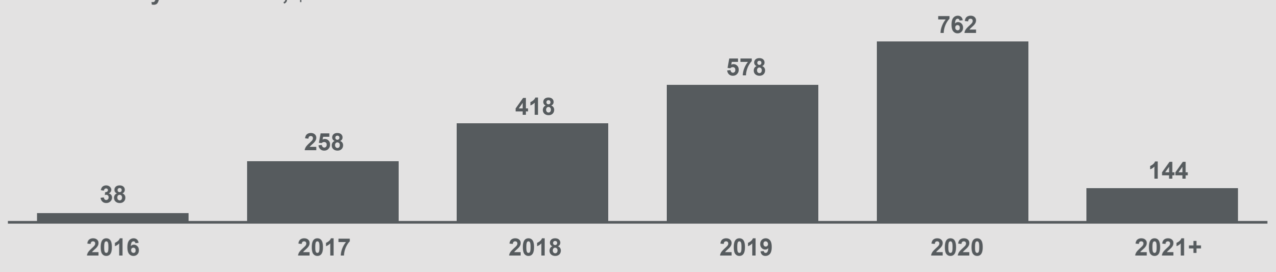
US dollar instruments continued to dominate the Group's debt portfolio, with their share increasing 8 ppts y-o-y, to 71% of the total. The decrease in the RUB-denominated component was to a large extent a result of an overall RUB depreciation against the USD. The RUB 36 billion credit facility from Sberbank obtained in April 2014 and the RUB 15 billion bonds placed in July 2015 were both economically hedged via cross-currency swaps.

**Debt breakdown by currency**

| | FY 2015 | | 1H 2015 | | FY 2014 | |
|---|---|---|---|---|---|---|
| | $ million | % of total | $ million | % of total | $ million | % of total |
| EUR | **13** | **1%** | 16 | 1% | 69 | 4% |
| RUB | **616** | **28%** | 604 | 34% | 596 | 33% |
| USD | **1,556** | **71%** | 1,132 | 65% | 1,148 | 63% |
| **Total** | **2,185** | | **1,752** | | **1,813** | |

As for the repayment schedule, the major maturities remain the RUB 36 billion credit facility from Sberbank due in 2019 and the Eurobond issue due in 2020. Ten-year RUB bonds account for the largest part of the 2021+ maturities. Ahead of 2019, debt repayments total $715 million, which are fully covered by the current cash position of the Group, with 2016 debt maturities amounting to only $38 million.

**Debt maturity schedule**[25], $ million




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

### Cash and cash equivalents and bank deposits

The Group's cash and cash equivalents and bank deposits rose 37% y-o-y up to 31 December 2015 and totalled $2,039 million. The Group believes that a sizeable cash position is necessary in the current market conditions, in which access to capital could be restricted. The Group's cash position is primarily denominated in USD, as revenue is fully linked to the USD-denominated gold price, while the RUB exchange rate is subject to significant volatility.

**Cash, cash equivalents, and bank deposits breakdown by currency as at 31 December 2015**

| $ million | FY 2015 | 1H 2015 | FY 2014 |
|---|---|---|---|
| RUB | **104** | 164 | 63 |
| USD | **1,935** | 1,213 | 1,406 |
| EUR | **-** | - | 17 |
| **Total** | **2,039** | **1,377** | **1,486** |

### Net debt

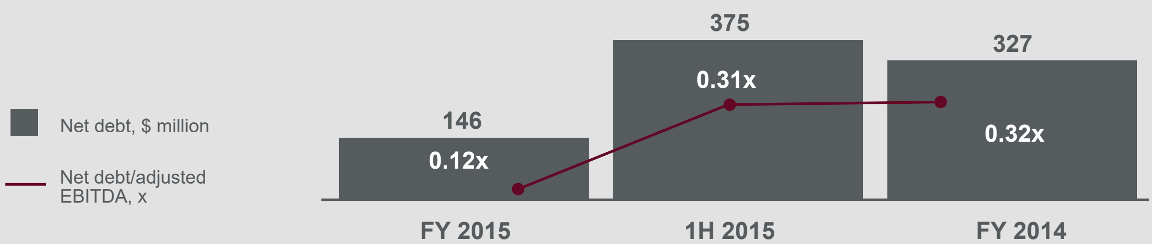
By the end of FY 2015 the Group's net debt was down 55% y-o-y, to $146 million, from $327 million as of the end of FY 2014, thanks to robust cash flow generation during the reference period.

**Net debt evolution**

| $ million | FY 2015 | 1H 2015 | FY 2014 |
|---|---|---|---|
| **Non-current borrowings** | **2,147** | **1,714** | **1,723** |
| + Current borrowings | **38** | 38 | 90 |
| – Cash and cash equivalents | **(2,039)** | (1,328) | (1,217) |
| – Bank deposits | **-** | (49) | (269) |
| **Net debt** | **146** | **375** | **327** |

The net debt/adjusted EBITDA ratio as of the end of FY 2015 fell by 63% y-o-y to 0.12x, due to both a 55% net debt reduction and a 25% increase in EBITDA.

**Net debt and net debt/adjusted EBITDA ratio**

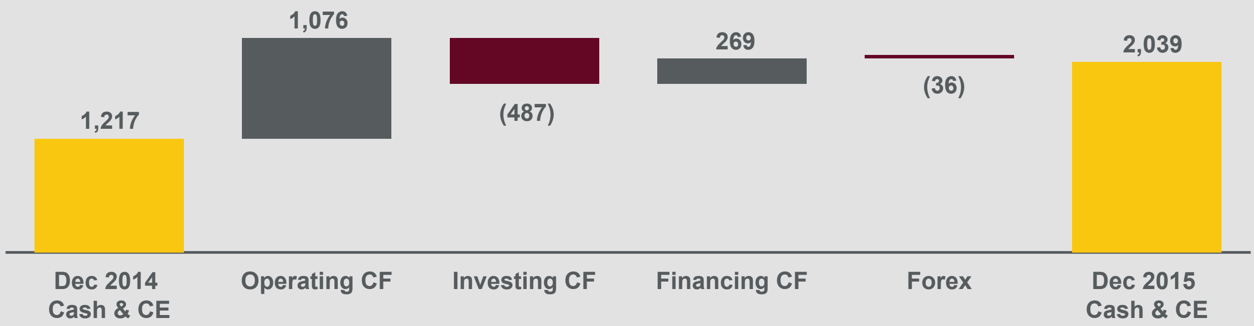


# 1.11 Management discussion and analysis (MD&A) on financial performance continued

**Cash flow review**

The Group's FY 2015 net operating cash flow[26] amounted to $1,076 million, which was 24% higher than in the previous year. Cash utilised in investing activities decreased by 37% y-o-y, to $487 million. The drop in investing activities was due to lower capex and the fact that there was only a $74 million decrease in bank deposits, as compared to a $475 million decline in FY 2014. Cash from financing activities was 32% down y-o-y to $269 million. All the above resulted in a 68% y-o-y increase in cash and cash equivalents, to $2,039 million by the end of FY 2015.

**FY 2015 cash flow bridge,** $ million




**Operating cash flow**

In FY 2015 the Group boosted its operational cash flow by 24% y-o-y, to $1,076 million. The increase was in line with the strong EBITDA generation, driven by lower costs, higher sales volumes, a positive contribution from the SPPP, and the weaker rouble. Strict control over working capital resulted in a further release of $42 million in FY 2015, after a $30 million release during FY 2014.

**Investing cash flow**

The Group's FY 2015 capex declined by 49%, to $268 million, from $525 million in FY 2014 as a result of lower spending on the Natalka project, the rouble devaluation, and strict capital control over development and maintenance spending.

The main development project of the Group saw a 64% decline in capex in FY 2015, to $111 million, due to the rouble depreciation and a decision to slow down its development after a reassessment of the deposit's reserves in 2H 2014. In March 2015 the Group partially resumed construction work at Natalka, which mainly related to works inside the production units and buildings and spending on the pilot plant. In December 2015 the construction of the main crushed ore conveyor was completed. Other areas of construction during FY 2015 included the tailings thickener, the ore crushing and conveyor complex, a 110 kV power line, the main stepdown substation, as well as circulating pump and slurry pump stations.

The Group spent $39 million on Olimpiada, a 30% decrease y-o-y, due to the rouble depreciation and a number of development projects that began in FY 2013 (including the automation of the mill) being completed in 1H 2014. The mine's biggest projects in FY 2015 were initial works to reconfigure the Titimukhta mill and preparations for connecting to the new Razdolinskaya-Taiga grid.

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

At Blagodatnoye capex fell by 24% y-o-y to $13 million, primarily as a result of the rouble devaluation. The main capex project at the mine in 2015 was upgrading and expanding the Blagodatnoye mill.

Capex at Kuranakh rose by 67% y-o-y to $10 million, due to the deployment of projects to increase equipment productivity and preparation works related to heap leach installation.

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

**FY 2015/FY 2014 capex breakdown**[27]

| $ million | FY 2015 | FY 2014 | y-o-y change | 2H 2015 | 1H 2015 |
|---|---|---|---|---|---|
| Natalka | **111** | 310 | (64%) | 73 | 38 |
| Olimpiada | **39** | 56 | (30%) | 29 | 10 |
| Blagodatnoye | **13** | 17 | (24%) | 9 | 4 |
| Verninskoye | **21** | 38 | (45%) | 13 | 8 |
| Alluvials | **5** | 17 | (71%) | 2 | 3 |
| Titimukhta | **1** | 6 | (83%) | 1 | - |
| Kuranakh | **10** | 6 | 67% | 8 | 2 |
| Exploration | **7** | 6 | 17% | 6 | 1 |
| Other (incl. power projects) | **61** | 69 | (12%) | 31 | 30 |
| **Total** | **268** | **525** | **(49%)** | **172** | **96** |

Other areas of investing activities included interest received, bank deposits movements and movements from derivatives, which all together amounted to a $166 million outflow in FY 2015, as compared to a $210 million outflow in FY 2014.

### Financing cash flow

Similar to FY 2014, the Group's financing activities provided a positive result, of $269 million, down from $393 million in FY 2015. The main reason for inflows was proceeds from borrowings exceeding debt repayments. As for dividends, the FY 2015 result includes payment of the regular FY 2014 dividend, in the amount of $184 million, while in FY 2014 the dividend payment was $500 million.

### Dividends

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

### Related-party transactions

Related-party transactions are disclosed in note 23 on page 205 to the consolidated financial statements. The Group had no transactions with its shareholders during FY 2015 and FY 2014.

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

# 1.11 Management discussion and analysis (MD&A) on financial performance continued

**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 64 to 67. As at 31 December 2015 the Group held $2,039 million in cash and cash equivalents and bank deposits and had a net debt of $146 million, with $614 million of undrawn but committed facilities available, subject to covenant compliance. Details on borrowings and credit facilities are disclosed in note 19 to the financial statements. In assessing its going-concern status, the Directors have considered the uncertainties affecting future cash flows and have taken into account its financial position, anticipated future trading performance, borrowings, and other available credit facilities, as well as its forecast compliance with the covenants on those borrowings and its capital expenditure commitments and plans. In the event of certain reasonably possible adverse pricing and forex scenarios and the risks and uncertainties below, management has within its control the option of deferring uncommitted capital expenditure, or managing the dividend payment profile to maintain the Group's funding position.

Having examined all the scenarios, the Group concluded that no covenants will be breached in any of these adverse pricing scenarios. Accordingly, the Board is satisfied that the Group's forecasts and projections, having taken into account reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of signing the consolidated financial statements and that it is appropriate to adopt the going-concern basis in preparing the consolidated financial statements for the full year ended 31 December 2015.

**Risks and uncertainties**

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

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

2015 saw some geopolitical and regional risks related to the conflict in Ukraine and sanctions imposed by the US and the EU against Russia the year before.

Following the decision to refine the Natalka project parameters, risks emerged related to longer terms for the facility construction and an underrun of the target recovery rate.

The Directors do not believe that the principal risks and uncertainties have changed since the publication of the Annual Report for the year ended 31 December 2014, other than the aforementioned sanctions against Russia.

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.

**Commodity price risk**

The Group's earnings are exposed to price movements in gold, which is the Group's main source of revenue. The Group sells most of its gold output at prevailing market prices. However, to protect its earnings and balance sheet from a potential significant fall in gold prices the Group initiated Strategic Price Protection Programme, which includes gold collars and gold forward contracts. A detailed discussion on SPPP is provided on page 62 hereto.

**Foreign exchange risk**
As stated on page 54 hereto, the Group's revenue is linked to the USD, as the gold price is denominated in this currency. Thus the Group's strategy is to have mostly USD-denominated debt and to keep its cash and deposits in USD. As at the end of FY 2015, 95% of the cash and cash equivalents and bank deposits of the Group were in USD – see page 65 of this MD&A for a detailed description. As part of this strategy, the Group entered into a number of cross-currency swaps with leading Russian banks economically to hedge interest payments and the exchange of the principal amounts – see page 63. In order to reduce the adverse effects associated with the changes in the exchange rates of RUB against USD the Group entered into currency collar contracts, which had all matured by 31 December 2015 – see page 62.

**Interest rate risk**
The Group is exposed to interest rate risk, as a significant part of the Group's debt portfolio is made up of US dollar floating rate borrowings. Fluctuations in interest rates may affect the Group's financial results. 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 page 63.

**Inflation risk**
As stated on page 54 hereto, the Group's earnings are exposed to inflationary trends in Russia, and inflation negatively impacts the Group's earnings, increasing future operating costs. To mitigate rouble inflation risk, the Group estimates possible inflation levels and incorporates them into its cost planning; it has implemented cost reduction initiatives at its operations, and its treasury team is responsible for ensuring that the majority of cash and cash equivalents are held in USD.

**Outlook**
In FY 2015 the Group's gold production was ahead of expectations and reported guidance, while cost-wise Polyus Gold remained one of the most efficient gold producers globally. In FY 2016 the Group expects its total gold output to amount to be 1.76-1.80 moz and to continue to benefit from its low-cost position, supported by continuous improvements in operational performance.

# Message from the Managing Director

Dear Stakeholders,
2015 was both an interesting and transformational year for Polyus Gold. We continued to seek comprehensive solutions to ensure both production and safety, as well cost efficiency, across all aspects of our business. I am proud to report that in 2015 we achieved another strong year of operational performance, despite a background of geopolitical and economic instability and gold prices remaining low.

Safety is always of paramount importance to us. We believe continuous improvements to Health and Safety systems and putting safety first in everything that we do will allow us to achieve our target of zero-fatality status. Our integrated Health, Safety and Environment (HSE) management system continued to be enhanced in 2015, with a further two Business Units (BUs) certified under ISO 14001 and OHSAS 18001. As a result, all of our mines now comply with these standards. The Lost Time Injury Frequency Rate (LTIFR) has improved by 40% over the past four years. Regrettably, our safety performance was overshadowed by two work-related fatalities at our operations – tragically, an employee and a subcontractor lost their lives. We send our deepest condolences to their families, friends, and colleagues. Our relentless efforts to identify and manage material health and safety risks are ongoing: we are committed to improving the safety culture across the entire Group. These efforts include developing the 2016–2018 Polyus Gold HSE development strategy, revising the corporate Golden Safety Rules (which have been rolled out across all operation sites), and implementation of the HSE management system.

In recognition of our efforts in the field of sustainability, in 2015 we were granted membership of the International Council on Mining and Metals (ICMM), an industry body founded in 2001 to improve sustainability performance in the mining and metals industry. Polyus Gold thus became the first company from Eastern Europe and the CIS to join the ICMM. As an ICMM member, Polyus Gold can share experience, learn from leaders in various fields, and develop joint responses to industry-wide challenges related to sustainability. This Report illustrates the progress Polyus Gold has made in executing the 2015–2016 ICMM Road Map, which sets out the key actions required to ensure full compliance with ICMM sustainable development principles. We build our sustainability management system through strengthening our governance framework. A new set of sustainability standards and policies was developed, which complies with the requirements and recommendations of both the ICMM and the International Financial Corporation (IFC), and introduces principles and procedures to address key aspects of sustainability, including social and environmental impact assessments, the sustainable use of natural resources, human rights, and community engagement.

We strive to develop our extensive resource base, both safely and in an environmentally aware manner. Polyus Gold is committed to comply with extensive environmental regulations imposed by law, but also to operate in accordance with the best practices that go beyond them. We are dedicated to continuous improvement and to addressing various environmental challenges, including efficient water treatment, climate change adaptation, waste management and others. Polyus Gold has pledged to support and promote the initiatives and values contained within the global agreement on climate change signed at the 2015 United Nations Climate Change Conference, COP 21 in Paris.

We could not succeed in any of our endeavours without our best asset – which is our people. The more that we invest in attracting and retaining a diverse, committed, and talented workforce, the more we are strengthened as an entity. During the reporting year, we introduced unified incentive schemes across all BUs and began working on improving working, social, and living conditions. Polyus Gold continues to place great emphasis on the development of people and capabilities that drive our competitive advantage. In 2015, we conducted a wide-ranging employee survey that became the largest personnel survey in the history of the Group in terms of participants and topic coverage. Based on its results, the Group identified the main areas for pursuing improvements in the future.

The Group's activities take place in remote regions of Russia, and Polyus Gold is an important part of the communities in which it has a presence. As one of the largest taxpayers and employers in the regions where we operate, we strive to bring positive changes to these regions, and we conduct active and regular dialogue with host communities and local authorities in order to help achieve this end. In the reporting year, a new Sponsorship and charity policy was adopted, both to streamline the approach to charity and sponsorship initiatives and to increase their positive impact within communities.

We recognise that there is still much work to be done, but with the dedication and professionalism of our team, and support from our other stakeholders, Polyus Gold is determined to work safely, efficiently, and responsibly while demonstrating leadership in governance and transparency. I would like to take this opportunity to express my gratitude to all those who contribute to bringing about positive changes and to our long-lasting success.

With kind regards,
Vladimir Polin
Managing Director of JSC Polyus

# 2.1 About this Report

## The mission of Polyus Gold and its subsidiaries (hereinafter referred to as the Group), as stated in its Code of Corporate Ethics, is to develop natural resources and human potential for the benefit of shareholders, employees, and the local community.

The reporting year was truly ground-breaking for the Group and laid the basis for its further sustainability performance. The biggest breakthrough of the year was the Group's acceptance for membership in the International Council on Mining and Metals (ICMM), an international organisation fostering the mining industry's sustainable development by requiring from its members a public commitment to high standards on safety, health, the environment, community relations, and contributing to society. The Group's voluntary decision to seek membership and its successful admission illustrate Polyus Gold's commitment to continued progress in the area of sustainable development, in line with industry leaders.

In 2015 the Group took another step to aligning its sustainability management with the ICMM sustainability principles and to remedy gaps detected during the admission process between its performance and ICMM requirements. The changes that took place as part of this process positively affected the Group's sustainable development framework and management structure.

Together with the work performed under the ICMM admission process, the Group continued to strengthen its adherence to best HSE practice. Thus Polyus Gold continued large-scale work on improving the health and safety management system, including developing a safety culture programme in partnership with DuPont. The prominent achievement in 2015 was adopting a new strategy to develop the HSE management system in 2016–2018.

Through these and other sustainability initiatives, the Group strives to promote sustainability values, adhere to best-in-class industry standards, and create comprehensive value for shareholders.

The 2015 Sustainability report aims to summarise the Group's values, priorities, and performance in the area of sustainable development and to present all the changes that occurred during the reporting period, as well as Polyus Gold's plans for the future. For the Group, sustainability reporting serves to reinforce its culture of commitment to responsible mining at all levels. Polyus Gold acknowledges the importance of responsible environmental and social data disclosure, and as members of the ICMM endorses the organisation's corresponding sustainability principle 10: *Implement effective and transparent engagement, communication and independently verified reporting arrangements with our stakeholders.*

The Group first published information on its sustainability performance in 2006. Initially, the Group followed a biennial reporting cycle; then, in 2012, Polyus Gold took the decision to report on environmental, health, safety, and social performance annually. During these years, the structure and content of the report underwent significant changes. Instead of a lengthy description of the Group's sustainability performance, a concise report detailing the most material issues in the reporting year was presented.

The last report was published in spring 2015 and covered the year 2014. This, the Group's seventh sustainability report, is the Sustainability report for the Year 2015 (the Report), and it reflects sustainability performance for the period 1 January 2015 to 31 December 2015. The Report was independently assured by a professional firm (for more information see the section 2.3 'Independent assurance statement' on pages 84 to 86).

The Group's reports, along with additional information on its sustainability performance, can be found on the Group's website, at **http://www.polyusgold.com/investors/reports/annual_reports/**, and at **http://www.polyusgold.com/sustainability/**.

**Guidelines and standards**
In compiling this Report, the Group was guided by GRI G4 Guidelines and the requirements of the Mining and Metals Sector Supplement. The Report was prepared in accordance with the Comprehensive GRI G4 option.

The Report has been prepared in compliance with the G4 Principles for defining report quality, which include balance, comparability, accuracy, timeliness, and clarity, and enabling comparison with the Group's previous reports as well as the reports of leading international mining companies. References to the standard disclosures are presented in the GRI Content Index (pages 214 to 228).

The Group also applies the reporting principles of inclusivity, materiality, and responsiveness, as defined in the Accountability Principles Standard (AA1000 APS 2008):
- inclusivity: identifying and engaging with stakeholders to gain a full understanding of issues
- materiality: determining which issues are important to the Group and its stakeholders
- responsiveness: responding to material issues and being transparent about the Group's performance

The Group uses Greenhouse Gas Protocol Corporate Accounting and Reporting Standard recommendations to collect data on and to calculate greenhouse gas emissions. As an ICMM member the Group also strives to meet the organisation's requirements related to measuring, reporting, and verifying net greenhouse gas emissions, as stipulated under the ICMM Environment and Climate Change work programme.

**Report boundaries**
The boundaries of the Report as a whole, as well as for individual performance indicators, were defined in line with the GRI Guidelines. According to the guidelines, the Report should cover subsidiaries over which the Group has operational and financial control, as well as those that have an impact on the Group's operational, financial, social, and environmental performance results.

As the largest gold producer in Russia, and one of the top-10 gold miners globally by ounces produced (1.763 moz of gold production in 2015), the Group operates in Russia's most prolific gold mining regions in Eastern Siberia and the Far East. Polyus Gold principal operations include five operating mines, alluvial operations, and a number of advanced development projects. This annual Report and accompanying data tables contain information on all wholly owned subsidiaries and joint ventures of the Group[28], namely:

| Name of subsidiary | Mention in the Report |
|---|---|
| **Operational BUs:** | |
| JSC Polyus | Krasnoyarsk BU |
| JSC Lenzoloto | Irkutsk alluvial BU |
| JSC Pervenets | Irkutsk ore BU |
| JSC Aldanzoloto GRK | Yakutia Kuranakh BU |
| JSC SVMC | Exploration BU |
| JSC Matrosov Mine | Magadan BU |
| **Professional services:** | |
| LLC Polyus Stroy | Construction service |
| PSF Polyus Shield LLC | Security service |
| JSC Polyus Logistics | Logistics service |
| LLC Polyus Project | Engineering service |
| Polyus Energy, represented by JSC Vitimenergo, JSC Vitimenergosbyt, JSC Mamakanskaya Hydroelectric Power Plant | Energy service |

28. G4-17.

# 2.1 About this Report continued

The term "the Group" as used herein refers to the above group of BUs and professional services.

A significant change which took place during the reporting year was the Group's delisting from the London Stock Exchange. This happened in December, however the Group does not foresee it changing the Polyus Gold Sustainability approach or reporting. For more information, see section 1.1 'Highlights of the year' on pages 10-11.

**Data measurement techniques**
The Group's corporate data collection system forms the primary source of data and information for the Sustainability report. Initially, data review occurs onsite and after preliminary consolidation by the relevant BU specialists it is formalised in the form of a report. Further consolidation of information takes place annually at corporate level, with the aim of collecting information on material sustainability indicators.

Data on the Group's sustainability performance are sourced from the Group's BU and sites using a variety of data measurement techniques. Information on health and safety, employees, and social issues is obtained through the internal reporting system. Labour performance indicators are calculated based on the headcount as at 31 December 2015, and include information on the managing company for the Russian assets (PJSC Polyus Gold, located in Moscow). Environmental data are primarily collected through federal state statistical monitoring forms, which are complemented using internal reporting forms. The forms are aggregated regularly on an ad-hoc, daily, monthly, quarterly, or yearly basis, depending on the Group's requirements.

The procedure for data collection is reviewed each year in order to facilitate the goal of continuous improvement. In 2015, in order to provide consistency and accuracy in reporting across all BUs, decrease the number of HSE reports, and increase the efficiency of the data consolidation process at the corporate centre level, the Group elaborated and implemented new internal reporting forms. The forms reflect key readings from the Group's environmental, health, safety, and social performance.

In 2016 the Group also plans to continue implementing a new integrated HSE data recording and analysis system, including accident reporting and root-cause analysis.

Reported data have been presented using generally accepted international metrics and calculated using standard conversion factors, or in accordance with the Group's internal requirements. Units of measurement used in this Report generally conform to GRI Guidelines. The standard monetary unit used throughout is the US dollar (USD). The financial amounts mentioned in the report were converted from rubbles to US dollars, using the yearly weighted average exchange rate for 2015, which is equal to 61.52 roubles per dollar.

Specific mining industry conditions and historical choice of profession determine the structure of employment at the Group, which means that male employees are mostly engaged in production. The share of female employees stands at 16.8%. Due to this disparity, it is unrepresentative to show certain statistical data required by GRI Guidelines (e.g. health and safety statistics) split by gender, and such information is not collected within the corporate reporting system.

**Report content**
The Group is committed to using the GRI G4 Guidelines as the basis for its sustainability reporting. The GRI Reporting Framework sets out the principles which the organisation should bear in mind when defining the content of the Report[29]:
• stakeholder inclusiveness
• sustainability context
• materiality
• completeness

29. G4-18.

The reported information is consistent with that of previous reports. Promoting the principles of responsible and transparent sustainable reporting, the Group provides stakeholders with information about not only achievements made in the reporting year but also the difficulties and challenges that were faced.

In 2015 the Group continued to apply a formal procedure for a materiality assessment of information for inclusion in the Report (see the section Sustainability approach). The main material issues and key topics of the Report were defined with a view to identifying the following:

- potential impacts on the Group's business development strategy
- economic, social, and environmental impacts on communities affected by the Group's operations
- stakeholders' interests and expectations

A full list of material aspects covered in the Report is included in the Sustainability approach section.

**Restatements and significant changes**[30]
In 2015 there were no significant changes in the methods used for measuring and presenting data, or to the reporting boundaries in relation to the Group as a whole.

**Assurance**
The Group commissioned the professional firm Deloitte LLP to undertake an independent assurance of its Sustainability report. The main aims pursued by the Group are to 1) improve its entire sustainability reporting process, 2) ensure the quality, completeness and correctness of the information it presents, and 3) meet stakeholders' requirements related to sufficient data provision.

The Group continually works to ensure the credibility of the Report. In 2015 some indicators were assured at a "reasonable" level in order to increase the transparency and quality of the reporting information (key health and safety and environmental indicators).

More detailed information on the boundaries and the subject of assurance can be found in the section 2.3 'Independent assurance statement', and also in the GRI Content Index.

**Contact information**
Feedback from stakeholders on the completeness, objectivity, and materiality of information disclosed in sustainability reports plays a key role in helping the Group improve its management of sustainability and its non-financial reporting processes. In order to help us become better and to lead our industry forward, we welcome your thoughts – both in relation to this Report and on our performance. Your questions and suggestions can be sent to:

**Alexey Fortygin,**
Adviser on Sustainable Development of JSC Polyus
Address: 15/1 Tverskoy Boulevard Moscow
E-mail: FortyginAV@polyusgold.com
Tel.:+ 7 (495) 641-33-77

30. G4-22.

# 2.2 Sustainability approach

## The Group's strategic priority is to maximise commercial and social value, for the benefit of all its stakeholders, by comprehensively improving all aspects of its activities.

Polyus Gold believes environmental and social responsibility to be integral to the success of its business and it strives to adhere to best-in-class industry standards in order to create additional value for its shareholders. The Group is committed to being:

- a people-orientated company that provides development opportunities, adheres to safety standards, and can attract, motivate, and retain the best employees and management available.
- a socially responsible company that contributes to stable social development in its areas of operation.
- an environmentally responsible company that is committed to identifying and mitigating environmental impacts from its operations through implementing planned procedures across its asset base throughout the life cycle of mining activity.

The Group continues to make adjustments to existing internal procedures, including the reporting process, in accordance with GRI G4 guidance requirements.

As part of upholding the principle of continuous improvement, in 2015 the Group elaborated and adopted the Business continuity policy, which enables the Group to effectively address risks as they arise, increase the operational efficiency of the Group's business management system, fulfil its responsibilities to stakeholders, and ensure the future sustainable development of the business.

In the future the Group plans to foster the integration of sustainable development principles into its operating philosophy in order to deliver on its commitments to shareholders and to achieve industry-leading performance in the area of environmental protection.

**ICMM membership**

> "ICMM membership provides us with access to industry best practice in sustainable development, and also enables us to pass on our knowledge and experience to other members. The work undertaken to gain membership underlines our commitment to sustainable mining", noted CEO of PJSC Polyus Gold Pavel Grachev

One of the Group's most prominent achievements in the reporting year was its admission to the ICMM. After completing the rigorous admittance process, Polyus Gold was recommended for membership by an independent expert review panel that scrutinised its adherence to responsible social and environmental performance in mining and metals operations. As a result, Polyus Gold became the first Russian member of the ICMM.

The Group pledges to comply with 10 ICMM principles:

| Principle | Reference, page |
|---|---|
| 01. Implement and maintain ethical business practices and sound systems of corporate governance. | 90 |
| 02. Integrate sustainable development considerations within the corporate decision-making process. | 90 |
| 03. Uphold fundamental human rights and respect cultures, customs and values in dealings with employees and others who are affected by our activities. | 108 |
| 04. Implement risk management strategies based on valid data and sound science. | 90 |
| 05. Seek a continual improvement in our health and safety performance. | 94 |
| 06. Seek a continual improvement in our environmental performance. | 101 |
| 07. Contribute to the conservation of biodiversity and integrated approaches to land use planning. | 102 |
| 08. Facilitate and encourage responsible product design, use, re-use, recycling and disposal of our products. | 101 |
| 09. Contribute to the social, economic and institutional development of communities in which we operate. | 117 |
| 10. Implement effective and transparent engagement, communication and independently verified reporting arrangements with our stakeholders. | 72 |

As part of the admission process, independent experts reviewed how the Group manages risks, analysed how sustainability management is integrated throughout the Polyus Gold business, and assessed how well the Group's policies and systems are aligned to the ICMM sustainability framework. Based on the results of this review the Group developed and approved the 2015–2016 Road Map, which sets out the key actions needed to close detected gaps, address cases of partial alignment, and catalyse a broad alignment with each element of the ICMM Sustainable Development Framework.

As part of the ICMM Road Map implementation, the Group worked on developing the Polyus Gold Sustainability Management System (SMS). In addition, an assessment of the socio-economic impacts of alluvial operations was conducted, which identified significant sustainability related risks and led to corresponding mitigation measures being developed. As stated above, the first step of the 2015–2016 Road Map agenda is improving the SMS by providing a sufficient sustainability governance framework. As part of this step, the Group developed or reviewed a set of standards based on risk assessments and long-term planning, and covering the most important sustainability issues. The full list of developed standards is shown in the table below:

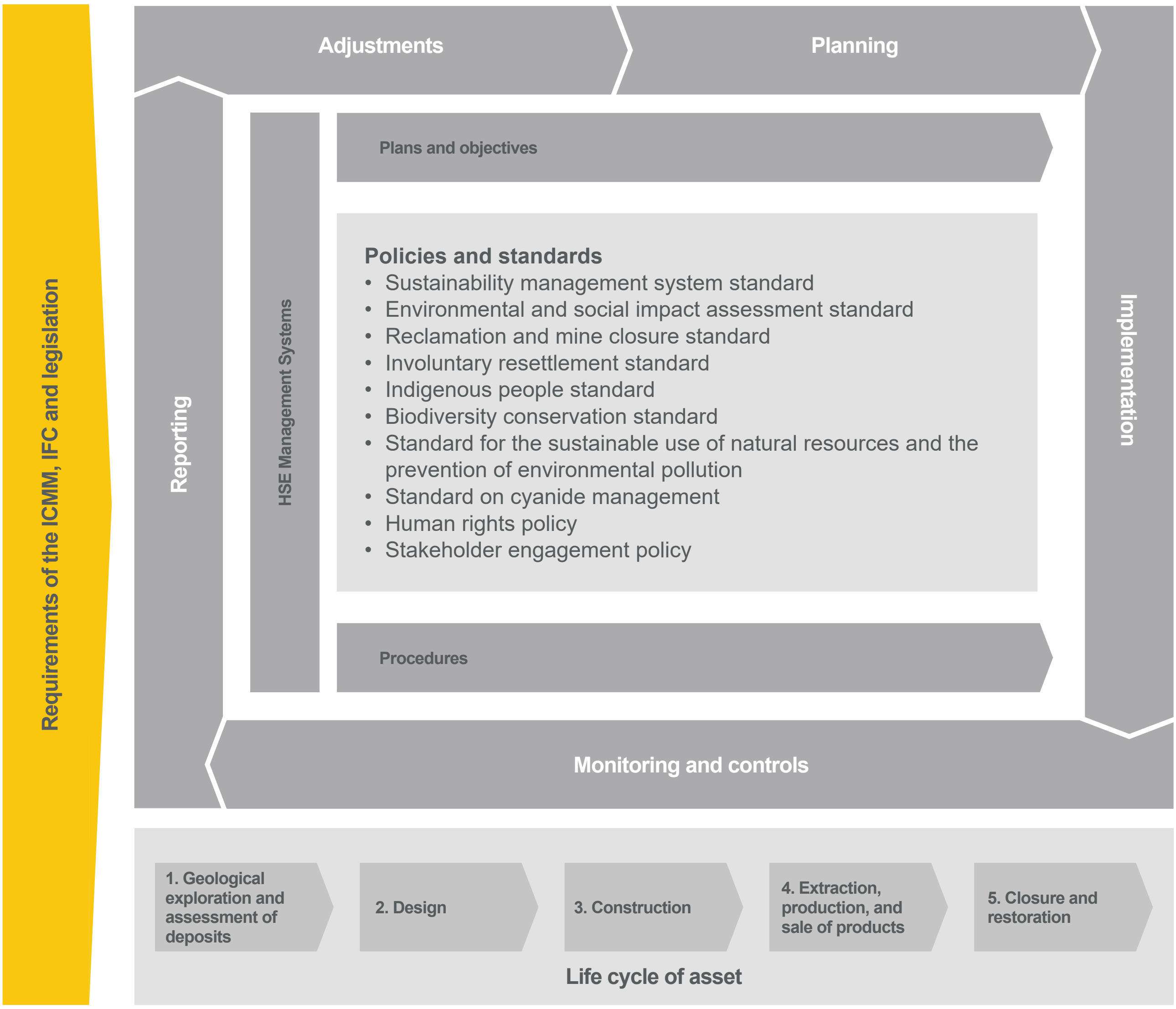
| Standard/Policy/ICMM principles | 01 | 02 | 03 | 04 | 05 | 06 | 07 | 08 | 09 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Sustainability management system standard | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Environmental and social impact assessment standard | | ✓ | | ✓ | | ✓ | | | ✓ | |
| Reclamation and mine closure standard | | ✓ | | | | ✓ | | | ✓ | |
| Involuntary resettlement standard | | ✓ | ✓ | | | | | | ✓ | ✓ |
| Indigenous people standard | | ✓ | ✓ | | | | | | ✓ | ✓ |
| Biodiversity conservation standard | | ✓ | | | | ✓ | ✓ | | | |
| Standard for the sustainable use of natural resources and the prevention of environmental pollution | ✓ | ✓ | | | | ✓ | ✓ | ✓ | | |
| Standard on cyanide management | | ✓ | | | ✓ | ✓ | | ✓ | | |
| Human rights policy | | ✓ | ✓ | | | | | | | ✓ |
| Stakeholder engagement policy | | ✓ | ✓ | | | | | | ✓ | ✓ |
| Sponsorship and charity policy | ✓ | ✓ | ✓ | | | | | | ✓ | ✓ |

# 2.2 Sustainability approach continued

The Stakeholder engagement policy, the Human rights policy, and the Sponsorship and charity policy were already in place, however, the Group used the ongoing sustainability framework development process to strengthen them.

IFC requirements related to environmental, social, and economic impacts, as well as Russian law requirements, serve as the basis for the new system. The Group believes that IFC is an important benchmark for its environmental and social management, as it promotes a responsible approach to business and reflects global best practice for sustainability and risk management. The SMS (see the figure below) will become an integral part of the Group's target operating model. Business processes, the risk management system, as well as corporate strategies, policies, and procedures will be adapted and updated accordingly. The system covers all stages of the life cycle of an asset.

**Sustainability management system**



| Sustainability strategic objectives |
|---|
| **1.** Sustainable growth and management of environmental and social risks to ensure the efficiency of each stage of the life cycle of a mine/asset: exploration, engineering and design, mining and processing, closure and rehabilitation. |
| **2.** Achieve first-rate financial results by adhering to sustainability principles in our operations. |
| **3.** Achieve a zero injury rate through a world-class safety culture. |
| **4.** Be a reliable partner for local communities in areas of operation and maintain an open dialogue with all stakeholders, consistently taking their interests into account when making decisions. |
| **5.** Cultivate a team of professionals committed to helping the Group achieve leading industry positions while at the same time adhering to the principles of sustainability. |

Also, as part of the Road Map the Group developed implementation plans for the sustainability management system, as well as standards and policies. The plans constitute a scheduled action plan, which includes such measures as briefings and trainings and defines involved BUs, responsible departments, implementation KPIs, and preliminary assessments of required resources.

All the above standards and policies were reviewed by the working group with the participation of BU specialists, and signed off by the Group's management.

In 2016 the Group plans to implement all the developed standards and policies and will proceed with executing the action plan. In addition, the Group has prepared a plan of cooperation with the ICMM, which includes knowledge exchange programmes with ICMM member-companies.

Another Road Map action performed during the reporting period was a material sustainability risks and social-economic impacts assessment of operations at the Irkutsk alluvial BU. The review was conducted by the independent consultants KPMG in cooperation with the internal control department of the Group, and included site visits and interviews with key internal and external stakeholders.

Following the review a report containing an analysis of identified risks and impacts was prepared, as well as an Action plan containing measures which enable the Group to avoid, mitigate, and control potential risks and impacts. Also recommendations on the effective management of sustainability risks were developed by the external consultant in cooperation with Irkutsk alluvial BU management and integrated into the corporate risk register.

The Group believes the implementation of the 2015–2016 Road Map will not only fully align its policies and standards with the ICMM sustainability principles, but also enable the Group to foster an effective sustainability management system as an integral element of its operational model.

# 2.2 Sustainability approach continued

**Stakeholder engagement**
When conducting its business Polyus Gold seeks to establish open, transparent, and respectful relationships with stakeholders and strives to continuously improve its understanding of their values, needs, and concerns.

Embedding community engagement within a corporate management system ensures that the Group works with communities in a consistent, comprehensive, and transparent manner everywhere it operates. The sustainability framework that exists in the Group provides mechanisms for effective stakeholder engagement and formalises the Group's commitments to stakeholders. The approach to stakeholder engagement within the Group is governed by the Corporate Code of Ethics, the Stakeholder engagement policy, and the Human rights policy[31].

In 2015, in order to achieve compliance with ICMM principles on stakeholder engagement procedures and social performance indicators, the Group revised and updated its Stakeholder engagement policy and Human rights policy, in line with IFC recommendations. Also, within the scope of work executed under the 2015–2016 Road Map to improve the sustainability management system, the Group elaborated a Sponsorship and charity policy, which provides guidance on the criteria requirements and procedures for handling charitable donations, and clarifies the factors that influence how the Group makes donations.

According to the above policies, as part of any project the Group regularly identifies project stakeholders and develops engagement strategies that are both socially and culturally sensitive and tailored to the needs of each stakeholder group. Through these strategies, Polyus Gold informs its stakeholders about the Group's activities, addresses their expectations, provides appropriate feedback, and facilitates collaboration.

The key stakeholders of Polyus Gold include the Group's employees and contractors, shareholders, governments and regulators, suppliers, local communities, and non-government organisations and media. As most Polyus Gold operations are located in rural and remote areas, special importance and attention are given to interacting with a broad spectrum of local and indigenous communities with a range of interests and concerns.

The mechanism of engagement varies, from the provision of information and briefings to sponsorship activities, depending on the category of stakeholders and circumstances. For instance, in its regions of operation the Group has social-economic cooperation agreements in place with local authorities. Through mechanisms contained within these agreements, the Group contributes to the socio-economic development of host regions and provides targeted financial support.

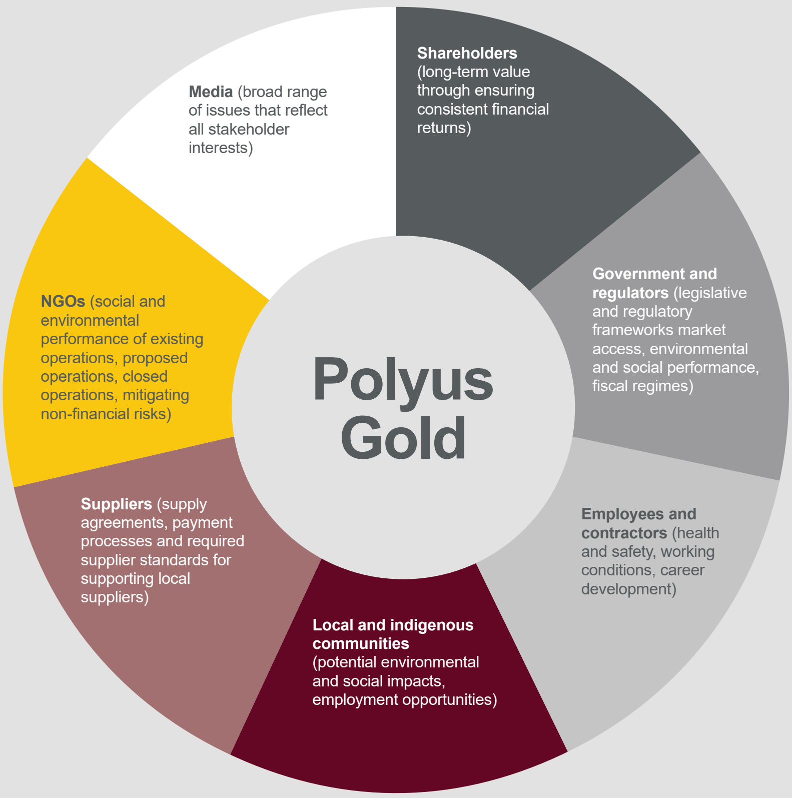
Furthermore, the Group actively participates in funding and supporting large-scale public initiatives. In 2015 it took part as an official sponsor/partner/participant in the St. Petersburg International Economic Forum, the Eastern Economic Forum, the Krasnoyarsk Economic Forum, the International Investment Forum Sochi-2015, the Chinese Gold Mining Forum, and other events. For more detailed information on the Group's initiatives in this area, see the section 2.9 'Communities' (pages 116 to 119).

At the same time, the Group widely applies such tools of engagement as information disclosure, briefings, and open hearings. Thus in 2015 the Group began publishing the corporate newspaper *Territory of Polyus*, which is designed to be a new communication tool for interacting with stakeholders – primarily employees. In the newspaper, the Group discloses information on its latest achievements and initiatives and development plans. Among other topics, the newspaper highlights the Group's sustainable development projects and HSE initiatives. In 2015 a number of articles covered the Group's membership of the ICMM, initiatives to improve the safety culture, and charity activities.

Key stakeholders, the issues that they are interested in, and the mechanisms of engaging with them are presented in the diagram below.

31. G4-25.

### The Polyus Gold stakeholder engagement approach[32]




**Shareholders**
- Annual General Meetings
- regular hard-copy and electronic
- communications
- regular meetings with institutional shareholders
- internal newspaper
- access via the Group's website **www.polyusgold.com**

**Government and regulators**
- supporting and developing social infrastructure, (agreements on social-economic partnerships)
- charity and sponsorship initiatives (sports and cultural events)

**Employees and contractors**
- direct communication with employees through immediate supervisors and management
- operation-based newsletters and general communications
- participation in Health Safety Environment and Community (HSEC) performance improvement initiatives at subsidiaries

**Local and indigenous communities**
- organising participation in the Group's activities
- newsletters and targeted communications
- public hearings and meetings

**Suppliers**
- engagement with large international suppliers
- engagement with local businesses in areas where the Group has operations
- engagement with small- and mid-sized businesses

**NGOs**
- regular interaction with relevant national / international organisations

**Media**
- press releases, briefings
- presentations and interviews

## Supply chain management

In relation to its mining operations, the Group procures a wide range of goods and services that are commonly used in any large-scale infrastructure project, including heavy equipment, process chemicals, fuel and lubricating oils, explosives, motors, labour, and a range of services. This leads to interactions with numerous suppliers from various industries, as well as with both local and international organisations.

In its procurement activity the Group gives precedence to local suppliers. Polyus Gold leverages its supplier relationships in order to deliver partnerships which drive positive socio-economic impacts for host regions and which at the same time improve efficiency and resilience in its own supply chain by lowering logistics costs and improving access to critical goods and services. The Group also takes into account the interests of small- and medium-sized businesses and believes inclusive procurement represents a mutually beneficial approach to business which provides an opportunity to fairly share created value.

32. G4-24, G4-26, G4-27.

# 2.2 Sustainability approach continued

However, the remote location of the Group's BUs (the Group's principal operations are located in sparsely inhabited remote Siberian regions with poor transport and production infrastructure) creates certain limitations and does not always allow the Group to fully adhere to local procurement principles. Hence through its procurement system the Group has a considerable indirect impact on the development of different regions – even those where it has no operations.

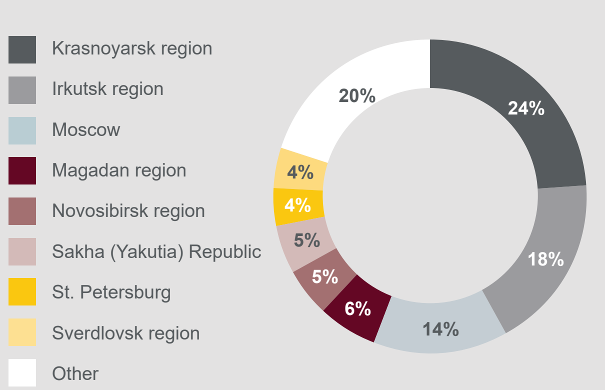
The Group believes a responsible procurement approach is critical to its success and to the welfare of stakeholders. The Group expects its suppliers to demonstrate compliance with local laws and regulations, as well as with good practices in such areas as labour and human rights, occupational safety and hygiene, environmental management, business integrity, supporting economic development, and proactive management. Although the Group has so far not put in place an all-inclusive supplier assessment procedure against sustainability criteria, it is constantly performing work in this area. In this regard, a number of necessary changes in the procurement system and supplier engagement approach took place in 2015.

A noteworthy transformation which occurred in 2015 was a merger between the logistics and procurement departments. This decision was taken by the management of the Group in order to integrate and customise the operations of the departments and to provide efficient supply chain management.

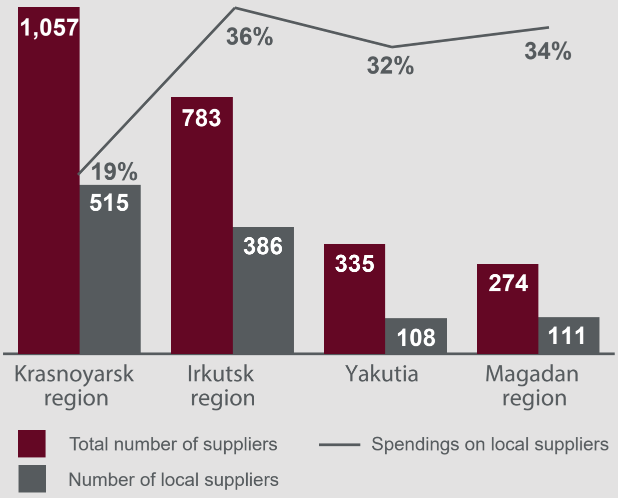
In addition, in 2016 the Group plans to expand its supplier assessment procedures through developing prequalification requirements for suppliers. As the products required in the Group's operations include such dangerous items as process chemicals, fuel and lubricating oils, and explosives, the HSEC department will be involved in developing the prequalification requirements.

Logistics is another crucial supply chain management component within the Group. When the transportation of hazardous substances is required, the Group engages only licensed providers. In 2015 approximately 7% of all the Group's suppliers were engaged in the transportation of hazardous substances. Potential counterparties must complete a questionnaire and provide charters as well as other documents required for anti-money laundering purposes. The development of an effective logistics system will continue to be a priority in 2016. The Standard on cyanide management, developed and adopted in 2015, also covers risks associated with cyanide purchasing and transportation, and sets forth requirements related to these processes which are which are designed to ensure both human and environmental safety.

### Distribution of suppliers by region




### Local procurement by region



**Commitments to external initiatives**
In 2015, as a member of the ICMM, the Group pledged to support and promote initiatives and values contained within the global agreement on climate change signed at the 2015 United Nations Climate Change Conference, COP 21 in Paris.

In addition, in response to the Samarco tailings dam collapse in Brazil, the ICMM and the Group itself initiated a review of tailings management. The initiative will include a review of the business practices, design requirements, critical control strategies, governance, and emergency preparedness. Based on the results of the ICMM tailings management review the Group will prepare guidelines for the design, construction, operation, and reclamation of tailings as a sustainable development target for 2017.

The Group is actively involved in various external initiatives, and supports a number of activities in collaboration with such organisations as:

- The National Association Promotion of mining industry development “Gornoye delo”
- The Russian Union of Industrialists and Entrepreneurs (RSPP; an independent, non-governmental organisation)
- The Russian Union of Gold Producers (a non-profit organisation)
- The National Association for Subsoil Examination (a non-profit partnership)
- The All-Russia Intersectoral Association of Employers – producers of nickel and precious metals (a trade union)
- The International Council on Mining and Metals (the Group became a member in 2015)

The Group was guided by the requirements of the IFC while elaborating the sustainability regulatory framework as part of the 2015–2016 Road Map implementation.

# 2.3 Independent assurance statement

## Independent assurance statement by Deloitte LLP ('Deloitte') to Polyus Gold International Limited Board of Directors on the 2015 Sustainability report for the year ended 31 December 2015.

**Scope of assurance**
We have been engaged by the Polyus Gold International Limited ("PGIL") Board to perform an assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) to provide public assurance on certain non-financial performance data, compliance with GRI G4 guidelines and progress against 2015–16 International Council on Mining and Metals Roadmap Actions presented in PGIL's 2015 Sustainability report ('the Report') for the year ended 31 December 2015.

**Assurance procedures and roles**
**Our key assurance procedures**
We carried out reasonable and limited assurance on the selected key performance indicators specified above in accordance with the International Standard on Assurance Engagements 3000 revised (ISAE3000 revised). To achieve assurance the ISAE3000 revised requires that we review the processes, systems and competencies used to compile the areas on which we provide assurance. Considering the risk of material error, we planned and performed our work to obtain all of the information and explanations we considered necessary to provide sufficient evidence to support our assurance conclusion.

To form our conclusions, we undertook the following procedures:
- analysed and reviewed on a sample basis the key structures, systems, processes, procedures and controls relating to the collation, aggregation, validation and reporting processes of the selected sustainability performance indicator;
- reviewed information and reasoning about the Reports' assertions regarding sustainability performance in 2015; and
- reviewed the content of the Report against the findings of the aforementioned procedures and, as necessary, provided recommendations for improvement.

**Roles and responsibilities**
- The Directors are responsible for the preparation of the sustainability information and statements contained within the PGIL Report 2015. They are responsible for determining PGIL's sustainability objectives and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived, including the description of PGILs application and compliance with of the International Council on Mining and Metals' (ICMM's) Sustainable Development Framework.

- Our responsibility is to express a conclusion on the selected Subject Matter based on our procedures. We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE 3000) Assurance Engagements other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with the independence and ethical requirements and to plan and perform our assurance engagement to obtain sufficient appropriate evidence on which to base our limited assurance conclusion. We performed the engagement in accordance with Deloitte's independence policies, which cover all of the requirements of the International Federation of Accountants' Code of Ethics and in some areas are more restrictive.

- Our work has been undertaken so that we might state to the Company those matters we are required to state to them in this Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than PGIL for our work, for this Report, or for the conclusions we have formed.

## Selected subject matters for reasonable assurance

**Table 1: Reasonable assurance performance information**
We have been engaged by the Board of Directors of PGIL to perform reasonable assurance procedures on the following key performance data:

| | |
|---|---|
| Composition of governance bodies and breakdown of employees per employee category | • Number of employees by Business Unit, region, function and age group, 2015<br>• Percentage of employees by business unit, region, function, gender and age group, 2015 (%) |
| Career development | • Number of employees trained, 2015<br>• Employees trained as percentage of total headcount (%)<br>• Average number of hours of training per year per employee by employee category, 2015<br>• Average number of hours of training per year per employee trained, 2015<br>• Employees being included in the corporate talent pool, 2015<br>• Employees by type of trainings taken, 2015 (%) |
| Fatalities | • Work-related fatalities<br>• Fatality frequency rate (Group) 2015, per 200,000 hours worked |
| Injury rates | • LTI frequency rate, 2015 by BU employees (per 200,000 hours worked)<br>• Injury rate per 200,000 hours worked, 2015 (Fatalities, Lost time injuries)<br>• Lost-day rate by BU, 2015 (per 200,000 hours worked)<br>• Absentee Rate (AR) by BU, 2015 |
| Occupational health and hygiene | • Occupational diseases rate (ODR) by BU, 2015 (per 200,000 hours worked) |
| Energy/electricity use and climate change | • Purchase of primary energy resources, 2015 (t)<br>• Consumption of primary energy sources, 2015 (t)<br>• Amount of electricity produced and sold, 2015 (GWh)<br>• Amount of heating produced and sold, 2015 (thousand Gcal)<br>• Amount of electricity purchased, 2015 (MWh)<br>• Amount of heating purchased, 2015 (thousand Gcal)<br>• Total energy saved under the conservation of energy efficiency programme, 2015 (kWh) per unit by category (‘Process optimisation’, ‘Equipment replacement’) |
| Greenhouse gas (GHG) emissions | • Total GHG Emissions, 2015, mt<br>• Direct GHG emissions (CO2e), 2015, mt<br>• Indirect GHG emissions (CO2e), 2015, mt |
| Significant air emissions | • Carbon oxide emissions, 2015 (CO) (t)<br>• Sulphur oxide emissions, 2015 (SOx) (t)<br>• Amount of Nitrogen oxide emissions, 2015 (NO2) (t)<br>• Volatile organic compound emissions, 2015 (VOC) (t)<br>• Solid dust emissions, 2015 (PM2.5 and PM10) (t) |
| Waste | • Total waste, 2015 (thousand tonnes) |
| Regulatory compliance | • Total monetary value of environmental fines ($ thousand)<br>• Number of non-monetary sanctions for non-compliance with environmental laws and regulations, 2015 |
| Water | • Total water withdrawal, 2015 (thousand $m^3$)<br>• Total water withdrawal by source, 2015 (thousand $m^3$)<br>• Total volume of water discharged, 2015, (thousand $m^3$)<br>• Percentage of water recycled/reused, 2015 (%)<br>• Total water effluents discharged, 2015 (thousand $m^3$)<br>• Total volume of water recycled/reused, 2015 (thousand $m^3$) |

# 2.3 Independent assurance statement continued

### Selected subject matters for limited assurance

**Table 2: Limited assurance performance information**
We have been engaged by the Board of Directors of PGIL to perform limited assurance procedures on the following key performance data:

| | |
|---|---|
| Employee turnover | • Total number of new employee hires, 2015<br>• Employee turnover (%), 2015 |
| Employee engagement, motivation and benefits | • Standard Entry wage compared to local minimum wage by BU, 2015 ($) |
| Agreements/dialogue with indigenous communities | • Operations with significant actual and potential negative impacts on local communities (assessments conducted in 2015)<br>• Number and description of significant disputes relating to land use, customary rights or local communities and Indigenous Peoples<br>• Number of grievances about environmental impacts filed |
| Sponsorship and charity | • Total monetary value of charity and sponsorship, 2015 ($ thousand) |

**GRI G4 compliance and alignment with ICMM assurance**
PGIL's assertions in relation to:
- the alignment of its policies to the International Council on Mining and Metals ("ICMM") ten Sustainable Development Principles and Position Statements as stated in the section titled 'ICMM Membership'
- its stated progress against tasks in the ICMM Action Plan stated in report section titled 'ICMM Membership'
- external assurance over compliance with comprehensive level reporting with respect to the application of the Global Reporting Initiative (GRI) G4 reporting guidelines.

The subject matter has been assessed against the criteria provided GRI G4 reporting guidelines available online at **www.globalreporting.org/standards/g4/**, with the definitions and approaches in the PGIL Reporting Criteria document available online at **http://www.polyusgold.com/sustainability/**.

**Our conclusions**
**Reasonable assurance conclusion**
Based on the scope of our work and the assurance procedures we performed we conclude that:
- the selected key performance data which we were engaged to provide reasonable assurance on as specified in the 'Scope of our work and the assurance standards we used' section below, is in all material respects, fairly stated.

**Limited assurance conclusion**
Based on the scope of our work and the assurance procedures we performed we conclude that:
- nothing has come to our attention that causes us to believe that the selected key performance data which we were engaged to provide limited assurance on, as specified in the 'Scope of our work and the assurance standards we used' section above are materially misstated
- nothing has come to our attention that causes us to believe that the assertions related to the PGIL progress regarding to the 2015–2016 Road Map as documented in the 'ICMM Membership' of the Report are materially misstated
- nothing has come to our attention that causes us to believe that the 2015 Polyus Gold International Limited (PGIL) Annual report is prepared "in accordance" option Comprehensive with the G4 GRI Guidelines are materially misstated.
- nothing has come to our attention that causes us to believe that the assertions related to the alignment of its policies to the International Council on Mining and Metals ("ICMM") ten Sustainable Development Principles and Position Statements as stated in the section titled 'ICMM Membership' are materially misstated.

**Deloitte LLP**
London

Photo: At the Olimpiada mine

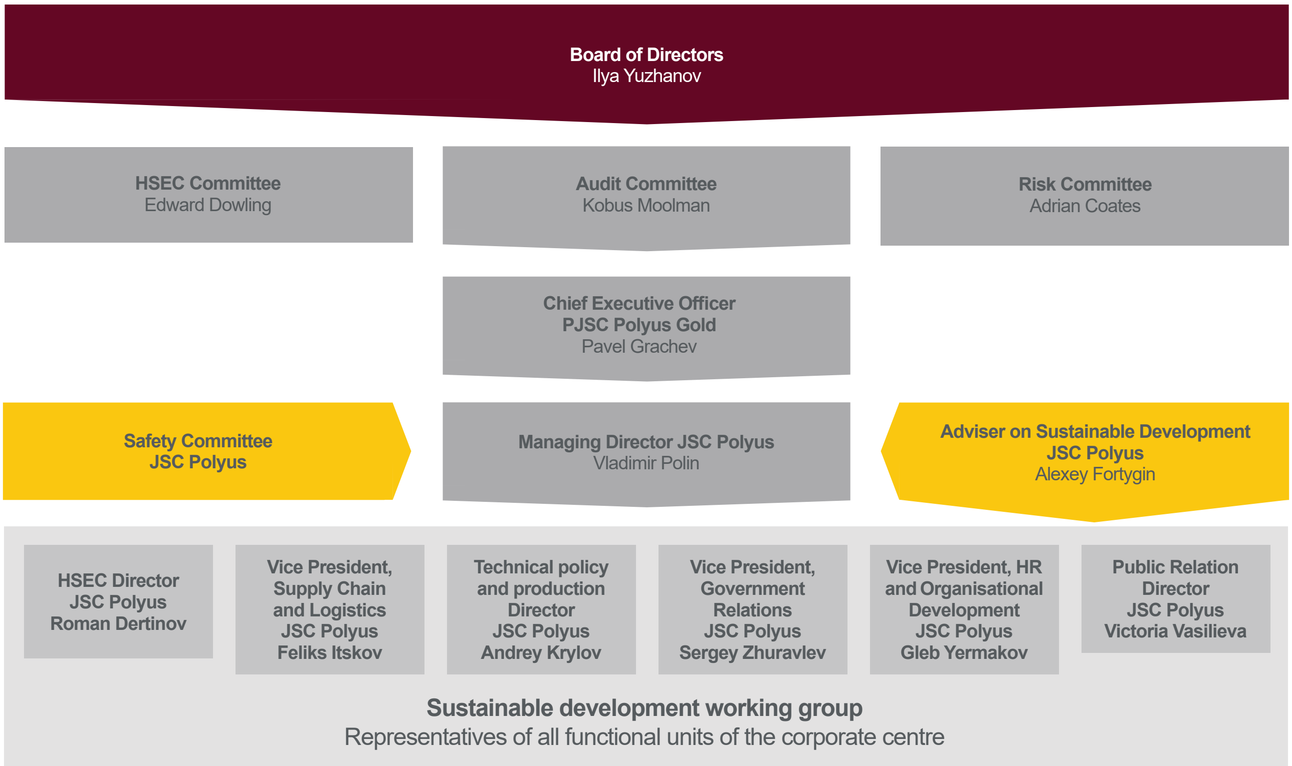
# 2.4 Sustainability governance

Maintaining transparent and effective governance is fundamental to upholding our responsibilities and to sustaining strong relationships with our stakeholders. In 2015 the Group restructured its sustainability governance and redefined the processes performed by HSEC departments. The Group believes the changes made in 2015 will result in improved sustainability management in 2016 and beyond.

| Targets | Status |
| --- | --- |
| • Full implementation of the Polyus Gold Sustainability Management System | 2016 |
| • Sustainability risks are to be regularly documented on a regular basis and included in the Group's register of business risks | 2016 |
| • The updated corporate business model is based on sustainable development principles, and makes it possible to achieve financial efficiency and promotes EBITDA growth | 2018 |

The Group's Board of Directors had a duty to shareholders to promote the long-term success of the Group. In 2011 the Board delegated responsibilities on the management of the Group's sustainability performance to the Health, Safety, Environment and Community (HSEC) Board Committee, which played a key role in integrating sustainability values into the Group's decision-making processes and mitigating risks related to health and safety, the environment, and communities. Among its other responsibilities, the HSEC Committee tracked environmental targets and objectives across the Group, evaluated the effectiveness of the Group's Health, Safety and Environment (HSE) policies and procedures, ensured that all employees, irrespective of position, comply with internal practices and domestic HSE legislation, encouraged the development of best practice, and analysed management responses to incidents and accidents. The HSEC Committee met at least four times a year, and had access to well-established communication channels with the Board of Directors. The Board discussed and provided its input to the Sustainability report prior to its publication. The diagram below shows the Group's current sustainability governance structure.

### The Group's governance structure (up until 17 November 2015)




In the reporting year the Safety working group (set up in September 2014) was replaced by the Safety Committee. The transformation took place as the Safety working group had fulfilled its intended function of creating a long-term strategy to facilitate the continuous improvement of the Group's HSE. Hence Polyus Gold set up the Safety Committee, whose role would be to take over the working group function of strengthening the health and safety culture and be a body that performs regular work to implement an integrated HSE management system. The above transformation occurred under the Safety culture improvement programme, which is implemented by the Group in collaboration with DuPont.

The Safety Committee is made up of the management of the Group and the heads of BUs, and Managing Director Vladimir Polin acts as Chairman. Thus members of top management are directly involved in EHS management in the Group.

Another change related to sustainability governance that took place in 2015 was the creation of a new position: Adviser on Sustainable Development. This position heads the Sustainable development working group and oversees all the Group's sustainability activities, including in relation to reporting, and also coordinates communications with the ICMM as a principal liaison. The Adviser on Sustainable Development reports to the Managing Director of JSC Polyus. The former HSEC Director of the Group was appointed to the position.

# 2.4 Sustainability governance continued

The Group also set up the Sustainable development working group, with the intention of achieving an effective coordination of work on implementing the 2015–2016 Road Map. The working group is made up of representatives from the Group's functional department. Through the efficient operation of the Sustainable development working group and the Safety Committee, Polyus Gold ensured that its performance complied with the following ICMM principles:
**1:** Implement and maintain ethical business practices and sound systems of corporate governance
**2:** Integrate sustainable development considerations within the corporate decision-making process

The Environment & Safety department remained in charge of the day-to-day management of the Group's HSE performance. The HSE department developed a new HSE development strategy for 2016–2018. During the reporting period, the structure of the Environment & Safety Department underwent a transformation. A new HSE Director was appointed, and to increase the efficiency of HSE governance in the Group it was decided to create additional work streams within the department, specifically: Injury Prevention, Driving Safety, HSE Project Management, and Training and Development. In addition, corresponding managerial positions were created in the department. The diagram below reflects the current structure of the Health & Safety Environment department JSC Polyus.

**HSE department: organisational structure**


Broad-scale organisational changes will continue in 2016, designed to increase the efficiency of managing key safety risks, facilitate improved HSE performance in BUs, and strengthen the department's role and efficiency within the Group. Thus as part of the HSE management system development strategy for 2016–2018, the Group plans to initiate the direct reporting of HSE services in BUs to BU General / Managing Directors.

Polyus Gold has a well-established risk management and internal control system in place. Responsibilities for maintaining the risk management system are set forth in internal policies and other internal Group regulations. The Group sees the risk assessment process as being one of the key processes of the business and identifies, assesses, categorises, and mitigates financial as well as non-financial risks on a regular basis. By doing this, the Group ensures that its performance complies with ICMM sustainability principle 4: *Implement risk management strategies based on valid data and sound science.*

The Polyus Gold delisting and reorganisation which occurred during the reporting year did not affect the risk management process in the Group. The risk management framework covers all Polyus Gold employees, regardless of position.

Environmental, health, safety, and social risks are included in a corporate risk matrix. According to the results of implementing mitigating measures, the matrix is updated and reviewed on an annual basis.

Sustainability risks evaluated as being significant are included in an action plan that specifies deadlines and responsible risk managers in each BU, and also allocates funds for managing identified risks.

Risk management results are incorporated in the Group's decision-making process, while risk assessment results are also incorporated in the materiality assessment procedure (for further details, see the section 2.5 'Materiality assessment').

# 2.5 Materiality assessment

Companies such as Polyus Gold are faced with various social, environmental, and economic issues on which they could report. The Group seeks to constantly increase Report quality and completeness and strives to build transparent and open relationships with its stakeholders. However, in order to satisfy its various interests and expectations, the Group consciously included only the most material information in the Sustainability report 2015.

The main material issues were defined with a view to identifying the following:
- potential impacts on the Group's business development strategy
- economic, social and environmental impacts on communities affected by the Group's operations
- stakeholder interests and expectations

The Group used the following three-step process to identify material issues for inclusion in the Report:

**Materiality assessment process**

**1. Analysis of open information sources:**

- Industry trends and risks
- Peers
- Media publications
- Expectations of external stakeholders

Preliminary list of material aspects of industry/ regions of operations

**2.Interviews:**

- 2015 highlights
- The Group's reports
- Risk management
- Expectations of internal stakeholders

Updated list of material aspects

**3. Working Group meeting and presentation to Board of Directors**

Agreed list of material aspects to be included in the Report

Although stakeholder consultation does not yet form part of the materiality assessment process, the Group does not intend to stand still, and plans to further enhance its processes in this field.

The agreed list of material topics[33] is divided into five focus areas, which remained largely the same as in the previous report[34], and correspond to aspects defined in GRI G4 and the Metals and Mining Sector Supplement (MMSS).

| Focus areas | Risks | Page | Material topics | Within the Group[35] | Outside the Group[36] | GRI G4 and MMSS aspects |
|---|---|---|---|---|---|---|
| Economic performance | • Poor quality of products and services<br>• Supply chain delays | 10, 26 | Economic performance | ✓ | ✓ | Economic performance |
| | | 137 | Anti-corruption | ✓ | ✓ | Anti–corruption |
| | | 81 | Supply chain management | ✓ | ✓ | Procurement practices |
| Health and safety | • Fatalities, health and safety incidents<br>• Insufficient medical emergency response | 94 | Preventing injuries and fatalities<br>Occupational health<br>Safety culture | ✓ | ✓ | Occupational health and safety |
| Employees | • A lack of qualified specialists<br>• Deterioration in quality of professional training for the mining industry | 108 | Attracting and retaining personnel | ✓ | | Employment<br>Market presence |
| | | | Employee development and talent pool | ✓ | ✓ | Training and education |
| Environment | • Cyanide mismanagement<br>• Requirement to mitigate the effects of GHG emissions<br>• Changes in environmental controls and regulations<br>• Negative health and environmental impacts to the community in the event of environmental accidents<br>• Inadequate water balance<br>• Inaccurate estimates of closure costs; insufficient resources for closure | 100 | Minimising environmental impacts | ✓ | ✓ | Energy<br>Water<br>Emissions<br>Effluent and Waste<br>Compliance<br>Environmental protection expenditure<br>Environmental grievance mechanisms<br>Closure planning |
| Communities | • Lack of awareness about the Group's activities among local communities | 116 | Social investments | ✓ | ✓ | Indirect economic impacts |
| | | | Focus on students | | | Local communities |

33. G4-19.
34. G4-23.
35. G4-20.
36. G4-21.

# 2.6 Health and safety

Polyus Gold fully recognises its overarching priority to ensure a safe and healthy work environment for each Group employee and contractor. This is an essential part of its long-term commitment to sustainable development and compliance with ICMM Principle 5: *Seek continual improvement of our health and safety performance*.

**Plans**

| | |
|---|---|
| • Zero fatalities | Ongoing |
| • Monitor the level of HSE management system performance in every BU according to the Bradley scale as a KPI (focus on leading indicators) | by 2017 |
| • A 10% annual reduction in TRIFR (Total recordable injury frequency rate) | 2018 |
| • Interdependent stage of safety culture | 2018 |
| • Fully implement a certified ISO/OHSAS integrated EHS management system | 2018 |
| • BUs in full compliance with the Cyanide management standard; at least one BU to pass certification for compliance with the International Cyanide Management Code | 2018 |
| • Implement an automated medical inspection system across all BUs | 2018 |
| • Implement an automated HSE information collection and analysis system at the Group (including information on near misses and incidents/accidents and their root cause analysis) | 2018 |

In striving to provide a safe and healthy work environment, the Group strictly complies with the Polyus Gold health and safety policy. To achieve the overriding goal of zero fatalities, the Group is committed to instilling a culture of zero tolerance to health and safety infringements at all operating mines and development project sites.

To our very great regret, and despite very substantial efforts to prevent injuries and accidents, one work-related employee fatality and one work-related contractor fatality occurred in 2015 (compared to four and five in 2014). An employee sustained a fatal electric shock during winter maintenance work at the Irkutsk Alluvial BU and an employee of a contractor of Polyus Logistics was fatally injured in a traffic accident in the Krasnoyarsk region.

Going behind the mandatory requirements, Polyus Gold takes additional measures to prevent non-work-related deaths and diseases at mine sites. In 2015, there was one non-work-related death due to of cardio-vascular disease, a significant decrease on previous years (six in 2013, seven in 2014). The number of occupational diseases accounted to four cases which exceeds the level of the previous period (one case in 2014). The Group constantly performs work to mitigate occupational hazards and risks of health deterioration through strengthening medical controls and by raising occupational health and safety awareness among employees.

Unfortunately, there was a non-work-related road accident, involving two vehicles owned by a third-party company: a taxi minibus carrying Group employees, and a timber-carrying truck. The collision between the vehicles occurred due to the truck driver losing control of his vehicle; as a result, the driver of the minibus and two passengers (Group employees) died. Polyus Gold is working on development and implementation of Driving safety management standard to prevent similar accidents.

Polyus Gold has an unified health and safety management system that provides an integrated approach to health and safety improvement both at all levels.

The Group ensures that its facilities and operations comply with applicable Russian legal health and safety requirements. Polyus Gold continues to work on aligning the integrated health, safety, and environment management systems at BUs with best international practices, with a view to fully implementing an integrated HSE management system by 2018. All Polyus Gold mining BUs are now OHSAS 18001 certified. The Irkutsk ore BU and Logistics service obtained certification in the reporting year. In 2016 the Group plans to obtain OHSAS 18001 certificates for Polyus Stroy and the Magadan BU (at the construction stage), where the system was in the process of being implemented throughout 2015. Polyus Gold works with recognised external experts in this area, such as Bureau Veritas (on the preparation and implementation of the HSE system, as well as the independent auditing of existing systems) and TÜV Rheinland (on certification and recertification processes).

As part of the ICMM Road Map, the Standard on cyanide management was developed, which will be introduced in 2016. The standard sets out the requirements for purchasing, transporting, storing, using, and neutralising cyanide, in accordance with Russian legislation and the International Cyanide Management Code. It is planned for at least one BU to be certified in compliance with the International Cyanide Management Code in 2018.

Polyus Gold began implementing a new automated HSE data management system. This initiative will allow increasing the accessibility and transparency of HSE data, reducing the number of reports and consolidating information contained in reporting forms throughout the Group. A pilot project for testing the new system is planned for 2016.

The Group establishes and regularly reviews health and safety performance indicators in order to develop and maintain an efficient and sustainable integrated and certified HSE management system.

As a part of consistent health and safety system improvement efforts, the management structure at both Group and BU level underwent significant changes (for more information see the section 2.4 ‘Sustainable governance’ on pages 88 to 91).

**Update of the regulatory framework**

As part of the integrated HSE management system implementation, the revision and alignment of part of a key local regulatory framework was carried out, including the Health and safety policy, Golden safety rules, the Incident root causes analysis (IRCA) standard, and the Medical support standard. A new Traffic safety policy was introduced and a Policy on the prevention of alcohol, drugs and psychotropic substances consumption was approved and implemented at all BUs. The Group is planning in 2016 to complete a general review of HSE standards and procedures to bring it into full compliance with OHSAS 18001, ISO 14001, Russian legal requirements, and ICMM principles. An HSE department working group heads this work, with support from BU professionals and external consultants (including DuPont).

As part of the ICMM Road Map, the Standard on cyanide management was developed, which will be introduced in 2016. The standard sets out the requirements for purchasing, transporting, storing, using, and neutralising cyanide, in accordance with Russian legislation and the International Cyanide Management Code. It is planned for at least one BU to be certified in compliance with the International Cyanide Management Code in 2018.

**Safety Culture improvement programme**

In partnership with DuPont, the Group continues work to implement the Safety Culture improvement programme. The programme was introduced in 2012 and was expanded to all production BUs in 2015 (including the Irkutsk alluvial BU) in order to achieve a new level of responsibility among employees where they take ownership for safety and are responsible not only for themselves but also for others.

# 2.6 Health and safety continued

A Behavioural safety audit procedure is in the process of being implemented at BUs, aimed at identifying at-risk behaviours and/or unsafe situations and reinforcing positive safety behaviour. 30% of managers personally participate in regular behavioural audits.

The Group acknowledges that enhancing employee competencies and skills is an integral part of improving the safety culture. In 2015 the following training programmes were implemented: Leadership and dedication of managers, HSE risk analysis and assessment, Accident reporting and IRCA, and behavioural audits. During the reporting period more than 2,000 employees, including BU senior management, completed these training programmes.

In the reporting year a Safety Committee at Group level was set up, and three committee meetings were held attended by representatives from the Health and safety, Production, Operating efficiency and Financial departments. At BU level, safety committees and safety sub-committees were created, designed to develop new health and safety initiatives and tactical decisions at the level of top-management and line management within BUs.

**Driving safety**
Driving safety plays an important role in the Group's HSE management system. The group strives to achieve zero traffic fatalities and to reduce the number of road traffic accidents.

The Driving safety policy was developed and approved in 2015. The Group's own fleet was equipped with in-vehicle monitoring systems, three-point seatbelts, and automatic firefighting systems. A number of safety meetings for drivers were conducted, which featured special video materials prepared by the Road safety service. Over the past few years the Group has also implemented more sophisticated driving safety controls, in particular speed and resting time monitoring, pre-travelling/post-travelling checks, and seatbelt use monitoring. A scheduled plan of in-vehicle monitoring systems and three-point seatbelt refittings at BUs and professional services was approved. The implementation of a Driving safety management standard is planned for 2016.

**Health protection**
Health protection has always been an important HSE department focus area. The Group's health management system consists of a number of areas covering the following aspects of health care: emergency, non-emergency, and preventative. Online training on first-aid, cardiopulmonary resuscitation, and other procedures were introduced in the reporting year. The Group's health management system is based on existing legal requirements and internal documents and standards, such as the Health care, emergency response standard and procedures to prevent the consumption of alcohol, drugs and psychotropic substances at work. Polyus Gold also provides medical care accessibility, which in practice results in a sufficient quantity of medical units, health centres, first-aid boxes on sites, and available ambulances. The Group has developed an Emergency medical response plan and established contracts with health care centres and air medical services for all operational BUs. Polyus Gold also pays attention to such preventive measures as medical awareness campaigns and health days. Periodic health examinations also form an important part of employee health care. In addition to awareness-raising activities, vaccinations are regularly carried out for employees who fall within health risk groups. Also, every year the Group provides employees of this category with an opportunity to have stays in health resorts.

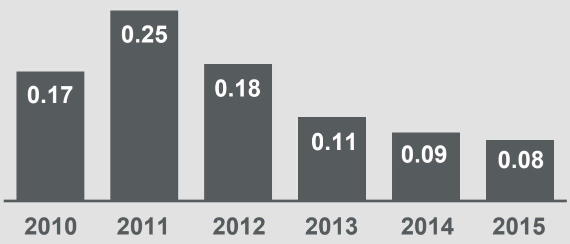
In the reporting year, the Verninskoye mine site confirmed a license to carry out medical examinations (pre-/post-travel), as well as drug and alcohol checks. The majority of the Group's health management system performance targets were achieved in 2015.

During the reporting period, 550 employees participated in the First-aid training programme, 562 were vaccinated against influenza, and 233 were vaccinated against tick-borne encephalitis.

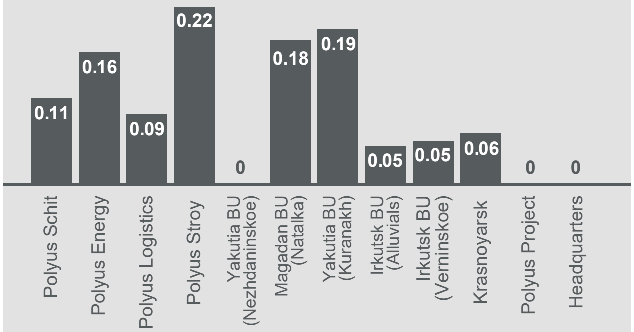
In order to ensure timely preventive treatment and to raise health awareness among employees, Polyus Gold plans to install equipment at the Yakutia Kuranakh BU that will perform automated medical screenings of staff before and after trips and working shifts. Such a system was implemented during the previous period at the Verninskoye site. Polyus Gold aims to implement an automated medical inspection system in all BUs by 2018.

**Performance results**

**Lost time injury (LTI) frequency rate (employees), 2010–2015**
(per 200,000 hours worked)




**LTI frequency rate by BU (employees), 2015**
(per 200,000 hours worked)

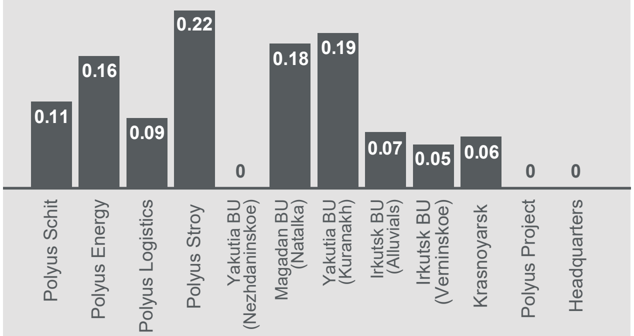



**Fatality frequency rate (FFR) by BU, 2015**
(per 200,000 hours worked)

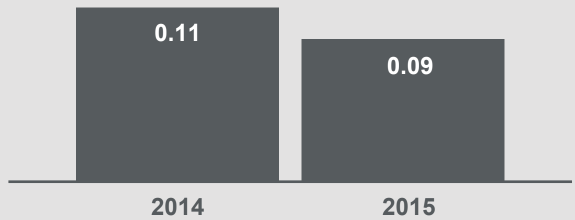

**Fatality frequency rate (Group), 2014-2015**
(per 200,000 hours worked)

# 2.6 Health and safety continued

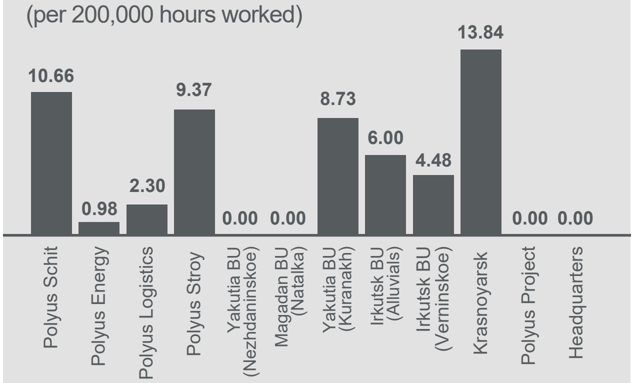
**Injury rate per 200,000 hours worked, 2015**
(fatalities, LTI; medical treatment injury, near misses excluded)



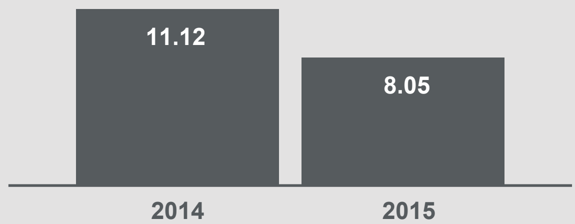

**Injury rate (Group), 2014–2015**
(per 200,000 hours worked)



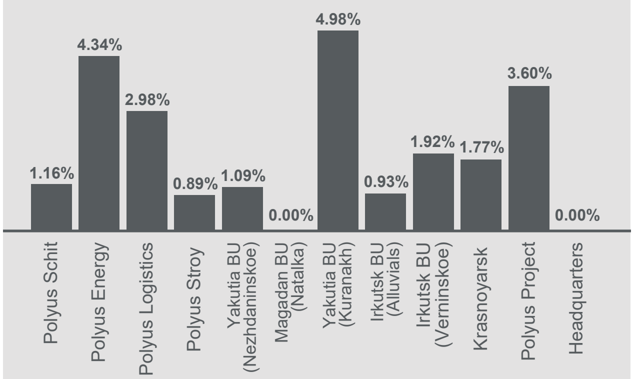

**Lost-day rate (LDR) by BU, 2015**
(per 200,000 hours worked)



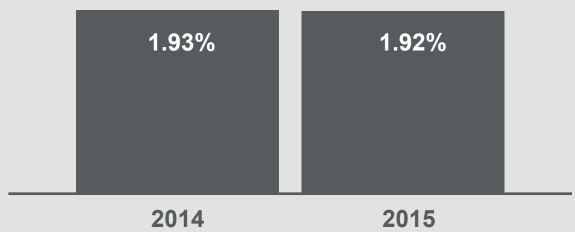

**Lost-day rate (Group), 2014–2015**
(per 200,000 hours worked)



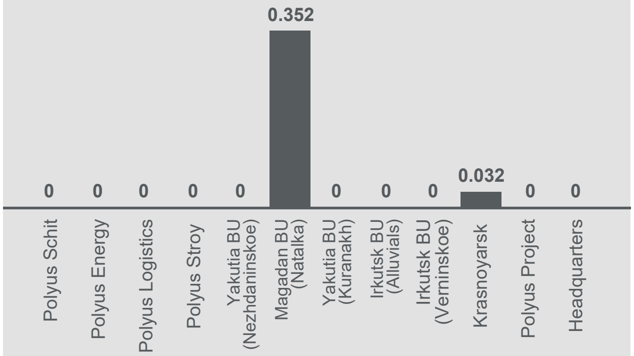

**Absentee rate (AR) by BU, 2015**



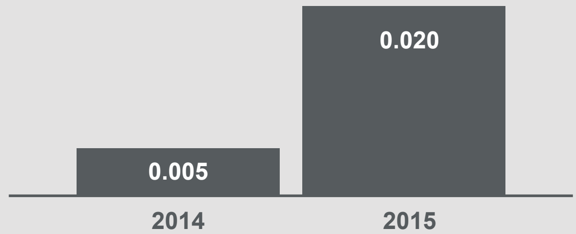

**Absentee rate (Group), 2014–2015**



**Occupational diseases rate (ODR) by BU, 2015**
(per 200,000 hours worked)




**Occupational diseases rate (Group), 2014–2015**




Strategic report
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Additional information

# 2.7 Environmental stewardship

The Group involves in its practice both economic and environment considerations, with a view to minimising the environmental impacts from its operations. Where it is economically and technologically applicable, the Group strives to apply the best environmental protection practices and requirements.

**Targets:**

| | |
|---|---|
| • Preparing a greenhouse gas emissions report in accordance with a Carbon Disclosure Project (CDP) request | 2016 |
| • Determining target greenhouse-gas emission figures for the Group for 2017–2020 | 2017 |
| • Assessing all projects in accordance with the procedure for assessing environmental and social risks | 2017 |
| • Implementing a procedure for identifying and assessing environmental and social impacts and risks, as well as plans to manage identified risks and impacts at each stage of the asset life cycle in compliance with IFC requirements | 2018 |
| • Participation in developing a Best Available Technologies (BAT) guidebook for gold mining industry as a part of government initiative | 2016-2017 |

In 2015 the HSE department was strengthened and the position Chief Ecologist was established.

**Environmental management system**
All operating ore BUs are certified in accordance with ISO 14001. JSC Polyus and Yakutia Kuranakh BU confirmed compliance with ISO 14001 in the 4th quarter of 2015. Magadan BU, Construction, services are to be certified in 2016.

**Integration with IFC performance standards and ICMM sustainable development framework**
The Group is guided by internal environmental policies and standards, including those developed in 2015 in compliance with ICMM and IFC requirements, including:

- Environmental and social impact assessment standard: sets out the principles of assessing environmental and social impacts and determines a phase-by-phase approach to assessing new projects.
- Biodiversity conservation standard: defines the Group’s approach to protecting biodiversity and addressing the topic in its operating activities during the whole life cycle of an asset.
- Standard for the sustainable use of natural resources and the prevention of environmental pollution: sets forth requirements for the sustainable use of water resources, monitoring and minimising the intensity of GHG emissions, and waste and hazardous substances management.
- Reclamation and mine closure standard: formalises the approach to an important stage of the mine life cycle – closure and rehabilitation – through closure work planning and relevant cost calculations, with their regular updates from design to closure stage of an asset.
- Standard on cyanide management: in accordance with the International Code of Cyanide Management, ensures the safe management of environmental risks posed by the purchase, transportation, storage, use and neutralisation of cyanide.

A comprehensive implementation of relevant procedures is planned for 2016 across all BUs and professional services.

Changes implemented in 2015 are important for the future activities and environmental performance of the Group, and will ensure compliance with ICMM Principle 6: *Seek continual improvement of our environmental performance*.

**Environmental awareness**

The Group makes efforts to raise environmental awareness among employees, which includes publishing informational materials on environmental topics in its corporate newspaper. In 2015, as in 2014, the Group organised a list of mandatory environmental training sessions. The Group actively supports the public Environmental volunteering: during 2015, the Yakutia Kuranakh BU's employees have participated in several Environmental events including "Green spring – 2015", "Green Russia", "International Environment Day". The Group views environmental reporting and awareness-raising programmes to be a necessary part of managing environmental performance, which leads to the early prevention of environmental incidents as well as increased staff acknowledgement of environmental issues and protection.

**Air emission reduction measures**

The Group continues with its current practice of properly reporting GHG emissions and assessing the possibility of emission reductions within the production planning process. In 2015 the Group implemented an internal Greenhouse gas emissions control requirements. In 2018 the Razdolinskaya-Taiga electricity grid and the Taiga substation are planned to be put into operation. The Group considers one of the key aspects of implementing the Taiga project to be an opportunity to cut electricity consumption produced by oil and coal, and expects that this will lead to a reduction in GHG emissions.

The continual work carried out by the Group to install an efficient emissions management system bore positive results: after upgrading gas-cleaning installations at the Olimpiada mine in 2013, total hydrocyanide emissions fell by up to 46% in 2014–2015.

**Water management and monitoring**

Water treatment at all our operations remains a key focus of the environmental programme. Progress was made at the Olimpiada mine site, where sewage treatment facilities are being constructed. After the construction, which is to be completed in 2016, additional environmentally efficient water treatment methods will be available.

Yakutia Kuranakh BU as a representative of Unified State System of Aquatic Resources Environmental Monitoring implements the Bolshoy Kuranakh river state environmental monitoring programme within its operating area.

**Waste management**

With ICMM Principle 8: *Facilitate and encourage responsible product design, use, re-use, recycling, and disposal of our products* in mind, at the end of 2015 the Group introduced a solid domestic and industrial waste disposal and neutralisation programme at the Olimpiada site. The programme covers two separate locations for waste recycling (Olimpiada and Blagodatnoye), and will not only allow environmentally safe waste disposal and neutralisation at each mine site, but also provide the necessary conditions to allow the further recycling of various types of waste. The Group used recognised good practices for separate waste collection at Olimpiada: a number of requirements related to a container's colour and markings, and the collection method was integrated and implemented to simplify separate waste collection.

Following recent changes in Russian environmental legislation, the Group has aligned its waste operations with the updated regulatory requirements.

# 2.7 Environmental stewardship continued

### Biodiversity

In accordance with ICMM Principle 7: *Contribute to conservation of biodiversity and integrated approaches to land use planning*, the Group places emphasis on internal initiatives to protect biodiversity and to resolve issues related to biodiversity. In 2015 the Biodiversity conservation standard was developed, and its implementation across all BUs is planned for 2016. The standard formalises the approach to assessing and managing impacts on biodiversity at all stages of the life of an asset. Since 2012 the Group has conducted environmental monitoring (with some biodiversity management plan elements) as part of the ESIA plan implementation. The Magadan BU Environmental department annually assesses and scrutinises the opinions of key stakeholders and local communities about a project's impact on the environment to ensure that timely responses are made. Another biodiversity initiative, an impact assessment on migratory birds and aquatic organisms, has been in force since 2013, and as part of the Group's efforts to restore aquatic resources 30,925 grayling fish were released into the Yenisei river basin.

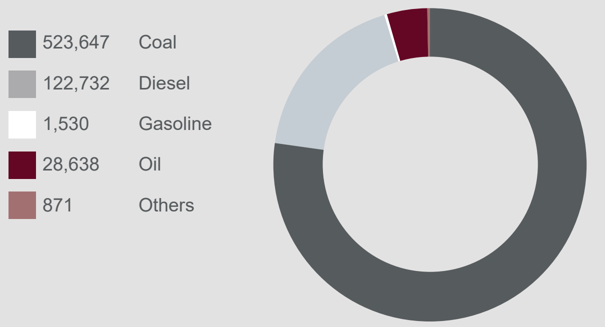
### Environmental incidents and grievance mechanisms

During the reporting period no registered environmental incidents or grievances were reported at the Group's BUs and professional services.

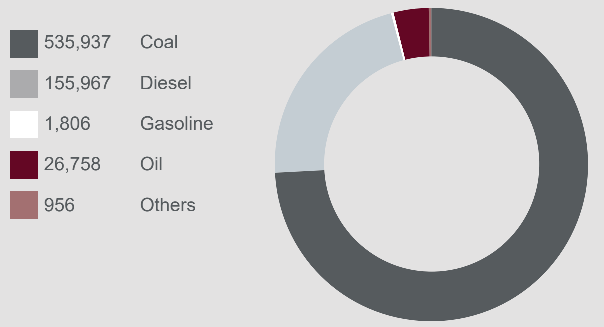
### Performance results

#### Energy

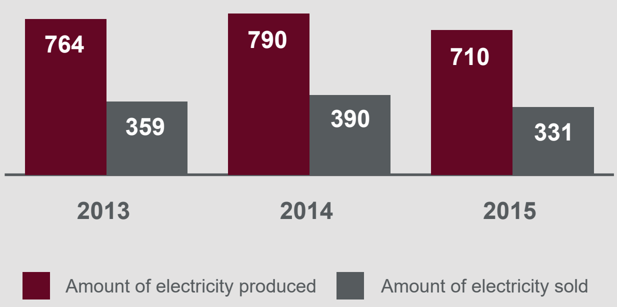
Purchase of primary energy resources, 2015, t



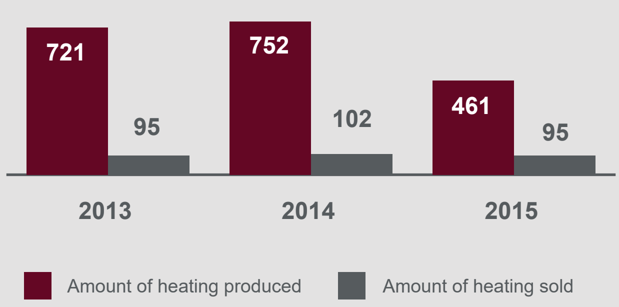

Consumption of primary energy sources, 2015, t




Amount of electricity produced and sold, 2013–2015, GWh



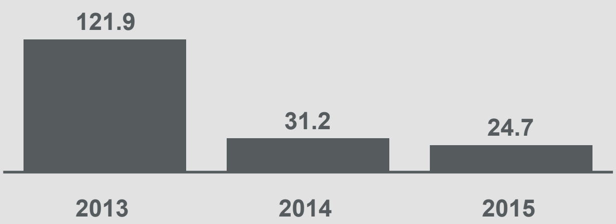

Amount of heating produced and sold, 2013–2015, thousand Gcal



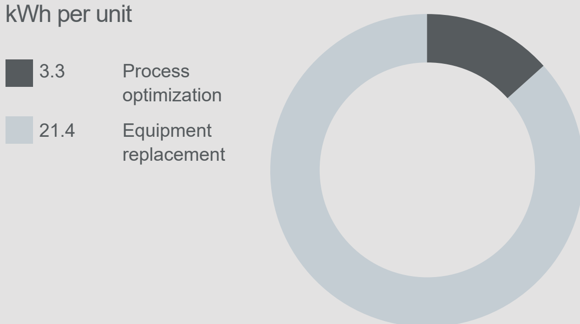
**Amount of electricity purchased, 2013–2015,**
MWh


**Amount of heating purchased, 2013–2015,**
thousand Gcal


**Total energy saved due to conservation and efficiency improvements, 2013–2015,**
kWh per unit

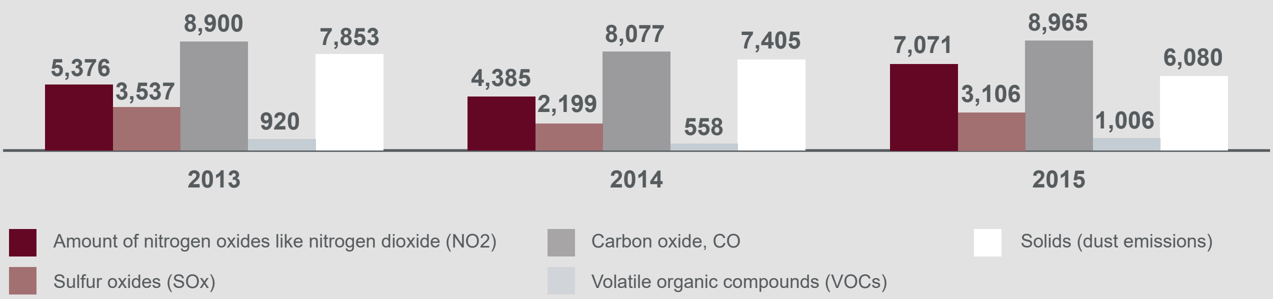



**Energy saved under the conservation and energy efficiency programme, 2015,**
kWh per unit




## Air emissions and climate change

**Significant air emissions, 2013–2015,**
t

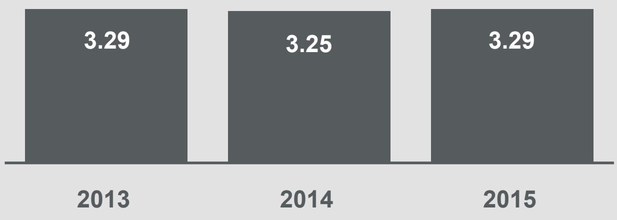


# 2.7 Environmental stewardship continued

**Direct GHG emissions (CO2-e) 2013–2015,**
mt

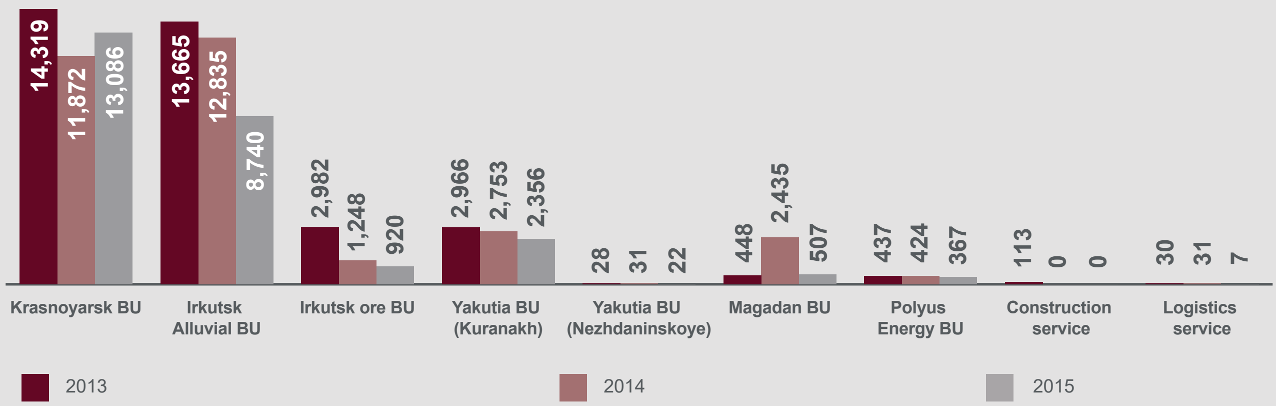

**Indirect GHG emissions (CO2-e) 2013–2015,**
mt

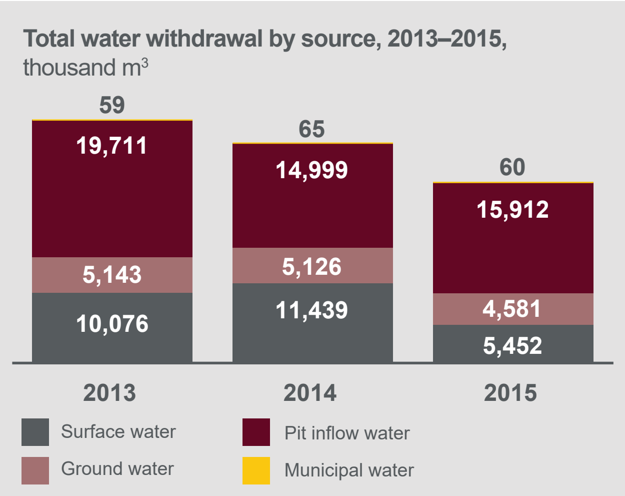

**Total GHG emissions (CO2-e) 2013–2015,**
mt

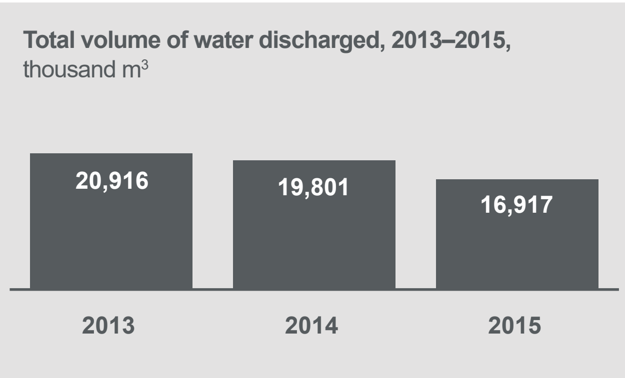


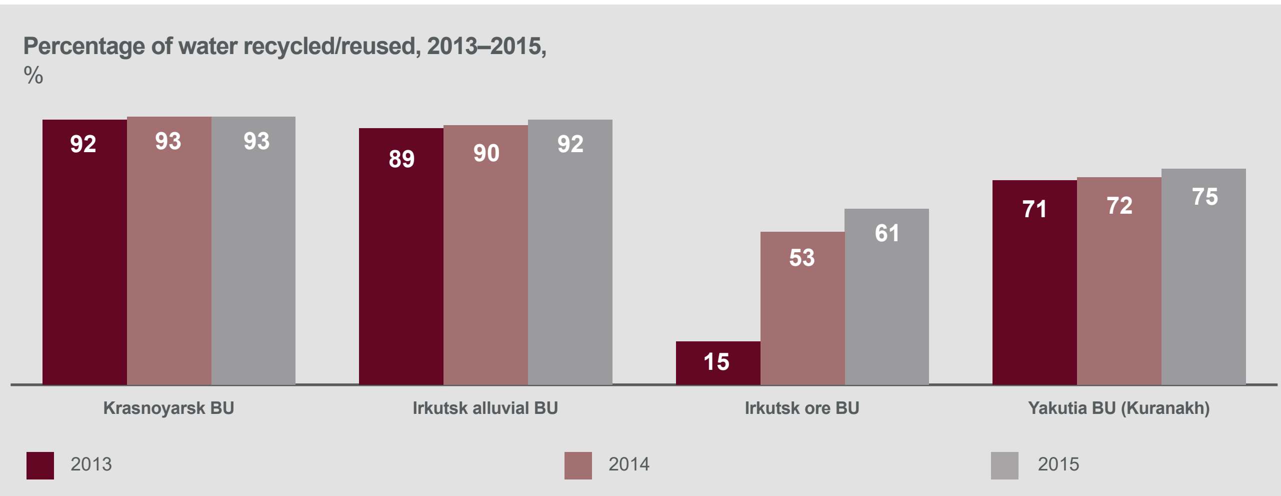

## Water

**Total water withdrawal, 2013–2015,**
thousand m$^3$



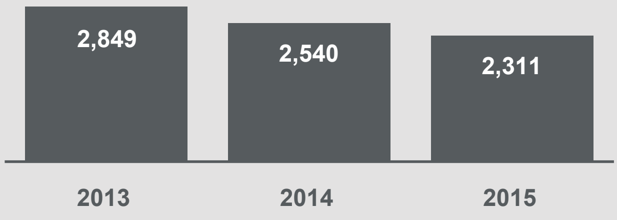

Total water withdrawal by source, 2013–2015,
thousand m3
59
19,711
5,143
10,076
65
14,999
5,126
11,439
60
15,912
4,581
5,452
2013
2014
2015
Surface water
Ground water
Pit inflow water
Municipal water


Total volume of water discharged, 2013–2015,
thousand m3
20,916
19,801
16,917
2013
2014
2015

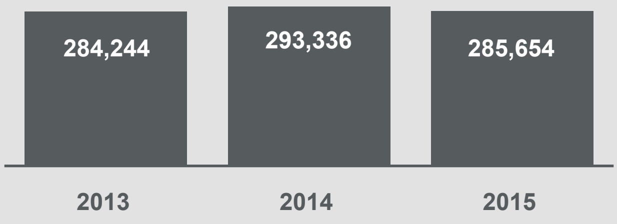

Percentage of water recycled/reused, 2013–2015,
%
92
93
93
89
90
92
15
53
61
71
72
75
Krasnoyarsk BU
Irkutsk alluvial BU
Irkutsk ore BU
Yakutia BU (Kuranakh)
2013
2014
2015

# 2.7 Environmental stewardship continued

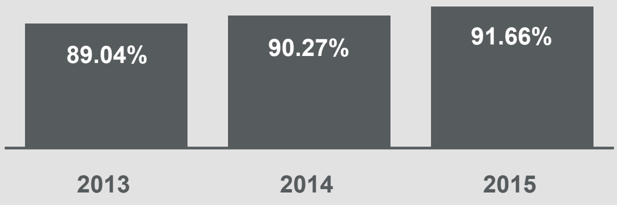
Total water effluents discharged, 2013–2015, t




Total volume of water recycled/reused, 2013–2015, thousand $m^3$

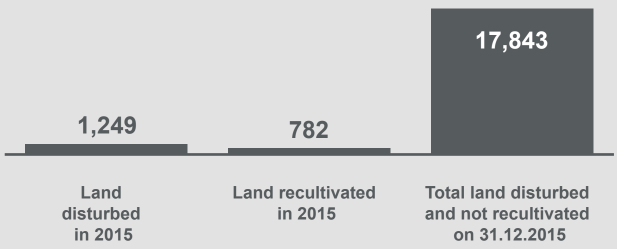



Percentage of water recycled/reused, 2013–2015, %



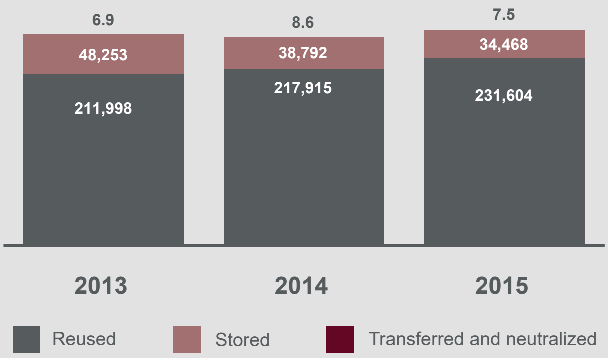

## Land resources and biodiversity

Total land disturbed and recultivated, 2015, hectares

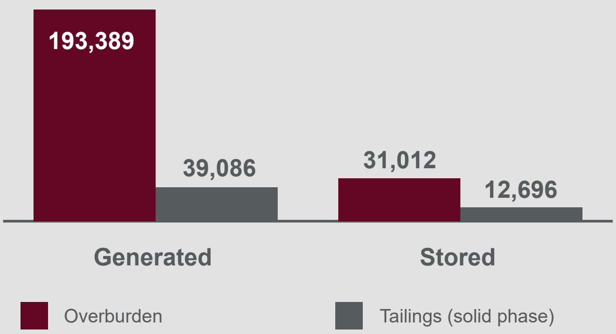


## Waste

**Total waste, 2013–2015,**
thousand tonnes

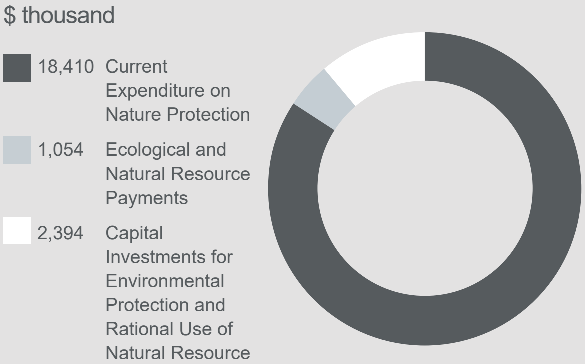



**Waste generated, 2015,**
t

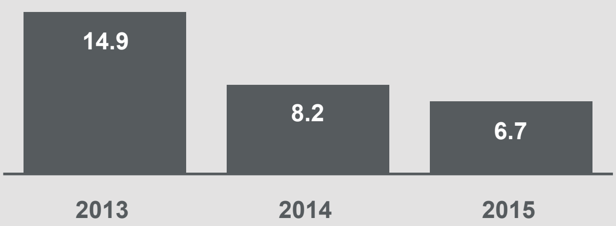



## Environmental protection expenditure

**Total environmental protection expenditure, 2015,**
$ thousand




**Total monetary value of the fines, 2013–2015,**
$ thousand




**Number of non-monetary sanctions for non-compliance with environmental laws and regulations, 2013–2015**

# 2.8 Employees

| Targets: | |
|---|---|
| • The Human rights policy implemented and clear requirements established for monitoring and supporting the protection of human rights as a part of the Group's risk management system | 2016 |
| • A standard to ensure minimum social conditions will be adopted and be in force (for each BU action plans will be executed to ensure compliance) | 2018 |
| • Salaries and material incentives will be unified across all Group BUs | 2018 |
| • A unified approach will be used across all BUs to develop the talent pool | 2018 |
| • An incentive system will be developed and implemented to encourage behaviour consistent with sustainability principles and the manufacturing system | 2018 |
| • All Group BUs will implement uniform processes for training personnel on sustainability related matters | 2018 |
| • The standardisation of procedures and the harmonisation of approaches in the field of HR management between the Corporate Centre and the BUs | 2016–2017 |
| • Paperless office rolled out | 2016–2018 |
| • Implementation of a job grading system across all BUs | 2016–2017 |
| • Elaborating a new approach to creating the talent pool and introducing new professional development programmes for all levels of employees | 2017 |

Polyus Gold considers its personnel to be one of the most essential and valuable resources for facilitating the Group's development. The Group sees the goals of its HR framework as being not only recruiting the required number of people to get the work done, but also ensuring that everyone working for the Group can and wants to do the work. To ensure the "can" component, the Group seeks to employ the most talented and highly qualified professionals in their respective fields and to provide them with professional development and educational opportunities, as well as an efficient organisational structure. In order to promote the "want" component, Polyus Gold constantly makes efforts to improve its incentive system and social and working conditions, and consistently strives to meet the high public expectations that come from being the "№1 Russian gold company".

The Group went through the reporting year without having to make any major staff redundancies. The Group's average headcount in 2015 stood at 18,121 employees.

### Attracting and retaining personnel

#### The Group's approach

Taking into account the geographical remoteness and harsh climatic conditions prevalent at the Group's BUs, Polyus Gold strives to be an employer of choice by providing opportunities for professional realisation and development, sustaining high levels of remuneration, and creating safe and comfortable social and working conditions in line with global industry best practices and ICMM principles, such as principle 3: Uphold fundamental human rights and respect cultures, customs and values in dealings with employees and others who are affected by our activities. The Group is committed to protecting worker rights, and its HR practices fully meet or exceed Russian legal requirements as well as the UN Guiding Principles as stated in the Group's Human rights policy, which were updated and approved by the Group in 2015. The Human rights policy sets out the mechanisms for implementing human rights principles, the delineation of responsibilities, and the key performance indicators (KPIs) of the policy's realisation.

Furthermore, the Group's labour practices are based on principles of sustainable development, which are supported by relevant internal policies and standards. These principles include sustaining equal opportunities for employee development, regardless of gender or age, encouraging employee performance, providing decent living standards, and maintaining collaborative and responsible employer/employee relations.
The Group's HR management activities are marked by a corporate approach, which focuses on four areas:
• creating safe labour conditions
• training staff to identify and prevent dangers and hazards in the workplace
• encouraging the professional growth of Group specialists
• boosting employees' social conditions and supporting local communities in areas of operation

**Motivation**

To attract and retain personnel and to enhance employee performance, the Group carries out measures to continually improve its working conditions and rewards system. The Group's regional average salaries are in line with or ahead of the market average in the regions where it operates. In 2015 the Group raised employee salaries by on average 10%, which is 3 ppts higher than the industry's average salary growth for the same period.

In addition, the Group uses bonuses and other payments to incentivise and retain personnel. The Group strives to link the bonus system directly to operating and corporate KPIs, so as to satisfy the internal equity principle. In addition, the Group is working on the implementation of a job grading system, modelled by Hay Group, an independent consultant specialising in the Metals & Mining industry. The system has already been implemented in the Corporate Centre during the reporting year, and the Group is planning to expand its application to the Krasnoyarsk BU in 2016. This should become a platform for introducing grading procedures across all the BUs and professional services of the Group in the near future.

Another instrument to incentivise personnel to achieve high performance is holding professional competitions among Group specialists. An example in 2015 was a competition among drivers at the Verninskoye mine site, called "High five!", which comprised two stages: manoeuvring and an exam on traffic rules. Polyus Gold also holds annual competitions for excavator operators, electricians, and other specialists. Such events help boost competition among specialists and identify the best professionals, who are subsequently rewarded.

**Working and social conditions**

The Group continues to improve social conditions for its employees. Social and working conditions vary across different operating sites and BUs, and in order to align conditions the Group is planning to adopt a unified social and working conditions standard in 2016, which will set out the minimum respective requirements. After this standard is adopted the Group is planning to audit all BUs for compliance.

In 2015 various BUs demonstrated a marked improvement in their social infrastructure and working conditions. Thus a new canteen for 120 people was built at the Blagodatnoye mine site (Krasnoyarsk BU); local canteen equipment was completely replaced at the Olimpiada mine site (Krasnoyarsk BU); and a new gym was opened at the Verninskoe mine site (Irkutsk ore BU). As for residential development, the Olimpiada mine site opened two new camps for 570 people. Two new camps for 658 people, with Wi-Fi for internet access, were also built at the Blagodatnoye mine site.

The differences in social and living conditions identified between different BUs and regions will be eliminated under the Corporate Centre initiative at three main levels of engagement:
• BUs
• Regional hubs (e.g. collaboration between Irkutsk alluvial and ore BUs in the field of infrastructure development)
• Local authorities (with assistance from the Government Relations department)

# 2.8 Employees continued

To improve social and living conditions, the Group strives to provide employees with modern sports facilities and regularly holds sports events. Thus in 2015, soon after the opening of a new pool, called Ayahta, at the Olimpiada mine site (Krasnoyarsk BU), a swimming competition was held.

In line with tradition, the Krasnoyarsk BU held a third sports contest in Krasnoyarsk, which hosted 14 teams bringing together more than 200 Polyus Gold employees from all over the country, as well as students from specialised universities. The contest lasted for three days, during which the participants competed in various sports, including mini-football, volleyball, and tug-of-war. Outstanding team spirit and excellent skills were demonstrated by the teams.

## Employee development and maintaining the talent pool

### Professional development

A wide range of training programmes, including an operational efficiency improvement programme, was launched at various BUs through a joint initiative between the Corporate Centre and BUs. Employee professional development is also linked with health and safety awareness. All BUs continue to hold safety trainings, which are given by DuPont. Another new component of personnel development was including case studies in professional trainings. Thus a number of working seminars, combined with a search for working solutions in geological prospecting, mining, and engineering were held by Polyus Gold in the reporting period. In addition, a number of practical seminars were held in the Irkutsk ore BU, the Construction service, and the Krasnoyarsk BU.

Around 8,954 employees were trained in 2015, which was 37% higher than in the previous year. The share of employees trained in the Group's total headcount also grew, from 37% in 2014 to 50% in the reporting period. Major employee development initiatives in 2015 included upgraded skills and professional development trainings.

Next year, new development opportunities will be available for Group employees of all levels. Workers will have the opportunity to master related professions, use training equipment for practical trainings, and participate in implementing a new manufacturing system as well as best health and safety practices. A new project, Foreman's School, will be introduced in 2016 to provide trainings for supervisors aimed at developing production planning and organisation skills and implementing lean production tools and principles. Also, a special programme for middle and senior management is currently under development, which will comprise courses on production technologies for non-production managers and courses on the enterprise economy for operational managers.

### Talent pool

Forming and developing the corporate talent pool is a crucial component of the Polyus Gold employee development system. On the one hand, the talent pool programme allows the Group to identify and train talented personnel in advance so as to organise an unbroken managerial succession process; on the other hand, it is an effective career planning instrument for ambitious staff. The number of employees in the talent pool in 2015 stood at 413, out of which 33 were assigned to other positions, including in other Group BUs.

The Group sees the main areas for talent pool improvement in unifying its approaches and expanding the coverage of BUs. In 2016 a unified method to create and develop the talent pool is planned, which will create career development opportunities for young managers and have a rotation option among different BUs. As a result, the Group will create a corporate pool (candidates for top-management positions, middle and senior management for the Corporate Centre, heads and senior managers for BUs), as well as local reserves at BU level. In this respect, the Group's efforts are aimed at building a unified HR space for talent management.

### Employee survey

In September the Group conducted a survey among its employees, which became the largest such survey in the history of the Group in terms of participants and topic coverage. Previous surveys covered 20-30% of the workforce, whereas in the 2015 survey 60% of the Group's workforce participated. Moreover, the recent survey combined focal points from previous ones: topics related to personnel engagement and satisfaction with social conditions. It was ascertained that over 54% of employees feel engaged with the Group, which means that the majority of staff highly appraise their jobs and have no plans to leave the Group in the near future. Loyalty creates credibility, which is important in order for top-management to realise its planned goals. The engagement level is high for the Russian market; however, the Group prefers to compare itself with global industry leaders, and constantly seeks to adapt to the needs of personnel.

After conducting the survey, the Group identified key areas for further improvement:
• Quality of corporate communications
• Career opportunities
• Business process efficiency

Such initiatives will allow the Group to have in place clear and transparent systems of remuneration and professional development, closely linked to results and labour market benchmarks.

The reporting year also witnessed changes in the method of interaction with educational institutions. The system designed to support such institutions was revised by the HR department. The main focus was placed on providing targeted support to local universities and colleges, which train qualified specialists in fields of interest relevant to the Group.

**Operational and organisational efficiency enhancing**
The Group actively engages its personnel in the process of enhancing efficiency. It continues to develop across all BUs a Total Operational Efficiency (TOE) programme, which was initially introduced in 2014. The programme invites employees to propose potential ideas to optimise and streamline production. At the Irkutsk ore BU, 170 employees (almost 10,5 % of the total BU headcount) submitted proposals, which resulted in the BU making savings of RUB 145 million.

In order to achieve operational efficiency, in 2015 the Group also approved a manufacturing system declaration, which it distributed among all BUs. The declaration consists of the following principles:
• Improve processes. Be results-orientated
• Eliminate losses
• Solve problems at source
• Distribute work evenly
• Standardise and visualise activities
• Work as a team to achieve results
• Grow the change leaders

The main organisational development efforts of the Group next year will be aimed at standardising documents and harmonising approaches among the Corporate Centre and BUs. The Group plans to extend the scale of organisational restructuring, thus reaching professionals and production units. As a result of the organisational transformation, the Group will obtain a clearly defined management system, with no overlapping functions and a precise segregation of powers.

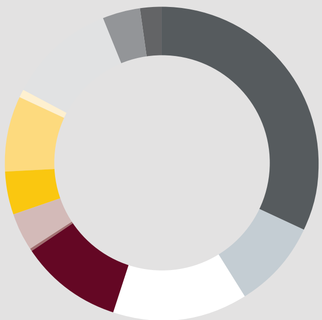
More information on the Polyus Gold HR management system, recruitment policy, career development, and other HR issues can be found:
• At the Group's website: **http://www.rabota.polyusgold.com/**
• In previous Polyus Gold annual and sustainability reports (2011–2014)
**(http://www.polyusgold.com/investors/reports/annual_reports/)**

# 2.8 Employees continued

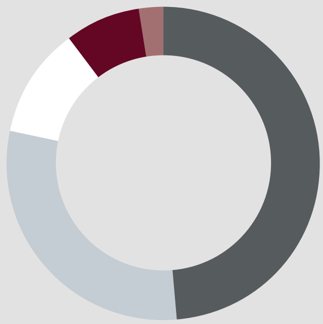
## Performance results

### Employees by BU, 2015, %

| | |
|---|---|
| 32,17% | Krasnoyarsk BU |
| 9,04% | Irkutsk ore BU |
| 14,04% | Irkutsk alluvial BU |
| 10,32% | Yakutia BU (Kuranakh) |
| 0,39% | Yakutia BU (Nezhdaninskoye) |
| 4,04% | Magadan BU |
| 4,41% | Security service |
| 7,67% | Construction service |
| 0,82% | Engineering service |
| 11,24% | Logistic service |
| 3,70% | Energy service |
| 2,17% | Corporate Headquarters |

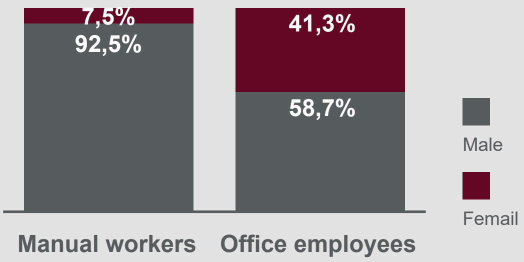


### Employees by region, 2015, %

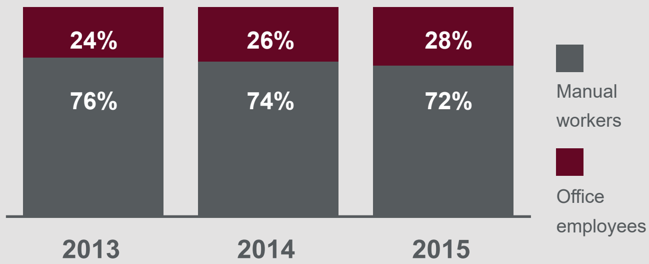


| | |
|---|---|
| 48,86% | Krasnoyarsk region |
| 29,49% | Irkutsk region |
| 11,46% | The Sakha Republic (Yakutia) |
| 7,96% | Magadan region |
| 2,24% | Moscow |

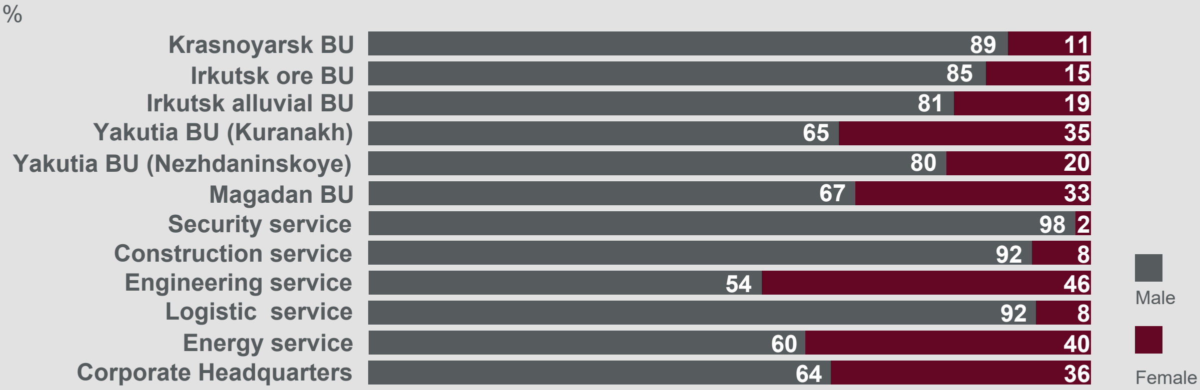
### Employees by gender and function, 2015, %



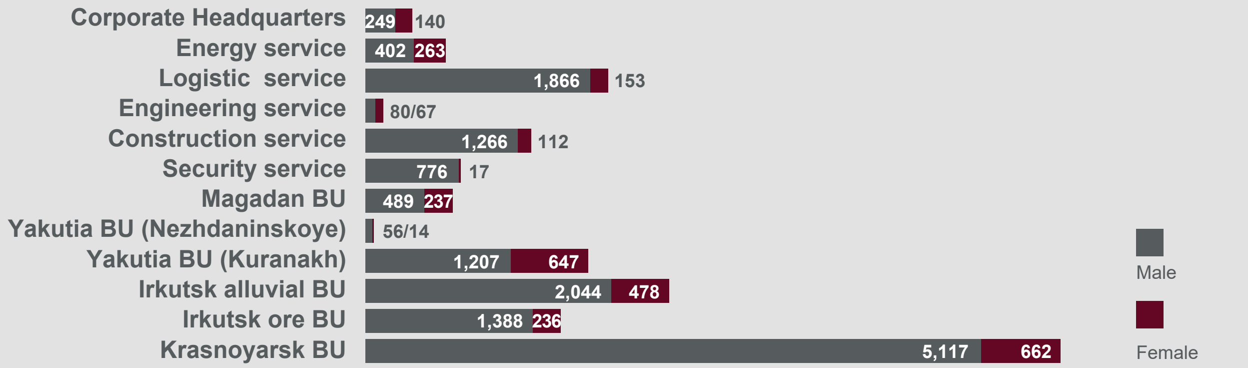

### Employees by function, 2013–2015, %



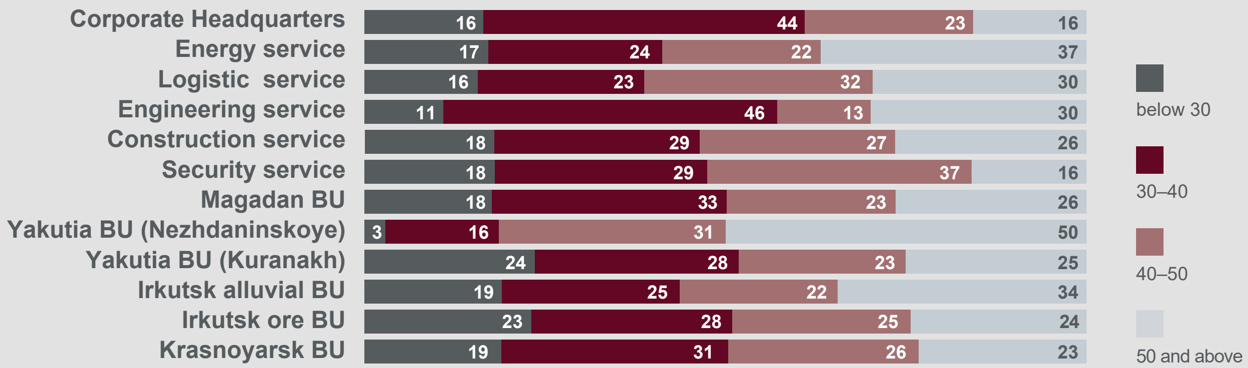

### Employees by gender and BU 2015, %



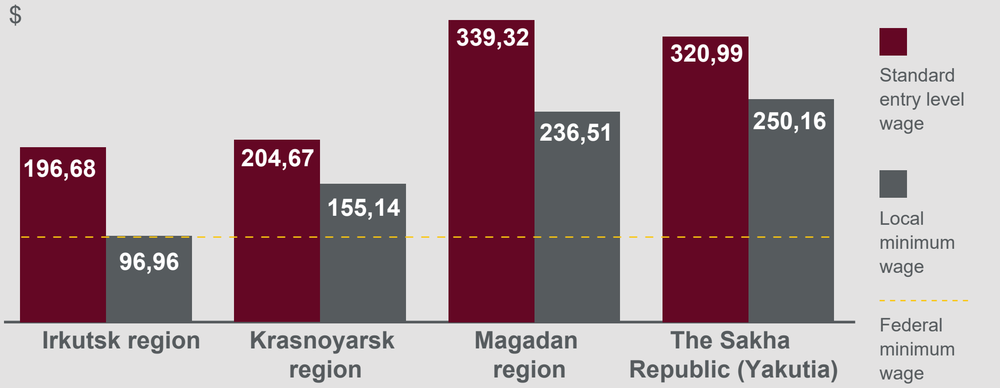
**Employees by gender and BU, 2015,**
absolute values




**Employees by age group and BU, 2015,**
%

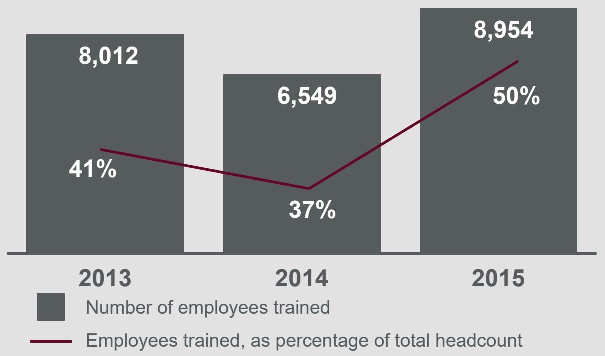



**Standard entry wage vs. local minimum wage by BU, 2015,**
$



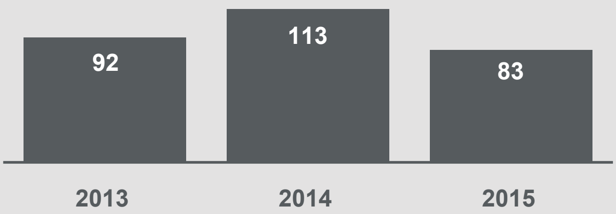
# 2.8 Employees continued

Numbers of employees trained, 2013–2015

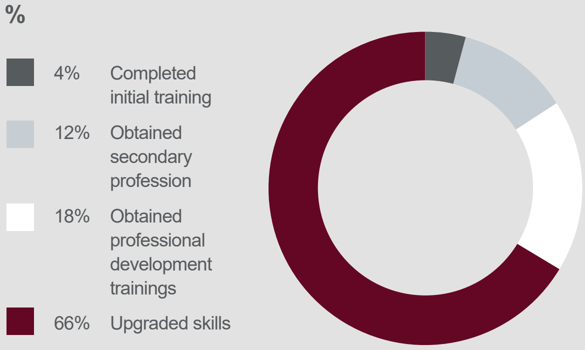



Average number of training hours per year per employee by employee category, 2015

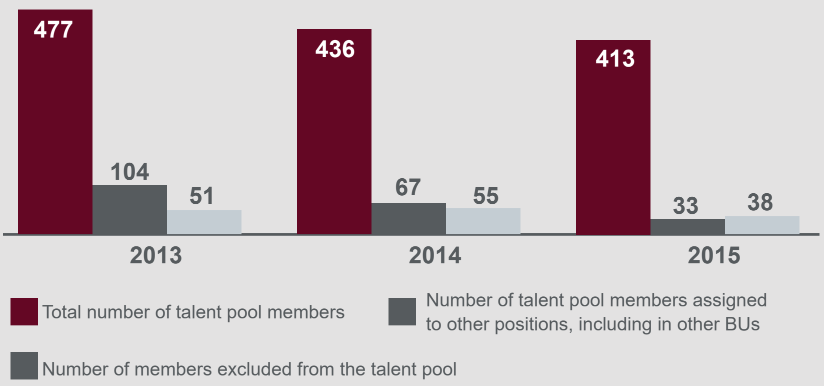

Average number of training hours per year per employee trained, 2013–2015



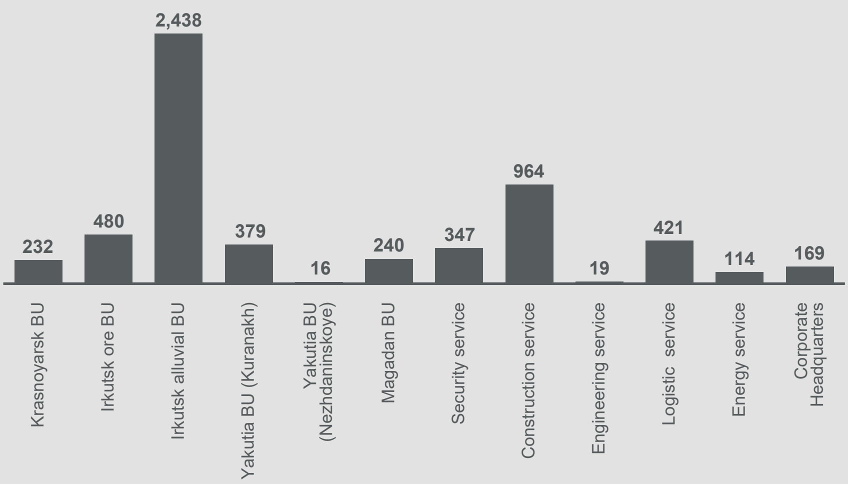

Employees by type of training undertaken, 2015, %



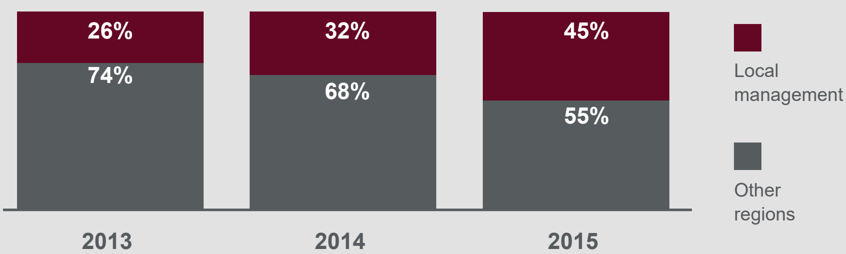
Talent pool, 2013–2015




Employees hired in the reporting year, 2015




Percentage of local management, 2013–2015, %



# 2.9 Communities

**Plans:**

| | |
|---|---|
| • Stakeholder engagement policy fully implemented | 2016 |
| • Individuals responsible for coordinating stakeholder engagement identified | 2016 |
| • Key stakeholders identified (and a stakeholder map created); principles for stakeholder engagement developed at all BUs | From 2016 |
| • The Sponsorship and charity policy implemented, a preliminary budget established, and long-term goals agreed on | 2018 |
| • Continue to support social infrastructure and significant social events in regions of operation | Ongoing |

**Engagement with local communities**

Establishing strong and trusting relationships with local communities and recognising how important this is for the well-being of communities and for fostering regional development are priorities within the Group's activities, as well as prerequisites for the Group's successful long-term development. The Group has a wide operational geography; consequently it has an influence on various communities, including indigenous peoples, rural populations, and urban residents. Polyus Gold is committed to all the communities which it has an impact on, and strives to maximise the positive impacts that arise from its activities, while at the same time mitigating negative ones.

The Group influences the communities where it operates both directly and indirectly. It affects communities directly through creating jobs, paying salaries, and engaging in charity and sponsorship projects; it affects communities indirectly through tax payments, contributing to local physical and social infrastructure, and creating additional demand which, due to the multiplier effect, leads to improved economic activity in the regions of operation.

The Group seeks to establish enduring relationships of trust with each stakeholder that it engages with. Such relations require channels of communication for regular feedback. The following communication channels allow the Group to reach and interact with local communities:

- The participation of local people in events organised by the Group
- Targeted communications (e.g. newsletters)
- Public meetings and hearings

The Group also uses environmental impact assessment public consultations as a channel of communication. In total, 7 public hearings were held by the Group in 2015 in the Krasnoyarsk, Irkutsk, and Magadan regions.

Stakeholder engagement and community development activities are regulated by respective corporate policies: the Stakeholder engagement policy, the Human rights policy, and the Sponsorship and charity policy, which are updated and approved by the management of the Group during the reporting year. In 2015 the Group also adopted the Regulation on interacting with public authorities, which sets forth the mechanisms of the Group's cooperation with local and federal state authorities.

The Group's Government Relations (GR) department is responsible for the administration of most charity and sponsorship activities and for interacting with public authorities. Liaising with educational institutions lies within the competence of the HR department. At a regional level, the Group's BUs can independently implement medium- and small-sized charity and sponsorships programmes, guided by the Group's strategic priorities in this field and within the BU's corresponding budget.

The PR department is tasked with engaging with stakeholders. Its responsibilities include dealing with incoming complaints, which can be received through public hearings, special meetings, or via email. All received complaints are addressed in accordance with the Group's Stakeholder engagement policy and the Human rights policy.

Since the process of preparing for ICMM membership was initiated, the Group has reviewed its sustainability framework and adopted a set of standards, including the Indigenous people standard and the Involuntary resettlement standard. These standards define the Company's requirements for involuntary resettlement and indigenous people engagement procedures (including compensation and grievance mechanisms), and also outline indigenous people engagement plans, including a description of roles. In accordance with ICMM principle 9: Contribute to the social, economic and institutional development of the communities in which we operate, the Group endeavours to take into account the interests of local communities in regions of operation and in zones of impact and to establish mutually beneficial relations with them based on honesty, transparency, and respect. An example of a practical application of the adopted standards was a socio-economic risk and impact assessment of the Irkutsk alluvial BU, which was conducted during the reporting year by KPMG. As a result of this assessment, a set of measures was developed aimed at mitigating the BU's negative impacts and enhancing the positive impacts on the neighbouring community.

**Charity and sponsorship**

Polyus Gold conducts all its charity and sponsorship projects in compliance with Russian federal law and its Sponsorship and charity policy, at both a regional and federal level. The basis for the Group's charitable and community relations activities in the regions of operation is set forth in agreements on socio-economic cooperation with local authorities.

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

Under the policy, the Group prioritises the following charitable and sponsorship activities:
- Regional development (social / physical infrastructure development)
- Education and science
- Sports and healthy lifestyles
- Ecology and environmental protection
- Support for vulnerable social groups
- Promoting gold mining industry unions and associations (see Chapter 2.3 Commitments to external initiatives and the information on sponsorship initiatives below)

# 2.9 Communities continued

Major federal charitable projects (donations) implemented in 2015 are listed in the table below:

| Organisation | Type of support | Amount of support $ |
|---|---|---|
| The Talent and Success Foundation – a non-profit educational organisation | Funding the construction of a secondary school for gifted children on the premises of the foundation, located in Sochi | **1,038,690** |
| Stauropegial Monastery – the Holy Trinity-St. Sergius Lavra (Russian Orthodox Church) | Construction and restoration work, purchase of equipment | **664,820** |
| The Territory of Good (a charity) | Help provided to disabled people and children suffering from serious illnesses, in the form of payments for treatment, rehabilitation, flights to locations where treatment will be carried out, accommodation expenses, the purchase of medicine/medical equipment | **406,370** |
| Russian Union of Martial Arts (all-Russian union of public associations) | Funding activities that create a favourable environment for the development of professional sports, holding sports events, and promoting an ethos of martial arts and combat sports among the young | **243,820** |
| Geologists Day | Celebration of Geologists Day in the State Kremlin Palace | **32,510** |

In addition to Corporate Centre initiatives, at a regional level all BUs can independently carry out medium- and small-scale charity and sponsorships programmes in accordance with the Sponsorship and charity policy and within the BU's corresponding budget. As a rule, BUs time their charitable activities so that they coincide with significant events in the social life of local communities, such as Victory Day (a day when war veterans are remembered), first days at school (classroom refurbishments and purchasing school uniforms for children from disadvantaged families), town days, and professional holidays (organising cultural and sports events).

In addition to charitable support for various non-governmental organisations, the Group sponsored a number of major events during the reporting year, that are listed below:

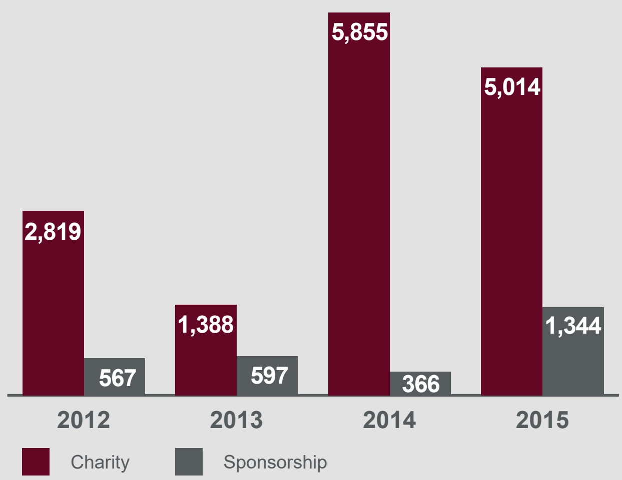
| Event | Type of support | Sponsorship package $ |
|---|---|---|
| Eastern Economic Forum | Participation in organising, sponsoring, and holding the event | **1,150,850** |
| Krasnoyarsk Economic Forum | Participation in sponsoring the event | **81,270** |

As part of the Eastern Economic Forum, a session called "The Development of the Gold Mining Industry: Realisation of Potential and Effective Regulations", was organised with intellectual and financial support from Polyus Gold. The session was attended by major government and industry representatives, who discussed a range of issues of importance to the industry, such as attracting foreign investment into the Russian gold mining industry, improving taxation efficiency within the industry, harmonising existing legislation, and the conditions of interaction between gold producers and the State Precious Metals and Gems Repository (Gokhran).

An important area of stakeholder engagement for the Group is participating in various international and national industry organisations and associations – this gives the Group an opportunity to share industrial experience and best practices, take part in addressing relevant legal and regulatory issues, and contribute to promoting the development of the gold industry all over the world. Polyus Gold is a member of the Russian Union of Industrialists and Entrepreneurs, the Russian Gold Mining Union, the ICMM, and a range of other industry associations, and it plans to continue to work actively with these organisations in 2016.

Next year the Group sees its main community goals as implementing the recently adopted Sponsorship and charity and Human rights policies across all BUs, reviewing collaboration with professional educational institutions on a mutually advantageous basis, and expanding its sponsorship to organisations and events that contribute to promoting the gold mining industry in Russia.

**Charity and sponsorship activities, 2012-2015,**
$ thousand



# 3. Directors' report

**Fair, balanced and understandable**
The Directors considered this Annual Report and accounts, taken as a whole, to be fair, balanced and understandable, meeting obligatory regulatory requirements, and providing the necessary information for all stakeholders to assess the Group's strategy, business model, and performance. The report discusses all aspects of the Group's business, and provides non-IFRS financial metrics in addition to the figures disclosed in the consolidated financial statements. In justifying this statement the Directors have considered the robust process which operates in creating the Annual Report and financial statements, including:

- clear guidance and instructions are given to all contributors
- early warning meetings are conducted between management and the auditors in advance of the year-end reporting process
- input is provided by Top Management and corporate functions
- further reviews are conducted by Top Management
- final sign-off is provided by the Board of Directors

**Review of operations and principal activities**
The Strategic report disclosed on pages 10 to 69 provides a comprehensive review of Polyus operations, its financial position, and its business strategies and prospects, and is incorporated by reference into, and forms part of, this Directors' report.

The Group's principal activities during 2015 were the production and sale of gold. The Group is also engaged in exploration, construction, and research activities in order to maintain its operations.

Pages 10 to 51 of the Strategic report provide a full consideration of the performance and key milestones of Polyus operations for the year ended 31 December 2015 and the potential aspects of further growth, coupled with the expected results of those operations.

**Risk identification, assessment, and treatment**
The Group's principal risks and uncertainties and risk treatment are disclosed on pages 40 to 51 of the Strategic Report.

**Share capital**
PGIL has 3,600,000,000 authorised shares, of which 3,032,149,962 were issued as at 31 December 2015. Details of PGIL's share capital can be found in note 18 on page 201 to the consolidated financial statements for the year ended 31 December 2015. PGIL has one class of ordinary shares, which carry no right to fixed income. Each share provides the right to one vote at general meetings of shareholders of the Group.

Pursuant to the authority granted to them by shareholders at PGIL's Annual General Meeting held on 15 May 2015, the Directors have the authority to allot shares up to a maximum amount of £15,160.74. The Directors have not exercised this authority. The authority expires on 15 May 2020, unless renewed, varied or revoked.

On 17 November, following the completion of the acquisition of PGIL by Wandle Holdings Limited, the admission to trading of PGIL shares on the LSE and the admission to listing of PGIL shares on the premium listing segment of the Official List were both cancelled.

On 3 December 2015, the cancellation of the listing and the admission to trading of Polyus shares took effect.

Details of the Tender Offer for Polyus Gold International Limited can be found on page 129.

### Substantial shareholdings

In 2015 the holding of voting rights in the Group changed, following an offer by Wandle Holdings Limited and its wholly owned subsidiary Sacturino Limited to acquire all the issued and to-be-issued share capital of Polyus Gold.

The acquisition of Polyus Gold shares was completed on 17 December 2015.

### Dividends

Information about the dividend policy is outlined in section 4.6 'Dividend policy' in the Corporate governance report on page 135.

On 10 April 2015 the Polyus Board of Directors adopted a new dividend policy: the Group will pay 30% of its adjusted net income as a regular dividend. Polyus will also consider paying a special dividend, subject to the Group's financial position, FCFs, leverage, and outlook. In line with the adopted dividend policy, the Board recommended a final dividend of 6.08 cents per ordinary share, or $184.5 million in total for the year ended 31 December 2014, which amounted to 30% of adjusted net income for the year 2014. The Proposed Final Dividend and its Payment Date were approved by shareholders at the Annual General Meeting on 15 May 2015.

Dividends for the year ended 31 December 2015 are subject to review and approval by the Board or by shareholders.

| Director | Number of shares as at 31 Dec 2015 | % issued share capital | Number of shares as at 31 Dec 2014 | % issued share capital |
|---|---|---|---|---|
| Adrian Coates | 0 | - | 33,000 | 0.001 |
| Kobus Moolman | 0 | - | 39,579 | 0.001 |

Mr Coates and Mr Moolman accepted the Offer and agreed to sell all shares owned by them.

### Registration and domicile

The Group is incorporated and registered in Jersey under company number 91264. The Group has its registered offices at Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES, Channel Islands. The Group's office is domiciled in London at Ergon House, Dean Bradley Street, London, SW1P 2AL.

### Corporate governance statement

As a Group that had a premium listing up until 3 December 2015, Polyus previously complied with the UK Corporate Governance Code as set out in the 2014 Annual Report. The requirements of the UK Corporate Governance Code can be found at: **https://www.frc.org.uk/corporate/ukcgcode.cfm**.

The trading of Polyus shares on the London Stock Exchange and the admission of Polyus shares to the premium listing segment of the Official List was cancelled on 3 December 2015, following the delisting process described on page 129 above. Nevertheless, having a public debt, as a listed company in Russia and a member of the International Council of Mining and Metals, the Group looks to provide, wherever practicable, relevant disclosure and reporting comparable to that adopted previously.

### Directors' indemnity

In 2013 the Board reviewed and approved qualifying third-party indemnity provisions for the Directors. The Group purchased Directors' insurance during the year and renewed it for next year. No amount was paid under any of these indemnities during the year ended 31 December 2015.

# 3. Directors' report continued

**Employment policies and communication**
Information on the Group's employment policies and its employees is described in section 2.8 of the Sustainability report on page 108.

**Political contributions**
No donations to political parties were made and no political expenditure was incurred during the year of 2015, as was the case in 2014.

**Charitable donations**
During the year the Group made charitable donations of $6.4 million (2014: $6.2 million), principally to local charities serving the communities in which the Group operates. Key related messages are set out in section 2.9 of the Sustainability report on page 116.

**Government regulations**
The mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and the Sakha Republic. All operations are subject to extensive regulations imposed by municipal, regional, and federal governments. Numerous aspects of the Group's operations are governed by these regulations: how we explore and evaluate, mine and process ore; health, safety, and environmental requirements; and how we operate as a company, including laws regarding securities, taxation, intellectual property, and sales policy. As the largest gold mining company in Russia, and a key employer in a number of regions in Russia, Polyus enjoys government support at both regional and federal level. For that reason there is a low likelihood of any governmental regulations having a material impact on the Group's business. Moreover, the Group is guided by its Corporate Code of Ethics, high standards of practice, as well as a Human Rights Policy which was developed internally within the Group. All these internal controls mitigate against regulatory impacts.

**Environmental regulations**
Polyus is working towards a unified and integrated health, safety, and environment management system at all its operations, aligned with established best practice, OHSAS 18001, and ISO 14001. The Krasnoyarsk Business Unit, Verninskoye, Kuranakh, and Polyus Logistics are already OHSAS 18001 certified. Polyus Stroy and Vitimenergo are working towards achieving OHSAS 18001 certification in 2016. The status of environmental targets and objectives across the Group is continuously tracked and presented for discussion on a quarterly basis at HSEC Committee meetings. In terms of regulating environmental issues, the Group continues to develop and incorporate best practices at all levels of Group activity.

Further information on the Group's environmental performance can be found in the Sustainability report on pages 100 to 107.

**Greenhouse gas emissions**
In 2015 the Group's total greenhouse gas (GHG) emissions stood at 3.29 mt of CO2e, 1% below the 2014 level.

For more details on GHG emissions, including a breakdown by gases and sources of emission, the calculation methodology, as well as the Group's GHG policy and reduction targets for GHG emissions, see section 2.7 'Environmental stewardship' of the Sustainability report on pages 100 to 107.

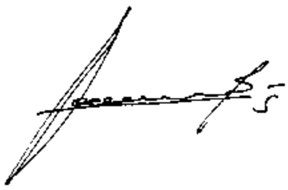
**Research and development**
Polyus carries out exploration as well as research and development necessary to support its activities. The Group's exploration expenses in FY 2015 stood at $7 million, vs. $6 million in FY 2014. Research and development costs increased more than 7 times y-o-y to $16.2 million (2014: $2.2 million).

**Auditor**

Each of the Directors confirms that:

- so far as the Director is aware, there is no relevant audit information about which the Group's auditor is not informed or made aware
- each Director has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of such information

By order of the Board



**Sergei Nossoff**
Executive Director
10 March 2016

# 4. Corporate governance report

## 4.1 Statement of Executive Director

I am pleased to report that Polyus has delivered a strong performance over the past financial year.

On behalf of the Board of Directors of PGIL, I would like to express my gratitude to all employees of the Group for their responsible and professional work, and to our shareholders for their support of management's initiatives to enhance the position of Polyus Gold in the global gold mining industry and to increase shareholder value.

**Board composition**

Up to 17 November 2015 the Board consisted of four independent Directors, seven and (after Vitalii Koval's appointment in March) eight non-executive Directors, and one executive Director, Pavel Grachev, who was also the CEO of the Group (until 3 March 2016).

Up to 17 November 2015 (when four independent Directors resigned after Wandle Holdings Limited, and its wholly owned subsidiary Sacturino Limited, announced and successfully closed a transaction to acquire all the issued and to-be-issued share capital of the Group, followed by the compulsory acquisition of remaining shares) Polyus complied with the UK Corporate Governance Code provision regarding the number of independent Directors that can serve on a Board. Half the Board comprised independent non-executives. Reflecting the Group's intention to maintain high standards of corporate governance, the Company's listed subsidiary PJSC Polyus Gold is finalising the process of identifying potential candidates of the appropriate calibre, experience, and stature to fill the roles of independent Board members, thus reflecting Polyus Gold's status as a world-leading public gold producer.

We pursued a diverse Board composition in all aspects prior to the delisting. Four Board members were represented by Russia, while the remaining five were from the UK, the US, Ukraine, and South Africa. The Board has had a female representative since receiving a premium listing in 2012.

**Leadership**

The Polyus Board of Directors was responsible for ensuring the sound running of the Company and its long-term success. This can only be achieved if the Board is supported by appropriate and well-managed governance processes. The UK Corporate Governance Code contains broad principles and specific provisions which set out standards of good practice.

As encouraged by the Code, there is a clear division of responsibilities between the Board and the Top Management team, and no one individual has unfettered powers of decision. In 2015 the Board of Directors was the Group's principal decision-making body. It had responsibility for setting the Group's strategic direction and for ensuring that the Group manages risk effectively. The Board was primarily responsible for evaluating and setting business strategies and for monitoring and reviewing the implementation of strategy by the Company's management.

Going forward Polyus Gold International will devolve the requirements of the Board leadership structures in the Combined Code to be applied by the PJSC Polyus Gold board. Accordingly Polyus Gold International's Board structure following delisting does not now comply with the Combined Code requirements of Section A Leadership, or Section B Effectiveness. It is intended that PJSC Polyus Gold will actively look to apply these where appropriate when the refreshed PJSC Polyus Gold Board is put in place. In 2015, the Chairman headed the Board and sought to ensure its overall effectiveness and that all Directors make an effective contribution. Each Director plays an important part in developing proposals on and in constructively challenging the Group's strategy. Responsibility for implementing operational decisions and day-to-day management was delegated to the CEO.

**Effectiveness**

The Board of Directors sought to ensure that both it and its Committees had the appropriate range and balance of skills, experience, knowledge, and capabilities to enable them to carry out their duties and responsibilities effectively.

The Board was of the view that it is of the right size to be able to meet the business requirements, that changes to its composition and to its Committees could be effected without undue disruption, and that it was not so large as to be unwieldy. The size and composition of the Board in 2015 was assessed and monitored by the Nomination Committee.

All Directors allocated sufficient time to the Group in order to carry out their responsibilities effectively. Each year the Board drew up an annual meetings plan designed to ensure that it has the right amount of time throughout the year to discuss all relevant and necessary matters.

There was a formal, rigorous, and transparent procedure for selecting and appointing new Directors to the Board prior to delisting. Upon joining the Board, all Directors went through an induction process and regularly updated and refreshed their skills and knowledge. Directors were supplied with all required information on time and in an appropriate form and quality so as to enable them to discharge their duties effectively. In addition to recruiting externally, the Board recognised the importance of developing internal talent for Board appointments. This ceased on delisting for Polyus Gold International but will be an area of consideration for the PJSC Polyus Gold subsidiary.

As required by Clause B 7 of the Combined Code, up until 17 November 2015, all Directors were subject for re-election annually and their re-appointment was dependent on their demonstrating continued satisfactory performance. As a private company this approach is currently not adopted and any changes to our policy of re-election, will be determined by the refreshed Board of PJSC Polyus Gold following the planned additional appointment of independent non-executives in 2016.

**Accountability**
In its reporting to shareholders, the Board recognise its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects. This responsibility covers the Annual Report and accounts and extends to half-year and other price-sensitive public reports and reports to regulators, as well as to statutory information requirements.

The Directors consider this Annual Report, taken as a whole, to be fair, balanced and understandable and providing the necessary information to assess the Group's performance, business model, and strategy.

The Board was ultimately responsible for maintaining sound risk management and internal control systems, and it determined the nature and extent of the principal risks it was willing to take to achieve its strategic objectives. The Group's internal control systems existed on a group-wide basis and the review of their effectiveness was implemented and reported from a group-wide perspective, covering the Group and its subsidiaries.

The Board had a framework of continuous and ongoing processes and formal and transparent arrangements established for assessing how to apply corporate reporting, risk management, and internal control principles and for maintaining an appropriate relationship with the Group's auditors. The risk management and internal control systems were designed to meet the Group's needs and to manage the risks to which it is exposed. The requirements of the Combined Code C2 Risk Management and Internal Control were applied until delisting but have not been since as the revised organizational structure is put in place. Ongoing review and challenge of the Group's risk management and internal control will be largely devolved to the PJSC Polyus Gold subsidiary going forward.

**Remuneration**
The Directors' remuneration is set at such a level so as to promote the long-term success of the Group. Performance-related elements are transparent, challenging, and rigorously applied.

There is a formal and transparent procedure in place for elaborating the executive remuneration policy. Detailed information is provided in the section 4.9 'Remuneration of the Board of Directors and Top Management' on pages 137-138.

# 4. Corporate governance report continued

## 4.1 Statement of Executive Director continued

**Shareholder engagement**

The Board's commitment to excellent governance was expressed through the Polyus approach to interacting with its shareholders, which was of particular importance before Wandle Holdings Limited and its wholly owned subsidiary, Sacturino Limited, announced and successfully closed the transaction to acquire all issued and to-be-issued share capital of the Group, followed by the compulsory acquisition of the remaining shares.

The Group maintained a regular dialogue with institutional shareholders on performance, plans, and objectives to ensure that shareholder views are relayed to the Board. The Investor Relations team (whose contact details can be found on our website, **www.polyusgold.com**) acted as a focal point for contact with investors throughout the year; the investment community was able to contact the Group at any time through the team. Feedback from shareholders was regularly reported to the Board, which provided a robust mechanism for ensuring that Directors were fully aware of issues raised and had a good understanding of shareholder views. The Investor Relations team manages communication tasks and sets up regular conference calls, which take place when operating results and interim and annual financial results are released, as well as over the course of the year in the event of significant events taking place. Site visits to the Group's assets are organised regularly. An active programme of communication with potential shareholders is also maintained via regular participation in major investor conferences and events.

The Annual General Meeting (AGM) was used both as an important component of effective communication with shareholders by the Board to maintain an active dialogue with investors and to encourage their participation. A circular sent out to shareholders containing a notice set out a clear and balanced explanation of all proposed resolutions.
The Directors attended the AGM held on 15 May 2015. Committee chairmen were also present and available to take questions from those attending.

The Chairman was available to meet with institutional investors to hear their views and to discuss any issues or concerns, including related to governance and strategy. Senior Independent Director Adrian Coates and all other non-executive Directors were similarly available if requested. However, no such meetings were held or requested during the year.

The Group adhered to all disclosure requirements right up until the delisting of the Group's shares from the premium segment of the official list of the LSE. Polyus strived to provide transparency in its reporting to ensure equal access of all interested parties to price-sensitive information.

Overall, the Board believes appropriate steps were taken during the year until the delisting process to ensure that Board members developed a good understanding of shareholder views and continue to do so after the complete acquisition of the Group by Wandle.

**Board evaluation**

The Board remained committed to transparency, both in determining Board membership and in assessing the performance of Directors. The Board evaluated its performance through a combination of internal peer and externally facilitated assessments.

Up until 17 November 2015 internal evaluation was led by the Chairman and sought to be as rigorous and objective as possible. The process considered the Board's strengths and weaknesses, its range and balance of skills, the independence and knowledge of the Group, its diversity (including gender diversity), how the Board worked together as a unit, and any other relevant factors. Individual evaluations aimed to show whether each Director continued to contribute effectively and to demonstrate commitment to their role, including a time commitment. The results of these reviews were actively considered in 2015.

# 4.2 The Board

**Role of the Board**

Up until 17 November 2015 the Board of Directors was responsible to shareholders for ensuring the success of the Group. This could only be achieved if the Board was supported by appropriate and well-managed governance processes. The Board's role was to create and deliver value through the effective governance of the Group. The Board provided entrepreneurial leadership for the Group, and for Directors to help them in their management decision making. It had collective responsibility and accountability for the long-term success of the Group: it created strategic plans, determines risk appetite, established the Group's values and standards, ensured good governance, and promotes good behaviour.

The Board was responsible for:
- creating the Group's strategic plans and for the management, direction and performance of our business
- the long-term success of the Group, taking into account the interests of all stakeholders
- ensuring the effectiveness of and reporting on the system of corporate governance

This required a high-performing Board, with all Directors contributing to its collective decision-making processes

**Experience and attributes required**

A diversity of backgrounds, skills, knowledge, experience, geographic location, nationalities, and gender is required to effectively govern the business.

Non-Executive Directors must have a clear understanding of the Group's overall strategy and priorities, in conjunction with their knowledge about the Group and the industry in which it operates. This allows the Group to be effectively governed.

Non-Executive Directors must be familiar with the Group's core business to such an extent that they can be effective contributors to developing strategy and monitoring performance. Part of the required understanding of strategy and the core business is being aware of the risks the Group faces and the processes that are in place to mitigate and manage those risks.

According to the Schedule of Matters delegated to the Board, the purpose of the Board is to:
- monitor and review the performance of management
- evaluate business strategies and monitor their implementation
- monitor the performance of the existing asset portfolio as well as new business initiatives
- be accountable to shareholders through appropriate reporting and regulatory compliance
- monitor auditing and internal control mechanisms
- understand and ensure the management of the operational business and any financial risks to which the Group is exposed
- observe and ensure compliance with Health, Safety, Environment, and Community policy
- safeguard the Group's reputation, values, ethics, culture and assets, including knowledge

**The Chairman**

Ilya Yuzhanov was Chairman of the Board until 3 March 2016. The role of Chairman was to lead the Board, to ensure that the Board functions effectively (including ensuring that all Directors make effective contributions), and to ensure that the Company maintains effective communication with shareholders.

# 4. Corporate governance report continued

## 4.2 The Board continued

In particular, the Chairman was responsible for:
- effective leadership, operation, and governance of the Board in conformity with the highest standards of corporate governance
- ensuring the effectiveness of the Board
- setting the agenda, style, and tone of Board discussions to promote constructive debate and effective decision-making, thus ensuring that Directors receive accurate, timely and clear information
- building an effective and complementary Board, initiating change and planning succession on the Board and Group executive appointments
- promoting effective relationships and communications between non-executive Directors and members of the Group's executive
- ensuring that the performance of the Board and individual Directors is formally evaluated on an annual basis
- ensuring effective communication with shareholders
- ensuring that the Board receives accurate, timely, and clear information on the Group's performance; the issues, challenges and opportunities facing it; and matters on which it must make a decision
- establishing a harmonious and open relationship with the CEO

**Senior Independent Director**
Adrian Coates was the Company's Senior Independent Director until his resignation on 17 November 2015.

The Senior Independent Director was responsible for:
- acting as a sounding board for the Chairman
- acting, if necessary, as a focal point and an intermediary for other Directors
- ensuring that any key issues not addressed by the Chairman or the executive management are taken up
- being available to shareholders if they have concerns which that they have not been able to resolve through the normal channels of the Chairman, Chief Executive or other executive Directors or for which such contact is inappropriate
- following the delisting, no formal Senior Independent Director has been introduced, reflecting the Group's simplified share ownership structure.

**Chief Executive Officer**
Pavel Grachev was the CEO of Polyus Gold International until 3 March 2016 and remains the CEO of PJSC Polyus Gold. The role of CEO is to manage the day-to-day operations of the Group and to ensure that all operations are consistent with the policies developed by the Board of Directors and are carried out in such a way that they meet production, financial, and legal requirements. The CEO recommends to the Board and implements the Group's strategy, applies Group policies, and promotes the Company's culture and standards.

The CEO was responsible for:
- managing the Group's business
- implementing the Group's strategy and policies
- maintaining a close working relationship with the Chairman

**Non-Executive Directors**
Non-Executive Directors are responsible for bringing independence and objective scrutiny to all matters before the Board and when in place, its Committees, using their substantial and wide-ranging experience.

Non-Executive Directors constructively challenge the executive management in all areas, scrutinise management's performance, help develop proposals on strategy, and satisfy themselves on the integrity of the financial information and on the effectiveness of financial controls and risk management systems.

Non-Executive Directors met periodically with the Chairman without the executives being present.

**Information flow**
Prior to each Board meeting, Directors received detailed information on operational and financial performance. The Board received presentations and verbal updates from executives at Board meetings as appropriate.

All Directors had access to the services of a professionally qualified and experienced Group Secretary, who was responsible for information flows to the Board and, when applicable, its Committees and between Top Management and Non-Executive Directors, facilitating induction processes, and assisting with professional development as required, ensuring compliance with Board procedure and applicable laws and regulation.

**Professional advice**
There was an agreed procedure for Directors to take independent professional advice if was is considered necessary to discharge their responsibilities as Directors.

**Board activity**
Board members met frequently to discharge their duties effectively in compliance with the formal schedule of matters to discharge their duties in the best interests of the Group.

In 2015, 36 meetings were held, including four face-to-face meetings. In addition to formal meetings, during the year Board members participated in eight scheduled Board telephone conference calls. The purpose of these was to give executive management the opportunity to update non-executive Directors on key matters during the longer gaps between scheduled Board meetings. 24 meetings were held by passing a written resolution.

Each Board meeting included one or more business and strategy presentation from the Group's senior managers. To ensure that the Board is kept up to date on important issues, including environmental, legal, governance, and regulatory developments presentations are also made to the Board by external and internal advisers. A specific area of focus by the Board in September-November 2015 was the Offer to acquire all of the issued and to-be-issued share capital of the Company by Wandle Holdings Limited and its wholly owned subsidiary Sacturino Limited.

On 1 September 2015 the Directors of Polyus received an unsolicited, conditional, and indicative proposal from a newly incorporated company, Sacturino Limited (formed as a wholly owned subsidiary of Wandle Holdings Limited) (the Offeror). The proposal envisaged an offer comprising $2.97 per share in cash for all the issued and to-be-issued share capital of Polyus not already owned or controlled by the Offeror or its associates.

As a reaction to a possible offer for the Group, the Board at its meeting on 2 September 2015 took a decision to form an Independent Committee composed of the independent non-executive Directors of the Group, with Adrian Coates as Chairman.

At the meeting on 17 September 2015, the Board approved the Terms of Reference of the Independent Committee. The Board delegated to the Committee all power and authority to perform all acts and matters on behalf of the Board which the Committee, in its absolute discretion, considers necessary, appropriate or expedient in connection with the Offer made by Wandle Holdings Limited and its wholly owned subsidiary Sacturino Limited, including to:
• review, investigate, consider, and evaluate the Offer
• assess whether the Offer was in the interests of the Company's independent shareholders
• formulate and approve a strategy in response to the Offer
• negotiate with the Offeror and finalise and approve the terms and conditions of the Offer
• make recommendations or express its views to the Company's shareholders with respect to the Offer

Within the scope of its competence the Independent Committee released a number of statements and announcements (including Response Circulars) in relation to the Offer. All these are available on the Company's website:
**http://www.polyusgold.com/investors/shares/tender-offer-for-polyus-gold-international-limited/**

# 4. Corporate governance report continued

## 4.3 Board of Directors' composition

Up to 24 March 2015 the Board of Directors was made up of eight members:
- the Non-Executive Chairman (Ilya Yuzhanov)
- four Independent Non-Executive Directors (Bruce Buck, Adrian Coates, Edward Dowling, and Kobus Moolman)
- two Non-Independent Non-Executive Directors representing specific shareholder interests (Anastasia Galochkina and Igor Gorin)
- Executive Director and CEO (Pavel Grachev)

On 24 March 2015 Vitalii Koval was also appointed a Board member (Non-Independent, Non-Executive Executive Director).

On 17 November the Independent Non-Executive Directors Bruce Buck, Adrian Coates, Edward Dowling, and Kobus Moolman resigned. Up until their resignations the Group complied with the UK Corporate Governance Code as half the board, excluding Chairman Ilya Yuzhanov, was made up of independent Directors. From that date on compliance has temporarily ceased. Reflecting the Group's intention to maintain high standards of Corporate Governance, the Company's listed subsidiary PJSC Polyus Gold is finalising the process of identifying potential candidates of the appropriate calibre, experience and stature to fill the roles of independent Board members, thus reflecting Polyus Gold's status as a world-leading public gold producer.

In 2016, the transformation of the PGIL's Board continued. On 1 March 2016 the remaining members of the Board, including the Independent Chairman Ilya Yuzhanov resigned (effective from 3 March 2016) and three new members were elected – Ms Alexandra Maria Beckwith, Mr Antonios Antoniou, and Mr Sergei Nossoff. Mr Nossoff is an Executive Director and Ms Beckwith and Mr Antoniou are Non-Executive Directors.

**Ilya Yuzhanov, 56**
**Chairman of the Board**
**(resigned 3 March 2016)**[37]

Since March 2015 Mr Yuzhanov has been a member of the Board of Directors and the Audit, Remuneration and Nomination Committees of the research and production corporation United Wagon Company, a Russian railway company.

Since June 2015 he has been a member of the Board of Directors and a member of the Audit Committee of Rusnano State Corporation.

From June 2009 to June 2015 he was a member and chairman of the Supervisory Board of AK ALROSA, the world's largest diamond mining company by output, based in Russia.

From 2008 to 2012 he chaired the Board of Directors of OJSC Polymetal, Russia's largest silver producer.

From 2004 to February 2013 he served as Chairman and member of the Supervisory Board of OJSC Nomos-Bank.

Mr Yuzhanov has also served on the boards of a number of other leading Russian companies, including Gazprom (1999 to 2003), United Energy Systems of Russia (1999 to 2008), Russian Railways (2002 to 2004), OJSC Kirovsky Zavod (2006 to 2009), OJSC Uralkali (2006 to 2011), Otkritie Financial Corporation (2012 to 2014), OJSC Interregional Distribution Grid Companies Holding (June 2008 to December 2008), and OJSC Novatek (2006 to 2009).

From 1999 to 2004, he served as Minister for Antimonopoly Policy and Support to Entrepreneurship of the Russian Federation.

He is a member of the Supervisory Board of the Association of Independent Directors of Russia and has been awarded the association's titles of Russia's Best Independent Director in 2007 and 2010, and Russia's Best Chairman of the Board in 2012.

Mr. Yuzhanov graduated with honours from the Leningrad State University in 1982, and he obtained a PhD in economics in 1989.

- Chairman of the Nomination Committee (up to 17 November 2015)

**Adrian Coates, 58 (resigned 17 November 2015)**
**Independent Non-Executive Director, Senior Independent Director**

Mr Coates has over 20 years' experience in the mining sector, most recently at HSBC Bank in London where he was Global Sector Head of Resources and Energy until 2008. He was the lead HSBC banker in a number of large-scale metals and mining transactions. In 2007, Mr Coates made the Financial News "Top 20 European Dealmakers" ranking. Previously, as Managing Director, Metals and Mining at UBS Investment Bank in London, he was responsible for originating the landmark Billiton IPO. In his non-executive career, he has served as adviser to a number of leading mining companies. He is a Non-Executive Director and Chairman of the Audit Committee of Regal Petroleum.

Mr Coates graduated from Cambridge University with an MA in Economics. He also holds an MBA from the London Business School.

- Chairman of the Risk Committee (up to 17 November 2015)
- Member of the Audit Committee (up to 17 November 2015)
- Member of the Nomination Committee (up to 17 November 2015)
- Member of the Remuneration Committee (up to 17 November 2015)

**Bruce Buck, 70 (resigned 17 November 2015)**
**Independent Non-Executive Director**

Mr Buck is Managing Partner for Europe at Skadden Arps Slate Meagher & Flom, an international law firm. A registered foreign lawyer in England and Wales, he has practised law in Europe for more than 25 years and specialises in financing transactions, as well as mergers and acquisitions. Mr Buck is Chairman of Chelsea FC plc and its operating subsidiary Chelsea Football Club Limited. He is also on the Audit Committee of the FA Premier League, the top-tier football league in England. He is a trustee and member of the Audit Committee of Orbis UK, a charity devoted to eradicating curable blindness in the developing world.

Mr Buck graduated from Columbia University School of Law in New York.

- Chairman of the Remuneration Committee (up to 17 November 2015)
- Member of the Nomination Committee (up to 17 November 2015)
- Member of the Health, Safety, Environment, and Community Committee (up to 17 November 2015)

**Anastasia Galochkina**
**(resigned 3 March 2016)**
**Non-Executive Director, 38**

Ms Galochkina is Managing Director of Nafta Moskva. Prior to joining Nafta Moskva she worked from 2004 to 2011 for Vostok Nafta Investment Ltd, a Swedish investment company. From 2006 to 2008 she also served on the board of Kontakt East Holding AB. Prior to joining Vostok Nafta, Ms Galochkina worked at Ernst & Young's consultancy group in Moscow.

Ms Galochkina is a qualified Chartered Financial Analyst. She graduated in economics from the National Research University of Electronic Technology in Moscow.

- Member of the Risk Committee (up to 17 November 2015)

**Kobus Moolman, 63 (resigned 17 November 2015)**
**Independent Non-Executive Director**

Mr Moolman is a qualified chartered accountant with more than 35 years' experience gained at international audit and accounting firms. He is Chief Audit Executive at the Saudi Arabian Mining Company, Ma'aden. Prior to this, he served as a senior audit partner and Leader of the Mining Industry Group at Deloitte & Touche CIS and as Senior Audit Partner at Ernst & Young in South Africa. He is a member of the Independent Regulatory Board for Auditors in South Africa and The South African Institute of Chartered Accountants.

Mr Moolman graduated from Rand Afrikaans University in Johannesburg with an honours degree in accounting. He has

37. The biographies presented here are entitled details of the Board members who served during the year ended 31 December 2015.

# 4. Corporate governance report continued

## 4.3 Board of Directors' composition continued

an MA in financial accounting from North Western University in Potchefstroom, and a higher diploma in tax law from Witwatersrand University in Johannesburg.

In 2015 Mr Moolman successfully completed the INSEAD International Directors Programme in Fontainebleau.

- Chairman of the Audit Committee (up to 17 November 2015)
- Member of the Risk Committee (up to 17 November 2015)
- Member of the Remuneration Committee (up to 17 November 2015)

**Igor Gorin, 37**
**Non-Executive Director**
**(resigned 3 March 2016)**

Mr Gorin is an advisory professional with extensive experience in investment and corporate banking. From 2005 to 2013 he worked at Raiffeisenbank in Moscow, where he held a number of senior positions including, from 2010 to 2013, Managing Director of Raiffeisen Investment, the investment banking arm of Raiffeisenbank, with responsibility for client coverage in respect of equity capital markets and M&A. Prior to joining Raiffeisenbank, he worked at VTB and Commerzbank.

Mr Gorin graduated from the State Finance Academy in Moscow in 2000, and he obtained a PhD in Economics in 2003.

- Member of the Risk Committee (up to 17 November 2015)
- Member of the Health, Safety, Environment and Community Committee (up to 17 November 2015)

**Edward Dowling, 59 (resigned 17 November 2015)**
**Independent Non-Executive Director**

Mr Dowling is Chairman of the Board of Alacer Gold, where he served as President and CEO between 1998 and 2012 and has been a member of the Board since 1998. Since 2012 he has served as a Director of Teck Resources Limited. From 2011 to 2014 he served as a Director of Victoria Gold Corp. From 1993 to 1998 he served as Senior Vice President at Cyprus Amax Minerals, with primary responsibility for process management and engineering. From 2006 to 2008 he was President and CEO of Meridian Gold Inc.

Mr Dowling sits on the Executive Committee of the US Society for Mining, Metallurgy and Exploration and is a member of the US National Mining Association, the US Minerals, Metals and Materials Society, the Mining and Metallurgical Society of America and the University Advisory Board of the Colorado School of Mines.

Mr Dowling graduated from Pennsylvania State University in 1982 with degrees in mining engineering and mineral processing. He obtained MA and PhD degrees in mineral processing from the same university in 1987 and 1998, respectively.

- Chairman of the Health, Safety, Environment, and Community Committee (up to 17 November 2015)
- Member of the Audit Committee (up to 17 November 2015)
- Member of the Risk Committee (up to 17 November 2015)
- Member of the Nomination Committee (up to 17 November 2015)

**Pavel Grachev, 43**
**Executive Director, CEO**
**(resigned 3 March 2016)**

Prior to joining Polyus Gold, from 2010 to 2013, Mr Grachev served as the Chief Executive Officer of the leading potash producer Uralkali and then of the Far East and Baikal Region Development Fund. From 2006 to 2011 he worked as chief counsel and then Managing Director of the investment company Nafta Moskva. From 1997 to 2005 he was Head of the Moscow office of the law firm Pavia e Ansaldo (Italy). In addition, he has served on the boards of Polyus Gold, the Federal Grid Company, Uralkali, PIK Group (as Chairman), and Polymetal.

Mr Grachev graduated from the St Petersburg State University and the University of Trieste (Italy) with degrees in law.

- Member of the Nomination Committee (up to 17 November 2015)

**Vitalii Koval, 44**
**Non-Executive Director**
**(resigned 3 March 2016)**

Mr Koval is Head of the Accounting and Controlling Department at Consortium Industrial Group and a Director of the Kyiv office of the Industrial Union of Donbass Corporation. He is also a member of the Supervisory Board of ISD Dunaferr, a metallurgical mill in Dunaujvaros, Hungary. From 2009 to 2013 he served as General Director of New Engineering Technologies Ltd, the managing company of the Hyatt Regency hotel in Kyiv. From 2006 to 2011 he was a Chairman of the Audit Committee at Alchevsk Metallurgical Plant, Alchevsk Coke Plant, and Dzerzhinskiy Dneprovskiy Metallurgical Plant. From 1995 to 2004 he worked for KPMG.

Mr Koval graduated in economics (with honours) from Taras Shevchenko National University of Kyiv. He also holds an Executive MBA from Bristol University in the UK.

**Compliance with UK Corporate Governance Code**

During the period from its admission to the Premium segment of the Official list in June 2012 to 17 November 2015 the Group complied with the provisions of the UK Corporate Governance Code in a consistent manner with that disclosed in the 2014 Annual Report. Each respective section of this Corporate Governance Report Statement looks to explain how relevant Principles of the Code has been applied by the Group during the period ended 31 December 2015 and subsequently, or the reasons for non-compliance with the Code following the delisting from the LSE on 3 December 2015. In overview compliance with the Code was maintained up to delisting. Due to the re-organization of the Board structures and planned devolution of governance to the subsidiary PJSC Polyus currently underway Polyus Gold International Limited has ceased to comply with the Combined Code since that time. The Group through PJSC Polyus will look to comply with the Principles of the Code where appropriate through its listed subsidiary once the revised governance structure is established.

## 4.4 Diversity policy

The Group recognises and embraces the principle that diversity benefits and enhances the quality of performance of its business.

The Group views increasing diversity at Board level as an essential prerequisite to attaining its strategic objectives as well as a sustainable and balanced development. When deciding on the Board's composition, Board diversity was considered from a number of perspectives, including gender, age, cultural and educational background, professional experience, skills, knowledge, and length of service.

All Board appointments are based on a meritocratic approach, and candidates are considered against objective criteria, with due regard for the benefits of diversity on the Board and within the Group.

**Potential benefits of Board diversity:**

• Creativity and different perspectives
People from different backgrounds and with different life experiences are likely to approach similar problems in different ways.
• Access to resources and connections
By selecting directors with different characteristics, firms can gain access to different resources. For example, directors with financial industry experience can help firms gain access to specific investors.
• Career incentives through signalling and mentoring
Diversity in the boardroom can signal to lower-level employees that the Company is committed to promoting minority workers, or at least that their minority status is not a hindrance to their career prospects within the Company.

The Nomination Committee reported annually on the Board's Composition in terms of the diversity of its make-up, and monitored the implementation of this policy until the delisting.

The Nominations Committee reviewed and assessed Board composition on behalf of the Board and recommended the appointment of new Directors. The Committee also oversaw the annual review of Board effectiveness.

In reviewing Board composition, the Committee considered the benefits of all aspects of diversity. When identifying suitable candidates for appointment to the Board, the Committee considered candidates based on merit, against objective criteria, and with due regard for the benefits of diversity.

As part of the annual performance evaluation of the effectiveness of the Board, Board Committees considered a balance of skills, experience, independence, the knowledge and diversity make-up of the Board (including gender), how the Board worked together as a unit, and other factors relevant to its effectiveness.

The Board recognises that some challenges in achieving diversity on the Board arise from the industry in which the Group operates, and are not related to the specifics of the Group. The Group faces challenges similar to those faced by other companies and organisations in the metals and mining industries.

By the end of FY 2015, women made up 17% of the Group's total workforce, and there was one woman among top managers. The Board has had a female representative since obtaining a premium listing in 2012.

# 4. Corporate governance report continued

## 4.5 Human rights policy

The Group is committed to integrating the best practices for human rights into our business processes and to having these best practices inform our decision-making and due diligence processes. The Company's human rights policy mandates that we operate in a way that respects the human rights of all employees and the communities in which we operate.

To meet our responsibilities to respect human rights, the Group makes the following commitments:

1. All employees will uphold and respect the human rights set forth in the Universal Declaration of Human Rights and international humanitarian law.

2. The Group respects the rights and dignity of employees, contractors, and local communities and is committed to providing equal opportunity and freedom from discrimination for all.

3. The Group respects workers' rights, including freedom of association, the right to peaceful protest and assembly, and engagement in collective bargaining in association with International Labor Organization (ILO) conventions on organising and collective bargaining.

4. The Group respects the rights and traditions of indigenous people and seeks to protect cultural and spiritual heritages as well as the environment.

5. The Group supports the elimination of all forms of forced, compulsory, and child labour.

6. The Group seeks opportunities to provide training and capacity building in accordance with the voluntary principles to public security forces.

7. The Group is committed to the continual improvement of its human rights standards and practices and to that end, will regularly review and assess the effectiveness of and compliance with these standards and practices.

Polyus Gold commits to conducting its operations in accordance with domestic legal requirements and internationally recognised human rights.

The Health, Safety, Environment and Community Committee is responsible for overseeing the implementation of this Human Rights Policy. This policy is informed by, and should be read in conjunction with, Polyus Gold's Diversity and Anti-Corruption policies.

## 4.6 Dividend policy

In April 2015 Polyus Gold adopted a new dividend policy – to pay 30% of its adjusted net income as a regular dividend and consider paying a special dividend, subject to the Group's financial position, FCFs, leverage and outlook.

The Group's dividend policy did not change following the delisting from the LSE in December 2015. However, such changes could be considered going forward, given the private status of Polyus Gold International. In turn, the dividend policy of PJSC Polyus Gold is expected to be reformulated to reflect its status as the principal holding company of the Group.

## 4.7 Anti-corruption efforts

The Group operates a zero-tolerance policy towards bribery or any other form of corruption at all levels.

Any evidence of violations of applicable anti-corruption laws will be investigated, following which disciplinary measures may be taken.

Polyus Gold complies with the legislative requirements of the countries in which it operates. These requirements include statutory and regulatory provisions to combat corruption and bribery, which impose restrictions and prohibitions on a wide range of actions during the process of engaging and communicating with private individuals and public officials.

Since 2011 Polyus Gold has been engaged in activities aimed at ensuring that all anti-corruption law requirements are met. The Group has always placed a focus on high ethical standards and best business practice in the area of anti-corruption compliance.

Anti-corruption policies and associated internal documents that are directly applicable are in place in Polyus Gold, its Business Units, and professional services. These policies take into account all requirements of both British and Russian anti-corruption legislation, and stipulate full compliance with the legislative regulations of other countries where the Group's personnel (or other parties acting either on behalf of or to the benefit of Polyus Gold) operate; in addition, the Group's international deals are subject to such legal standards.

All anti-corruption initiatives and strategies are implemented with the direct involvement of the Group's top management. Essential issues relating to anti-corruption activity were included in the agenda of the Polyus Gold Audit Committee and Board on a regular basis.

The managers of security divisions work in all the Group's Business Units to ensure that respective policies and procedures come to effect, and to supervise their execution. In addition, the anti-corruption compliance function is performed by other Group divisions whose goal is to accomplish a specific task, as well as by each employee in their daily work routines. Thus Group personnel must understand and adhere to corporate policy standards and legislative regulations. For this purpose, a multi-stage training and education system is created for each employee, involving acquaintance with corporate documents, face-to-face interviews, distant-learning certification, and further information support, consultations, and clarifications. In 2015 over 90% of Polyus Gold employees were certified, and signed personal undertakings to comply with anti-corruption legislation and policy.

# 4. Corporate governance report continued

## 4.7 Anti-corruption efforts continued

A major task for each Group employee is to timely inform respective compliance managers about any violations and red flags that have come to their attention. There is a hotline in the Group, which is available to all employees and any interested party, for timely information sharing and reporting. The hotline details can be found at the Polyus Gold website: **www.polyusgold.com**.

The Group employs and regularly improves systems to monitor its contractors and third parties and to engage new information service providers in order to mitigate corruption risks on the part of its partners. Preliminary review and approval takes place of all agreements and contract drafts within the Group. This review pays special attention to the assessment and subsequent monitoring of projects in high-risk areas. Philanthropy, sponsorship projects, interaction with state authorities, selected projects associated with consulting services, etc. are subject to strict controls. In addition, the Group carefully monitors business entertainment spending.

In 2015 there were no legal proceedings related to corruption activities or any other non-ethical practices against the Group or its employees.

## 4.8 Top Management (as of 31 December 2015)

| Name | Position | Date of appointment |
|---|---|---|
| Pavel Grachev | CEO (PJSC Polyus Gold) | 2 October 2014 |
| Vladimir Polin | Managing Director (JSC Polyus) | 4 August 2014 |
| Mikhail Stiskin | CFO (PJSC Polyus Gold) | 23 July 2014 |
| Sergey Zhuravlev | Vice-President for Government Relations (JSC Polyus) | 3 March 2014 |
| Gleb Yermakov | Vice-President for HR & Organizational Development (JSC Polyus) | 11 September 2014 |
| Elena Zhavoronkova | Vice-President for Legal Affairs (JSC Polyus) | 13 October 2014 |
| Vyacheslav Dzyubenko | Vice-President for Internal Control (JSC Polyus) | 27 January 2014 |
| Denis Solomatin | Vice-President for Project Management and Capital Construction (JSC Polyus) | 23 July 2015 |
| Felix Itskov | Vice-President for Procurement (JSC Polyus) | 20 July 2015 |
| Anatoly Barilyuk | Head of Krasnoyarsk Business Unit (JSC Polyus) | 2 June 2014 |

# 4.9. Remuneration of the Board of Directors and Top Management

**Remuneration of the Board of Directors**

In the reporting year the Board of Directors of the Company consisted of the following three categories of Directors:

1. Executive Directors
2. Non-Executive Directors representing major shareholders of the Company
3. Independent Non-Executive Directors

In accordance with the Directors' Remuneration Policy of the Company only Independent Non-Executive Directors are entitled to receive remuneration for their services as members of the Board of Directors.

The basic fees of Independent Non-Executive Directors are fixed in their individual contracts and amount to

- $450,000 for the Chairman of the Board of Directors
- $350,000 for other Independent Non-Executive Directors

An additional fee of $30,000 is stipulated for the Audit Committee membership.

Besides that, in September 2015 the Board resolved to pay additional remuneration to those Independent Non-Executive Directors who dedicated significant time and effort for their service on the Special Independent Committee of the Board. As resolved, such Directors received additional remuneration for their services rendered in September – November 2015 in the total amount of $214,098.

All Directors are entitled to receive reimbursement of expenses that are incurred in the performance of their duties in the Board.

The remuneration paid to Independent Non-Executive Directors in 2015 totalled $2,071,235.

The reimbursement of expenses for all Directors totalled $214,519.

**Remuneration of Top Management**

The remuneration of the Top Management team consists of:

1. Monthly base salary which is set individually in employment contracts
2. Annual bonus under the short-term incentive plan (STIP) linked to the achievement of corporate and functional key performance indicators (KPIs)[38] as well as personal performance assessment[39]
3. Award of the long-term incentive plan (LTIP) that was adopted by AGM of the Company in May 2015 and ceased its operation in December 2015 in accordance with its Rules.

38. Functional KPIs are not applicable to the performance of Chief Executive Officer.
39. The personal performance of Chief Executive Officer is assessed by the Board of Directors at its discretion, and that of other top managers is assessed by Chief Executive Officer.

# 4. Corporate governance report continued

## 4.9. Remuneration of the Board of Directors and Top Management continued

Base salaries may be reviewed annually, with any possible change effective from 1 April and taking into account:
- Individual and business performance
- Level of experience
- Scope of responsibility including any changes during the year
- External comparisons to the international gold mining, UK and local Russian markets.

Annual bonuses under the STIP are based on performance conditions calibrated and set by the Remuneration Committee of the Board at the start of each financial year. Actual performance is measured over the preceding financial year.

Targets under the STIP reflect the Company’s annual plan, which in turn reflects the strategic priorities of the Group. The corporate KPIs currently consist of:
- Adjusted EBITDA
- Gold production volume
- Total cash cost (TCC) per ounce of gold sold
- Lost-Time Injury Frequency Rate (LTIFR)[40]

Each of the corporate and functional KPIs has predetermined “minimum”, “target” and “maximum” values, against which the actual results are assessed.

Achieving “target” results will equate to on-target STIP payment. “Minimum” and “maximum” results are rewarded correspondingly in accordance with the predetermined numerical scale for each KPI.

On-target STIP opportunity is set at 100% of annual base salary for all top managers.

The maximum opportunity is calculated individually for each KPI, but typically does not exceed 120% of the annual base salary for exceptional performance.

The awards under LTIP granted to Chief Executive Officer and other top managers in May 2015 lapsed in December 2015 and remained unvested. In 2016 the management intends to recommend to the newly appointed Board of Directors of PJSC Polyus Gold to adopt a new LTIP based on the same principles as the previous one.

The remuneration paid to the Chief Executive Officer and other top managers for the services rendered in 2015 totalled $14,134,000[41].

40. LTIFR is a standard measure used globally in the mining industry to assess the efficiency of occupational health and safety. The Group calculates it as follows: Number of lost-time injuries in the accounting period / Total hours worked in the accounting period x 200,000 hours.
41. Converted from Russian rubles at the average annual exchange rate of the Central Bank of Russia of RUB 60.96 for USD 1.

# 4.10 Audit Committee report

The Audit Committee was an active subcommittee of the Board of Directors until delisting in November 2015 and, worked for the Board, executing and performing delegated Board responsibilities. The comments below reflect the work of the Committee until 17 November 2015 when the members resigned on the delisting of the Group from the London Stock Exchange. Accordingly since 17 November 2015 the Company has not been able to comply with the requirements of C3 to the Combined Code due to the lack of an Audit Committee though this has been mitigated by increased board oversight. The Company is looking to re-establish an Audit Committee at its listed PJSC Polyus Gold which is finalising the process of identifying appropriate independent non-executives who will be appointed later in 2016.

**Members until 17 November 2015**

- Kobus Moolman, Independent Non-Executive Director and Chairman of the Audit Committee
- Adrian Coates, Independent Non-Executive Director and Senior Independent Director
- Edward Dowling, Independent Non-Executive Director

Kobus Moolman and Adrian Coates were both reappointed to the Audit Committee on 22 August 2014, having served three years on the committee and having given notice of their desire to serve a further three years.

The Board believed the makeup of the Audit Committee had the required level of experience to meet the standards prescribed by the UK Corporate Governance Code (the Code) in both the preparation of the 2014 Annual Report and up to the point of delisting. In the event that any issues arose which would be deemed to be outside the areas of expertise of the existing members, independent professional advice could be sought. The operations and approach of the Committee until delisting is set out below.

**Key objectives**

- The Audit Committee reviewed the Group's financial reports and results announcements, and oversaw its compliance with statutory and listing requirements. In relation to internal controls and audit, the Committee assisted the Risk Committee with overseeing the internal controls processes, managed the relationship with the External Auditor, and supervised internal financial controls and internal audit. The Audit Committee reported to the Board on the appropriateness of the Group's accounting policies and practices and stated its opinion to the Board on the Annual Report and Accounts with regard to their clarity, fairness, balanced and sufficiently comprehensive disclosure in order for shareholders to assess the strategy, business model and performance of the Group. The Committee conducted investigations and reviewed of the financial reporting processes of the Group as it may consider necessary from time to time.

- The Committee was authorised to seek any information it requires from any employee of the Group in order to perform its duties; to obtain, at the Group's expense, outside legal or other professional advice on any matter within its terms of reference; to call any employee to be questioned at a meeting of the Group as and when required; to have the right to publish in the Group Annual Report details of any issues that cannot be resolved between the Committee and the Board.

**Meetings and discussions**

The Audit Committee met eight times during the financial year. The Committee's agenda was linked to events in the Group's financial calendar and was predominantly cyclical, although each member had the right to call for reports on matters of interest.

# 4. Corporate governance report continued

## 4.10 Audit Committee report continued

**Review of the Committee's work**

The Audit Committee met with management and independently with both internal and external auditors to ensure that management fulfilled its financial reporting responsibilities to the Board of Directors, who ultimately approves the consolidated financial statements and the interim management statement. The Group's external auditors had unrestricted access to the Audit Committee in order to be able to discuss:

- compliance with the disclosure requirements of the Financial Conduct Authority (FCA), Listing Rules (LR), the FCA's Disclosure and Transparency Rules (DTR), and the UK Corporate Governance Code (the Code)
- financial reporting issues
- the scope of their audit
- the adequacy of internal controls

**Financial reporting and compliance**

The Committee's activities included:

- review and approval of the 2014 Annual Report, the consolidated financial statements for the FY 2014, and the Interim Management Report for 1H 2015
- appointing the external auditor, approving the expected auditor's fees for 2015, and monitoring the proposed audit timetable for 2015, as well as the proposed overall timeline of the 2015 Annual Report preparation
- review and approval of both the external and internal audit plans for 2015 and ensuring all significant audit risks are properly covered
- approval of the external auditor's non-audit services provided in 2015 in accordance with the approved Non-audit services policy
- review and approval of key accounting policies and critical accounting judgments and estimates, including complex derivative transactions and their disclosure in the consolidated financial statements
- assessing the going-concern basis for preparing the consolidated financial statements
- advising and supporting the Board to help assess whether the Annual Report is fair, balanced and understandable
- reviewing management initiatives to improve the effectiveness of internal financial controls, management and financial reporting, and the working capital optimisation programme
- reviewing and recommending the approval of the annual budget
- in conjunction with the Risk Committee, monitoring the implementation of the anti-corruption policy and the efficiency of risk management systems

## Risk management and internal controls

The Board established a continuous process for identifying, evaluating and mitigating significant risks the Group faces and for determining the nature and extent of any significant risks against the risks the Board is willing to take to achieve its strategic objectives and regularly reviewed the risk mitigation process. The Board is also responsible for implementing the Group's system of internal controls. Such a system is designed to manage rather than to eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with provision C.2.1 of the UK Code, the Board regularly reviews the effectiveness of the Group's risk management and internal control systems. The Board's monitoring covers all material controls, including financial, operational and compliance controls, and is primarily based on reviewing reports from management to assess whether significant risks have been identified, evaluated, managed and controlled and whether any significant weaknesses have been promptly remedied, and to indicate a need for more extensive monitoring. The Board has also performed a specific risk assessment for the purpose of preparing this Annual Report. This assessment considers all significant aspects of risk management and internal controls arising during the period covered by the Report, including the work of internal audit.

During the course of its reviews of the risk management and internal control systems in the period, the Audit and Risk committees did not identity or was advised of any failings or weaknesses which were determined to be significant.

## Areas of focus

The Board discussed with management the critical accounting judgements and key sources of estimation uncertainty outlined in note 4 of the 2015 consolidated financial statements prior to the issue of the 2015 Annual Report in a manner consistent with that adopted by the Audit Committee previously. This was previously completed by the Audit Committee, and in its absence for the 2015 Annual Report the Board reviewed and confirmed with management the approach taken to critical accounting judgements and key sources of estimation uncertainty outlined in note 4 of the 2015 consolidated financial statements prior to the issue of the 2015 Annual Report. The significant areas of focus from this discussion and how these were addressed are outlined below.

# 4. Corporate governance report continued

## 4.10 Audit Committee report continued

The significant areas of focus from this discussion and how these were addressed are outlined below:

| Matter considered | Action |
|---|---|
| **Depreciation method for mining assets**<br>The depreciation of mining assets is calculated using the straight line method. We review the depreciation periods applied to ensure they are appropriate.<br>We also monitor the straight line approach and perform regular reviews to identify whether it may deviate significantly from the depreciation charge that would be derived should the units of production method be applied to the mining assets balance.<br>The consistent results to date reflect that the relevant machinery broadly operates to capacity to the end of the licence period. | The depreciation periods applied were reviewed and considered appropriate. The committee received a presentation from management setting out their assessment of the difference between straight line depreciation and unit of production depreciation for mining assets.<br>No significant differences were identified between the methods and the committee concluded that the straight line depreciation method remained appropriate for these assets for the 2015 year-end. |
| **Determination of functional currency**<br>The designated functional currency of the parent Group is the US dollar, with all the operating companies in Russia using as a functional currency the rouble. A significant translation loss was recorded as a result of a sharp devaluation in the rouble in the second half of 2015. | The committee was given a presentation by management setting out its assessment that the functional currency of the operating companies in Russia should continue to be the rouble. This was actively discussed at the Audit Committee meeting with management and the external auditor and this conclusion was confirmed. |
| **Derivative financial instruments**<br>During the year the Group entered into a number of different derivative financial instrument contracts to hedge exposure to gold price and currency fluctuations and to reduce interest rate exposure. The financial statement positions of these derivatives as at 31 December 2015 are outlined in the table on pages 193 to 199. | The Audit Committee examined the criteria for hedge designation in accordance with IAS 39 and reviewed the valuation and disclosures in the consolidated financial statements, considering them to be appropriate. |
| **Recoverability of exploration and evaluation assets**<br>Management's judgement is required to determine whether expenditure which has been capitalised as exploration and evaluation assets is appropriately classified and valued. | The committee was given a presentation by management on the recoverability of the exploration and evaluation asset portfolio. This included an assessment that no IFRS 6 impairment indicators were present, which was considered appropriate. |
| **Impairment of tangible assets**<br>The committee ensured that management considered whether impairment indicators were present, or a reversal of a previous impairment was necessary, in respect of the carrying value of property, plant and equipment, mines under development, and capital construction-in-progress.<br>In particular, management was tasked with performing a comprehensive impairment review of the Natalka mine under development, and a reversal of impairment was also identified in respect of the Kuranakh mining asset. | The committee received detailed reporting from management and challenged the appropriateness of the assumptions made on the Natalka impairment test.<br>Areas of focus were the achievability of the updated mining plan, assumptions in relation to the rouble to US dollar exchange rate, the gold price and the discount rate, which have been subject to volatility given the current macroeconomic conditions. This was a key area of focus and challenge from the external auditor, who provided detailed reporting on their work to the committee, including sensitivity testing.<br>No impairment was identified and appropriate disclosure of the judgements involved was requested to be included in the Annual Report and accounts. |
| **Carrying value of stockpiles, gold in process and product inventories**<br>The Group has a significant stores and spares balance. There is a risk that some of the stores and spares inventory could be impaired through obsolescence due to potential changes in technology, physical erosion, and items no longer being useful. | The committee evaluated the application of an updated inventory obsolescence policy and management's assessment of slow-moving stock that required review, including the related provisioning recognised in the consolidated financial statements. The policy and approach adopted was considered satisfactory. |

**Internal audit**

Among the Committee's key responsibilities was monitoring the effectiveness of the Group's internal audit function, approving the appointment of its head and the annual internal audit plan, and reviewing reports presented by the internal auditor. The Internal Audit Plan for 2016 was approved by the Board. The Audit Committee met with the head of internal audit on a regular basis to discuss the department's remit. The Audit Committee received progress reports from the head on a quarterly basis. The Committee assessed the effectiveness of the internal audit function during 2015 as being satisfactory and the Board continues to consider this to be the case at the time of the Annual Report being issued.

**External auditors**

Deloitte has been the Group's external auditor since the Group's premium listing in 2012. The Group complies with the disclosure requirements of the Code, the Code's guidance in relation to audit tendering, and was aware of the European Union's Audit Regulation and Directive as well as the UK Competition Commission's response to audit tendering. In particular, the Group complies with the Competition and Market Authority's 2014 Order, which became effective on 1 January 2015. Following the delisting the Deloitte LLP in the UK has resigned in December 2015 and have been succeeded by ZAO Deloitte & Touche CIS.

The importance of, and greater investor scrutiny in respect of, a tendering policy for the appointment of external auditors is acknowledged as important, noting in particular changes to the provisions of the Code and recent findings of the UK Competition Commission. Polyus adopted the new UK auditor tendering rules, and accordingly the Group is required to conduct a tender for the external audit by not later than 2022. The performance of Deloitte as the Group's external auditors is subject to annual review and, if this is satisfactory, the Committee will recommend Deloitte's reappointment.

The Audit Committee was responsible for elaborating, implementing and monitoring the Group's external audit policy and this has been monitored by the Board since delisting. Oversight and responsibility for monitoring independence, objectivity and compliance with the ethical and regulatory requirements remains the day-to-day responsibility of the Group CFO and reported to the Audit Committee or Board.

The policy also sets out the categories of other non-audit services which the external auditor will and will not be allowed to provide to the Group, including those that are pre-approved and those which require specific approval before they are contracted for, subject to de minimis levels. Types of other non-audit services the external auditors should not perform in order to avoid compromising their independence (unless it can be clearly shown that no threat to auditor independence is created by the auditor undertaking such activity) include:

- work related to the maintenance of accounting records and the preparation of consolidated financial statements that will ultimately be subject to external audit
- management of, or significant involvement in, internal audit services
- financial information system design and implementation
- actuarial services
- investment advice and banking services
- secondments to management positions that involve any decision-making
- advising the Remuneration Committee (other than general assistance relating to appropriate levels of disclosures and accounting advice)
- legal services
- custody of assets
- valuation services of a public nature
- any work where a mutuality of interest is created that could compromise the independence of the external auditor

# 4. Corporate governance report continued

## 4.10 Audit Committee report continued

Engagements that fall within the Audit and Other Assurance Services classification of services, together with accounting advice, are considered to be preapproved up to a level of $250,000. Audit and other assurance services comprise statutory audits, interim reviews, and other regulatory reviews, as well as the work of reporting accountants – all of which require that the firm conducting the work is independent. Audit and other assurance service engagements with expected fees in excess of this amount require approval from the Audit Committee or Board.

Other services' expenditure over $250,000 per engagement or $750,000 in aggregate requires approval from the Audit Committee or Board. Where fees for other services in the year exceed $750,000 in aggregate, all permitted engagements may only be awarded to the external auditor with prior approval from the Audit Committee or Board before the commencement of work.

Total fees incurred during the financial year are disclosed in the table below. The Audit Committee monitors the ratio of other fees to Audit and Other assurance fees as set out below:

| | | $ |
|---|---|---|
| **Total audit fees** | | **483,000** |
| **Total other assurance fees** | | **732,000** |
| – Audit-related assurance services – interim review | 405,000 | |
| – Sustainability assurance services | 127,000 | |
| – Reporting accounting work for bond issues | 200,000 | |
| **Total audit and other assurance fees** | | **1,215,000** |
| **Total other fees** | | **2,252,000** |
| – Taxation compliance and advisory services | 198,000 | |
| – Consulting services | 2,054,000 | |
| *Included capitalised services* | *1,047,000* | |
| **Ratio of other fees to audit and other assurance fees** | | **1.9:1** |

Non-audit fees are more than 100% of audit fees in 2015, mainly due to a wide-reaching business transformation programme being undertaken by the Company, for which a number of projects have been initiated with external advisors providing consulting services. Each project in connection with the transformation went through a competitive tender process, seeking the engagement of major accounting and consulting firms in order to appoint the best service provider. Deloitte was successful in securing certain of these projects where they had the most specific skills and were clearly the best candidate, and, importantly, where in the opinion of the Company Deloitte's appointment did not conflict with its position as auditors.

These related to:
- review of the optimisation of the investment management process
- implementation of master data management process and system
- methodological support for a centralised treasury model implementation
- reviewing the development of a target operating model and methodology for corporate reporting system
- advice on developing a budgeting methodology

The first two projects were completed during 2015, the last three will continue into 2016. The level of non-audit fees are substantial and put the non-audit fees at a level that exceeds that of the audit fee. This was deliberated carefully by the Audit Committee before preapproval was provided. First, projects awarded to Deloitte were considered in the context of the value of overall consulting fees, and while substantial when considered against the audit fee, were considered reasonable at 190%, and that it was not in the interests of the Company to restrict competition. Second, the Audit Committee ensured that Deloitte were only allowed to tender for those projects that would not impact independence and for services allowed under the Company's policy, and individually approved the appointment of these services. Third, the awarded services are one-off in nature, and the auditors' objectivity and independence is also safeguarded through using separate teams, with the projects being led by the Deloitte Moscow consulting practice.

Consequently, the Audit Committee concluded that the level of non-audit fees was justified, exceptional in nature, and did not raise any concerns in terms of Deloitte LLP's independence as auditor to the Group. Deloitte LLP has also confirmed, in writing, that it is in agreement with this conclusion.

The Audit Committee confirms that there are no independence issues in respect of the auditor and that the Policy has been appropriately complied with throughout the year under review.

# 4. Corporate governance report continued

## 4.11 Risk Committee report

**Members until 17 November 2015**

• Adrian Coates, Independent Non-Executive Director, Chairman of the Risk Committee
• Kobus Moolman, Independent Non-Executive Director
• Igor Gorin, Non-Executive Director
• Edward Dowling, Independent Non-Executive Director
• Anastasia Galochkina, Non-Executive Director

The Board's ongoing assessment of risks and uncertainties at the time of the issuance of the Annual Report is set out on pages 40–51. The operations of the Committee until 17 November 2015 are set out below. The ongoing review of the risks facing the Group by the Board will be continued in detail by the listed PJSC Polyus Gold subsidiary. The decision as to whether a separate Risk Committee is formed by the PJSC Polyus Gold Board will be determined by the refreshed Board of PJSC Polyus Gold following the planned additional appointment of independent non-executives in 2016.

**Key objectives**

• The Risk Committee ensured that there is a robust system in place for identifying key risks to the business, and their materiality and probability, and that there is a suitably responsible body or individual charged with monitoring, managing and, where applicable, mitigating, those risks. It advised the Board on the Group's overall risk appetite, tolerance, and strategy, taking into account the current and prospective macroeconomic and financial environment. It oversaw and advised on the materiality and probability thresholds of risks. The Committee oversaw and advised the Board on the Group's risk exposures and future risk strategy.
• In relation to risk assessment, the Committee kept under review the Group's overall risk assessment processes that inform the Board's decision-making, ensuring that both qualitative and quantitative metrics are used; reviewed regularly and approved the parameters used in these measures and the methodology adopted; set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.
• The Committee kept under review the effectiveness of the Group's internal controls and risk management systems and reviewed and approved the statements concerning internal controls and risk management to be included in the Annual Report. It reviewed the adequacy and security of the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee ensured that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.
• The Committee reviewed the procedures for detecting fraud, procedures for the prevention of bribery and receiving reports on non-compliance, considered and approved the remit of the risk management function, and ensured it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with applicable professional standards.

**Review of the Committee's work**

The Committee continued with ongoing work to improve the company-wide risk management system and financial risk management initiatives, review production risk management reports, and provide oversight of the internal control system for monitoring the most significant risks. The Board, the Group's management and the Committee placed special focus on internal and external factors that may have an adverse impact on the Group's strategic objectives, including recent Russian legislative changes, the EU sanctions imposed against Russia, the development of the most significant projects, the availability of external funding, and the management of gold price risk. A number of proposals to mitigate risk and improve the Group's efficiency were reviewed and passed to the Board for final approval.

The Committee was authorised to seek any information it requires from any employee of the Group in order to perform its duties and to obtain external legal or other professional advice on any matter within its Terms of Reference, and to call any employee to be questioned at a meeting of the Committee, as and when may be required.

**Risk management**
The Committee reviewed the general macroeconomic situation, reported on strategic business risks, and other issues described below. The Committee reviewed reports on the management of technical and production risks associated with ongoing production activities, including factor analysis of technical and production risks, and the implementation status of risk mitigation programmes. In addition, a summary on accidents and technical failures recorded at the Group's operations is submitted to the Committee, providing details of each incident together with the root cause and possible consequences.

**Financial risk management**
The price of gold saw a gradual decline during 2015. To reduce the impact of adverse volatile macroeconomic factors, the Committee assessed and approved a restructuring of the Revenue Stabiliser Programme.

The Committee required management to regularly update financial risk management reports, including progress reports on approved transactions, and also provide information on credit ratings that are revised by rating agencies, credit options and other related information.

**Debt management**
Despite the unfavourable prevailing economic environment in Russia, the Group was able to finance its key investment projects by obtaining medium-term loans and project funding.

To build a liquidity cushion, additional funding of $365 million was raised from leading international banks (Rosbank, UniCredit Bank, ING). The Razdolinskaya-Taiga long-term project financing (for 11 years) was arranged by Gazprombank under a Russian Government guarantee, as part of the Governmental Investment Projects Support Programme (#1044).

In July 2015, RUB 15 billion Polyus Gold bonds, maturing in 2026, were issued. To reduce interest payments in the main functional currency, currency interest-bearing debt transactions worth a total of $173 million at the rate of 6 M.Libor + 4.45% were made.

During the year, credit ratings from S&P and Fitch were maintained at BB+ and BBB-, respectively, reflecting the Group's stable financial standing.

The debt maturity schedule is managed carefully to ensure regular repayments up until 2019–2020. On a daily basis, available cash is deposited with attractive rates at a diversified pool of banks with strong credit quality. To limit the effect of any potential rouble devaluation, the Group restrained the amount of cash held in roubles at any time.

The Committee regularly reviewed and approved debt portfolio management policy. In terms of debt portfolio management, the Committee oversaw and advised on sources of debt capital, currency, maturities, as well as options to deposit available funds. Moreover, the Committee considers exchange rate risks, interest rate risks and credit limits for banks under debt portfolio management.

**Deoffshorisation and redomiciliation**
The Committee continued to monitor potential risks from the Russian Government's evolving deoffshorisation initiatives, as well as implications and mitigation measures, including legal, tax, and market issues. The Committee engaged external consultants to serve the Group's ultimate interests in this area.

# 4. Corporate governance report continued

## 4.12 Nomination Committee report

**Members until 17 November 2015**
• Ilya Yuzhanov (Chairman), Non-Executive Director and Chairman of the Board
• Bruce Buck, Independent Non-Executive Director
• Adrian Coates, Independent Non-Executive Director and Senior Independent Director
• Pavel Grachev, CEO
• Edward Dowling, Independent Non-Executive Director

Up to 17 November 2015 the majority of Nomination Committee members were independent non-executive Directors.

The operations of the Committee until 17 November 2015 are set out below with no new appointments since that date. The Group is reviewing its governance structure following delisting and is finalising the process of identifying potential candidates of appropriate calibre, experience and stature to fill the roles of independent Board members on the PJSC Polyus Gold Board, thus reflecting Polyus Gold's status as a world-leading public gold producer.

The decision as to whether a separate Nomination Committee is formed by the PJSC Polyus Gold Board will be determined by the refreshed Board of PJSC Polyus Gold following the planned additional appointment of independent non-executives later this year.

**Key objectives**
• To ensure that the Board has an appropriate balance of knowledge, capabilities, skills, experience, independence, and diversity to enable it to effectively discharge its responsibilities and duties
• To ensure that the Board has appropriate selection criteria and processes in place to identify a diverse range of suitable candidates to fill Board vacancies as and when they arise
• To recommend to the Board the membership and chairmanship of Board Committees
• To give full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Group, and the skills, knowledge, and capabilities that will be needed on the Board in the future

**Committee responsibilities**
The Nomination Committee was primarily required to ensure that the Board:
• operates in such a way that the duties of the Directors are likely to be efficiently discharged
• adds value to the Company
• has a variety of relevant diverse backgrounds, perspectives, skills and personal characteristics, as well as a good understanding of current and emerging issues of the business
• can effectively review and challenge the performance of management and exercise independent judgment
• has the necessary competencies, knowledge, capabilities, and experience to enable it to discharge its mandate effectively

The Nomination Committee oversaw the makeup of the Board in terms of the diversity and capacity required to oversee the delivery of the Group's strategy.

**Review of the Committee's work**
The Committee formally met four times in 2015 to make effective, relevant recommendations to the Board.

At the Committee meeting in February, Heidrick & Struggles, an independent advisor which has no other connection with the Group, presented the key findings of the externally facilitated Board Effectiveness Review performed at the end of 2014, which was required under the UK Corporate Governance Code for the Group as a premium-listed entity.

The effectiveness review showed that the Group's Board of Directors was strong and functional, and had a good blend of individuals with complimentary executive and functional backgrounds. However, Heidrick & Struggles identified specific areas for consideration and improvement in order to become more effective, leverage the strengths of individual board members, and be more closely aligned with stakeholders and long-term strategic issues. The Board considered the findings from its performance review and agreed the actions arising. The Nomination Committee agreed to elaborate a development programme which would address all areas for improvement, and to continue to review its procedures, its effectiveness, and development.

Having reviewed the feedback from the Directors on the Board's evaluation, Heidrick & Struggles presented the recommendations and the next steps arising from the Board's evaluation at the Nomination Committee meeting in April. The Board approved a detailed External Board Evaluation Action List, and paid special attention to various Board training programmes and sessions. The Committee arranged for a Directors' training day, which was subsequently arranged on 14 May 2015 and included a presentation on the development of the industry and the broader market by an external analyst, a meeting between management and independent Directors and a private meeting for independent Directors and the Chairman.

On 6 March 2015 the Group received a letter from Lizarazu Limited nominating Vitalii Koval for appointment to the Board of Directors, pursuant to the existing Relationship Agreement. The Nomination Committee is responsible for identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise, and before any appointment is made by the Board, and to consider candidates on merit and against objective criteria and with due regard for the benefits of Board diversity, taking due care that appointees have sufficient time to devote to the position. After careful consideration, on 20 March 2015 the Nomination Committee recommended Vitalii Koval to be appointed as a Non-Executive Director of the Group. Vitalii joined the Board on 24 March 2015 through a resolution of the Board of Directors based on a recommendation from the Nomination Committee. The Committee also ensured that Vitalii, as a new member of the Board, attended an induction meeting with the Group's auditors and external advisers and was informed of all Directors' duties and responsibilities, premium-listing disclosure requirements, and the need to disclose related-party information.

The Committee intended to address all planned potential additions to the Board and to monitor relevant developments related to corporate governance, with an emphasis on development and succession planning for top management and providing updates and training for Directors.

# 4. Corporate governance report continued

## 4.13 Health, Safety, Environment and Community Committee report

**Members until 17 November 2015**
• Edward Dowling, Independent Non-Executive Director, Committee Chairman
• Bruce Buck, Independent Non-Executive Director
• Igor Gorin, Non-Executive Director

The operations of the Committee until 17 November 2015 are set out below, with no new appointments having been made since that date. The Group is reviewing its governance structure following the delisting and is finalising the process of identifying potential candidates of appropriate calibre, experience, and stature to fill the roles of independent Board members on the PJSC Polyus Gold Board, thus reflecting Polyus Gold's status as a world-leading public gold producer.

The decision as to whether a separate Health, Safety Environment and Community Committee is formed by the PJSC Polyus Gold Board will be determined by the refreshed Board following the planned additional appointment of independent non-executives in 2016.

**Key objectives**
• To provide effective governance over the Group's policies and procedures related to health, safety, the environment, community issues, and human rights
• To promote best practices and to encourage and foster a positive approach across the Group's operations

**Committee responsibilities**
The Committee evaluated the effectiveness of the Group's policies and procedures for identifying and managing health, safety, and environmental risks, as well as community-related issues in the Group's operations. The Committee assessed the performance of the senior officers in causing the Group and its employees to comply with (i) internal policies on health, safety, the environment, and the community and (ii) applicable health, safety and environmental legislation in the jurisdictions where the Group operates. It also monitored legislative and other developments in health, safety, the environment, and the community, encouraged a "best practices" ethos within the Group, and reviewed management's response to health, safety, and environmental incidents and accidents.

**Review of the Committee's work**
In discharging its responsibilities, the Committee worked closely with the other Board Committees, particularly in relation to risk assessment.

The Committee arranged for periodic reviews of its own performance and, at least once a year, reviewed its constitution and Terms of Reference to ensure that it is operating effectively. It recommended any changes it considers necessary to the Board for approval.

**Health and safety**
In 2015, regrettably, the Group reported one work-related fatality (compared to four in 2014), which took place at the alluvial operations in Irkutsk region, and one work-related fatality involving a subcontractor at Polyus Logistics operations in Krasnoyarsk region. The Group considers any fatality completely unacceptable and a detailed root-cause analysis of the accidents is being conducted to ensure that effective mitigating plans are introduced. In the reported year the lost time injury frequency rate was 0.08, a 11% improvement on 0.09 in 2014. Despite this progress, the Committee remained resolute on eliminating all workplace accidents.

During the year the Committee oversaw the 2015–2018 Polyus Gold HSE development strategy, a revision of the corporate Golden Safety Rules (which were rolled out across all operation sites), and HSE management system implementation.

The safety of the Group's employees and stakeholders is of the utmost importance to the Board. Therefore, in 2015 the Committee approved the implementation of the DuPont Safety Culture improvements programme at the Krasnoyarsk, Irkutsk (alluvial and ore), and Yakutsk Business Units and regularly reviewed progress on the programme's execution. The Committee emphasised the importance of focusing on safety behavioural changes and supported the further extension of this programme across the Group to ensure a unified health and safety approach and that progress would be made on improving the safety culture at all operations.

The Committee oversaw the implementation of the Health, Safety & Environment Management System in Business Units and Professional Services in accordance with OHSAS 18001 and ISO 14001, as well as the Business Continuity Management System.

The Committee also undertook a quarterly review of management's response to the most serious health and safety incidents, root-cause analysis results, and the effectiveness of corrective actions taken.

**Sustainability**

The Committee reviewed and approved the 2014 Sustainability report prepared "in accordance" option Comprehensive with the GRI G4 Guidelines and an independent assurance of CSR performance data, which was conducted by Deloitte LLP.

The Committee oversaw and led the Polyus Gold application membership process to the International Council on Mining and Metals (ICMM), an industry body founded in 2001 to improve sustainable development performance in the mining and metals industry. In 2015 Polyus Gold became the first Russian member of the ICMM. The Committee regularly checked the status of the Polyus Gold 2015–2016 ICMM Road Map, which sets out the key actions required to address cases of partial alignment with ICMM sustainable development (SD) principles and to catalyse full alignment with each element of the ICMM SD Framework by the end of 2016.

As part of the Road Map implementation, strategic sustainability goals for the coming three years and the approach to developing various sustainability policies and standards (as well as to sustainability risk assessment and social-economic impact assessment studies for alluvial operations) were regularly reviewed and discussed by the Committee.

See pages 74 to 119 of the Sustainability report for more information on the Group's activities in this area.

# Statement of Directors' responsibility

The Directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and regulations. Group law requires the Directors to prepare consolidated financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The consolidated financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

International Accounting Standard 1 requires that consolidated financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs.

However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the consolidated financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We confirm that to the best of our knowledge:

- the consolidated financial statements, prepared in accordance with International Financial Reporting Standards, 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 consolidated financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

The consolidated financial statements of the Group for the year ended 31 December 2015 were approved on 10 March 2016 by the Board of Directors.

On behalf of the Board of Directors

**Sergei Nossoff**
Executive Director
London, 10 March 2016

# Independent auditor's report

## to the members of Polyus Gold International Limited

**Opinion on consolidated financial statements of Polyus Gold International Limited**
In our opinion the consolidated financial statements:
- give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the Companies (Jersey) Law 1991.

The consolidated financial statements comprise the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes on pages 159 to 211. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

**Going concern**
We have reviewed the Directors' Statement on page 68 that the Group is a going concern. We confirm that:
- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

**Our assessment of risks of material misstatement**
The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

# Independent auditor's report

## to the members of Polyus Gold International Limited continued

| Risk | How the scope of our audit responded to the risk |
|---|---|
| **Potential impairment of fixed assets**<br>Given the risk that the carrying value of the fixed assets, capital construction in progress and mine under development described in note 12 to the consolidated financial statements may not be recoverable, management has performed a review for indicators of impairment across the portfolio of assets held.<br>As a consequence of the operational performance in the period and the depreciation of the Russian rouble no indicators of impairment or impairment reversals were identified with the exception of:<br>• An indicator of impairment at the Natalka mine under development within the Magadan Business Unit was identified. This follows the downgrading of the estimate of reserves announced on 13 November 2014 and the temporary reduction of construction activity pending the finalisation of the resequencing of the project. The carrying value at 31 December 2015 was $1,053 million after the depreciation in the Rouble in the period having reduced the value by $270 million through translation losses.<br>Management has completed a value in use calculation based on a life of mine model, and using specialist input on key operational assumptions, which determined a discounted cash flow value significantly higher than the carrying value, and accordingly no impairment was recorded. The operational plans for the mining asset have been refined following the change in reserves identified. It reflects key financial assumptions including a forecast gold price of $1,270/oz converted at the forecast dollar exchange rate of RUB 74.5 to the US dollar to derive the expected Rouble revenue cash flows and a discount rate of approximately 10%. The calculated net present value is highly sensitive to these assumptions. | We challenged management's significant assumptions regarding the Natalka impairment test by:<br>• visiting the Natalka project to review the plans with operational management and perform physical observation of construction;<br>• discussing assumptions used in the mining plan with the independent experts used by Management;<br>• reviewing the accuracy of key assumptions used in the model;<br>• assessing the long term gold price forecast methodology and benchmarking the long term gold price forecasts to other external forecasts;<br>• considering the discount rates used by recalculation and comparison to other gold producers;<br>• running a range of sensitivities to confirm that no impairment was required if a range of less optimistic assumptions were adopted instead of the forecast rate and the discount rate applied;<br>• discussing the plans with the Directors and Senior Operational Management to confirm the plans and obtaining representations that these are considered management's best estimates of the key assumptions at the time of publishing the annual report; and<br>• assessing whether the accounts disclose the key judgements taken so that a reader of the accounts is aware of the impact on the financial statements of changes to key assumptions that may lead to impairment. |
| **Valuation and hedge accounting for financial instruments**<br>During 2014 and 2015, the Group entered into a number of different derivatives contracts to mitigate exposure to gold price, currency fluctuations and reduce interest rate exposure. These are summarised in note 13.<br>The most complex of these transactions is a commodity hedge known as the "Revenue Stabiliser" to hedge the gold price. The two tranches of the Revenue Stabiliser entered into in 2014 were restructured during 2015, and a third tranche was entered into in 2015, which is not hedge accounted. The Revenue Stabiliser is a "cap-collar" instrument with a "knock-in, knock-out" feature. In addition there are forward contracts to fix the price of gold over 310 koz of forecast production over a two year period. There is risk that the financial instrument accounting for these instruments with a mark-to-market value of $220 million and the associated hedge accounting applied by management is not in line with IFRS.<br>In addition there has been income on the currency and associated interest rate derivative financial instruments of $5 million in the period which are not hedge accounted. The valuation of these, which reflect debit valuation adjustments in respect of own credit risk required by the relevant accounting standards, involve the application of management judgement. | We:<br>• involved financial instruments specialists to perform an independent valuation on a sample of these derivatives, including the process for deriving the gold price and exchange rate applied;<br>• assessed the appropriate accounting treatment of the restructuring and new 2015 tranche of the Revenue stabiliser;<br>• reviewed management's methodology for assessment of credit risk against the requirements set out in IFRS 13;<br>• assessed the appropriateness of applying hedge accounting to the revenue stabiliser and forward contracts for gold on a sample basis;<br>• assessed the allocation of changes in fair values of derivatives between equity or the income statement, as appropriate; and<br>• reviewed the disclosures required by IFRS 7 in the Group accounts as appropriate. |

| Risk | How the scope of our audit responded to the risk |
|---|---|
| **Potential impairment of exploration and evaluation ("E&E") assets**<br>The Group capitalises E&E expenditure in line with IFRS 6: *Exploration for and Evaluation of Mineral Resources*. The assessment of each asset's future prospectivity requires significant judgement, management's accounting policy on E&E assets is set out in note 3. There is a risk that amounts are capitalised which no longer meet the recognition criteria of IFRS 6.<br>During the year, management has completed a strategic review of their E&E portfolio with a value of $100 million. As set out in note 12 to the consolidated financial statements no impairment was recognised in the year. | We:<br>• held discussions with key operational and finance staff to understand the exploration and appraisal activities;<br>• reviewed and evaluated management's assessment of the existence of impairment indicators in the portfolio of E&E assets by assessing the appropriateness of management's assumptions and estimates;<br>• reviewed the exploration licence conditions for any potential breaches; and<br>• reviewed management's approved exploration budgets for 2016 in order to check that exploration projects were ongoing and committed. |

The risks described above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 142. In the prior year Audit report the previous auditor included a risk focussed on the potential obsolescence of stores and spares inventory. This matter was not considered necessary to be included in the Audit report in the current year following the comprehensive review of stores and spares undertaken by management through 2014 and 2015 as part of an on-going optimisation programme. The initial effects of this programme have been realised during 2015, with a corresponding reduction in the stores and spares balance, and accordingly the risk of obsolescence has been reduced.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Our application of materiality**

We define materiality as the magnitude of misstatement in the consolidated financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be $90 million (2014: $25 million). We adopted an approach focused on 8% of the Group's profit before tax adjusted for derivatives, impairments and foreign exchange gains. These items have been added back because of their nature and/or the expected infrequency of the underlying events are not considered immediately indicative of continuing operations of the Group and which if included, would distort materiality year on year.

Lower materiality levels of between $45 million and $72 million (2014: $12.5 million to $20 million) have been applied for the component audits.

We agreed with the Directors that we would report all audit differences in excess of $1.8 million (2014: $0.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Directors on disclosure matters that we identified when assessing the overall presentation of the consolidated financial statements.

**An overview of the scope of our audit**

In assessing our Group audit scope we continued to build upon our understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on our continuing assessment, we focused our Group audit scope primarily on the audit work at Krasnoyarsk and Yakutia business units which were subject to a full scope audit, and the Magadan and Capital construction business units, where we performed a full audit of capital construction in progress ("CCIP") and mine under development additions.

# Independent auditor's report

## to the members of Polyus Gold International Limited continued

The components subject to a full scope or full audit account for 83% of the Group's gold sales revenue (2014: 81%), 81% of the Group's production (2014: 81%), 87% of the Group's operating profit before impairment charges (2014: 92%), 65% of the Group's fixed assets (2014: 83%) and 94% of the Group's CCIP and mine under development additions (2014: 98%). In addition, other Business Units (Irkutsk Alluvial, Irkutsk Ore and Exploration) were subject to specified audit procedures to address the risks of material misstatement identified above.

At the parent entity level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit or audit of specified account balances.

The Group audit engagement team also continued to perform site visits on a cyclical basis. The Group team visited the Krasnoyarsk, Yakutia and Magadan Business Units during the year.

**Matters on which we are required to report by exception**

**Adequacy of explanations received and accounting records**

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

**Our duty to read other information in the Annual Report**

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited consolidated financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Directors which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

**Other matter**

Although not required to do so, the directors have voluntarily chosen to make a corporate governance statement detailing the extent of their compliance with the UK Corporate Governance Code. We reviewed the part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

**Respective responsibilities of Directors and auditor**
As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and/or those further matters we have expressly agreed to report to them on in our engagement letter and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Scope of the audit of the consolidated financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:
- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the consolidated financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited consolidated financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

S. Hakobyan

**Srbuhi Hakobyan ACCA**
for and on behalf of JSC Deloitte and Touche CIS
Moscow, Russian Federation
10 March 2016

# Consolidated financial statements for the year ended 31 December 2015

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

| | Notes | 2015 | 2014 |
|---|---|---|---|
| Gold sales | 5 | **2,159** | 2,197 |
| Other sales | | **30** | 42 |
| **Total revenue** | | **2,189** | 2,239 |
| Cost of gold sales | 6 | **(876)** | (1,174) |
| Cost of other sales | | **(26)** | (33) |
| **Gross profit** | | **1,287** | 1,032 |
| Selling, general and administrative expenses | 7 | **(166)** | (183) |
| Reversal of impairment | 8 | **22** | 17 |
| Other expenses, net | | **(2)** | (20) |
| **Operating profit** | | **1,141** | 846 |
| Finance costs | 9 | **(48)** | (26) |
| Interest income on bank deposits | | **59** | 31 |
| Gain / (loss) on derivative financial instruments and investments, net | 10 | **12** | (934) |
| Foreign exchange gain, net | | **149** | 123 |
| **Profit before income tax** | | **1,313** | 40 |
| Income tax expense | 11 | **(194)** | (222) |
| **Profit / (loss)** | | **1,119** | (182) |
| Attributable to: | | | |
| Shareholders of the Company | | **1,033** | (164) |
| Non-controlling interests | | **86** | (18) |
| | | **1,119** | (182) |
| | | | |
| Weighted average number of ordinary shares (million) | 18 | **3,032** | 3,032 |
| Earnings / (loss) per share (US Cents), basic | | **34** | (5) |
| Earnings / (loss) per share (US Cents), diluted[42] | | **34** | (5) |

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

# Consolidated statement of comprehensive income

## for the year ended 31 December (in millions of US dollars)

| | Notes | 2015 | 2014 |
|---|---|---|---|
| **Profit / (loss) for the year** | | **1,119** | (182) |
| | | | |
| **Other comprehensive income / (loss) for the year** | | | |
| Items that may be subsequently reclassified to profit or loss: | | | |
| Increase in revaluation of cash flow hedge reserve on revenue stabiliser | 13 | **115** | 132 |
| Increase in revaluation of cash flow hedge reserve on gold forward | 13 | **15** | 36 |
| Deferred tax relating to increase in revaluation of cash flow hedge reserve | | **(32)** | (26) |
| Effect of translation to presentation currency | | **(678)** | (1,751) |
| | | **(580)** | **(1,609)** |
| | | | |
| **Items that have been reclassified through profit or loss:** | | | |
| Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser | 13 | **(91)** | (35) |
| Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward | 13 | **(25)** | (6) |
| Deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss | | **22** | 7 |
| | | **(94)** | **(34)** |
| | | | |
| **Other comprehensive loss for the year** | | **(674)** | **(1,643)** |
| | | | |
| **Total comprehensive income / (loss) for the year** | | **445** | **(1,825)** |
| | | | |
| Total comprehensive income / (loss) for the year attributable to: | | | |
| Shareholders of the Company | | **417** | (1,705) |
| Non-controlling interests | | **28** | (120) |
| | | **445** | **(1,825)** |

# Consolidated statement of financial position

## at 31 December (in millions of US dollars)

| Assets | Notes | 2015 | 2014 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **2,023** | 2,351 |
| Derivative financial instruments and investments | 13 | **212** | 172 |
| Inventories | 14 | **184** | 227 |
| Deferred tax assets | 20 | **46** | 47 |
| Other non-current assets | | **8** | 3 |
| | | **2,473** | **2,800** |
| **Current assets** | | | |
| Inventories | 14 | **296** | 440 |
| Derivative financial instruments and investments | 13 | **20** | - |
| Deferred expenditures | | **13** | 13 |
| Other receivables | | **14** | 11 |
| Advances paid to suppliers and prepaid expenses | | **18** | 16 |
| Taxes receivable | 15 | **63** | 48 |
| Bank deposits | 16 | **-** | 269 |
| Cash and cash equivalents | 17 | **2,039** | 1,217 |
| | | **2,463** | **2,014** |
| **Total assets** | | **4,936** | 4,814 |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 18 | **1** | 1 |
| Additional paid-in capital | 18 | **2,159** | 2,152 |
| Cash flow hedge revaluation reserve | 13 | **112** | 108 |
| Translation reserve | | **(2,665)** | (2,045) |
| Retained earnings | | **2,107** | 1,258 |
| **Equity attributable to shareholders of the Company** | | **1,714** | 1,474 |
| Non-controlling interests | | **163** | 146 |
| | | **1,877** | **1,620** |
| **Non-current liabilities** | | | |
| Site restoration, decommissioning and environmental obligations | | **32** | 49 |
| Borrowings | 19 | **2,147** | 1,723 |
| Derivative financial instruments | 13 | **509** | 423 |
| Deferred tax liabilities | 20 | **133** | 150 |
| Other non-current liabilities | | **21** | 22 |
| | | **2,842** | **2,367** |
| **Current liabilities** | | | |
| Borrowings | 19 | **38** | 90 |
| Derivative financial instruments | 13 | **–** | 547 |
| Trade, other payables and accrued expenses | 21 | **150** | 154 |
| Taxes payable | 22 | **29** | 36 |
| | | **217** | **827** |
| **Total liabilities** | | **3,059** | 3,194 |
| **Total equity and liabilities** | | **4,936** | 4,814 |

# 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 | Equity attributable to shareholders of the Company: Additional paid-in capital |
|---|---|---|---|---|
| **Balance at 31 December 2013** | | 3,032 | 1 | 2,152 |
| Profit for the year | | – | – | – |
| Increase in cash flow hedge revaluation reserve | | | | |
| Effect of translation to presentation currency[43] | | – | – | – |
| **Total comprehensive income** | | – | – | – |
| Dividends declared and paid to shareholders of the Company | 18 | – | – | – |
| Dividends declared and paid to shareholders of non-controlling interests | | – | – | – |
| **Balance at 31 December 2014** | | 3,032 | 1 | 2,152 |
| Profit for the year | | – | – | – |
| Increase in cash flow hedge revaluation reserve | 13 | – | – | – |
| Effect of translation to presentation currency[43] | | – | – | – |
| **Total comprehensive income** | | – | – | – |
| Equity-settled share-based payment plans (Long Term Incentive Plan) | 18 | – | – | 7 |
| Dividends declared and paid to shareholders of the Company | 18 | – | – | – |
| Dividends declared and paid to shareholders of non-controlling interests | 18 | – | – | – |
| **Balance at 31 December 2015** | | **3,032** | **1** | **2,159** |

43. Following a decrease in exchange rate of the Russian rouble against the US dollar a translation loss of $678 million was recognised in other comprehensive income, mainly relates to property, plant and equipment (2014: translation loss of $1,751 million).

| Equity attributable to shareholders of the Company | | | | | |
|---|---|---|---|---|---|
| Cash flow hedge revaluation reserve | Translation reserve | Retained earnings | Total | Non-controlling interests | Total |
| – | (396) | 1,922 | 3,679 | 275 | 3,954 |
| – | – | (164) | (164) | (18) | (182) |
| 108 | | | 108 | | 108 |
| | (1,649) | – | (1,649) | (102) | (1,751) |
| 108 | (1,649) | (164) | (1,705) | (120) | (1,825) |
| – | – | (500) | (500) | – | (500) |
| – | – | – | – | (9) | (9) |
| 108 | (2,045) | 1,258 | 1,474 | 146 | 1,620 |
| **–** | **–** | **1,033** | **1,033** | **86** | **1,119** |
| **4** | **–** | **–** | **4** | **–** | **4** |
| **–** | **(620)** | **–** | **(620)** | **(58)** | **(678)** |
| **4** | **(620)** | **1,033** | **417** | **28** | **445** |
| **–** | **–** | **–** | **7** | **–** | **7** |
| **–** | **–** | **(184)** | **(184)** | **–** | **(184)** |
| **–** | **–** | **–** | **–** | **(11)** | **(11)** |
| **112** | **(2,665)** | **2,107** | **1,714** | **163** | **1,877** |

# Consolidated statement of cash flows

## for the year ended 31 December (in millions of US dollars)

| | Notes | 2015 | 2014 |
|---|---|---|---|
| **Operating activities** | | | |
| **Profit before income tax** | | **1,313** | 40 |
| Adjustments for: | | | |
| Reversal of impairment | 8 | **(22)** | (17) |
| Finance costs | 9 | **48** | 26 |
| Interest income on bank deposits | | **(59)** | (31) |
| (Gain) / loss on derivative financial instruments and investments | 10 | **(12)** | 934 |
| Depreciation and amortisation | 12 | **128** | 182 |
| Foreign exchange gain, net | | **(149)** | (123) |
| Other | | **5** | 10 |
| | | **1,252** | 1,021 |
| Movements in working capital | | | |
| Inventories | | **42** | (121) |
| Deferred expenditures | | **(3)** | (5) |
| Other receivables | | **(7)** | 6 |
| Advances paid to suppliers and prepaid expenses | | **(11)** | (2) |
| Taxes receivable | | **(11)** | 123 |
| Trade, other payables and accrued expenses | | **27** | 53 |
| Other non current liabilities | | **5** | 1 |
| Taxes payable | | **(1)** | (25) |
| **Cash flows from operations** | | **1,293** | 1,051 |
| Income tax paid | | **(217)** | (185) |
| **Net cash generated from operating activities** | | **1,076** | 866 |
| **Investing activities** | | | |
| Purchases of property, plant and equipment | | **(327)** | (570) |
| Interest received | | **62** | 29 |
| Cash placed on bank deposits | | **(74)** | (475) |
| Proceeds from redemption of bank deposits | | **340** | 248 |
| Proceeds from derivatives | | **–** | 43 |
| Payment for currency collars | | **(494)** | (55) |
| Other | | **6** | 6 |
| **Net cash utilised in investing activities** | | **(487)** | (774) |
| **Financing activities** | | | |
| Interest paid[44] | | **(122)** | (77) |
| Net proceeds on exchange of interest payments under interest and cross currency rate swaps | 9 | **52** | 20 |
| Dividends paid to shareholders of the Company | 18 | **(184)** | (500) |
| Dividends paid to non(controlling interests | | **(9)** | (10) |
| Proceeds from borrowings | | **621** | 1,254 |
| Repayment of borrowings | | **(89)** | (294) |
| **Net cash generated from financing activities** | | **269** | 393 |
| **Net increase in cash and cash equivalents** | | **858** | 485 |
| **Cash and cash equivalents at beginning of the year** | 17 | **1,217** | 809 |
| Effect of foreign exchange rate changes on cash and cash equivalents | | **(36)** | (77) |
| **Cash and cash equivalents at end of the year** | 17 | **2,039** | 1,217 |

44. Interest paid for the period was reclassified from the cash flow from operating activities into the cash flows from financing activities, because this provides better presentation of Cash flows from operating activities considering the nature of the Group's business, respectively amounts for comparative period were reclassified.

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars)

### 1. General

Polyus Gold International Limited (the "Company") was incorporated on 26 September 2005 in Jersey and re-registered as a public limited company under the Companies (Jersey) Law 1991 on 18 November 2005. The Company's registered office is located at Queensway House, Hilgrove Street, St Helier, Jersey.

On 19 June 2012, the Company was admitted to the Official List of the UK Listing Authority and commenced trading on the London Stock Exchange's premium listed market. In December 2015, the Company completed its delisting from the London Stock Exchange's premium listed market.

The principal activities of the Company and its controlled entities (the "Group") are the mining (including initial processing) and sale of gold. The mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and the Sakha Republic of the Russian Federation.

The Group also performs research, exploration and development works, the development works being primarily at the Natalka licence area located in the Magadan region of the Russian Federation. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 27.1.

### 2. Basis of preparation and presentation

**Going concern**

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

**Compliance with the International Financial Reporting Standards**

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

**Basis of presentation**

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

The consolidated financial statements of the Group are prepared on the historical cost basis, except for the financial instruments, which are accounted for at amortised cost or at fair value, as explained in the accounting policies below.

During the review of the preparation of the financial statements for the year ended 31 December 2015 the Directors have reconsidered the previous presentation of interest paid in the cash flow statement as an operating cash flow and concluded that it should now more appropriately be included as a financing cash flow as this provides a better reflection of the current financing position of the Group. This change is presentational only and the change has no impact on any of the primary statements other than the statement of cash flows, nor does it have any impact on the overall net increase in cash and cash equivalents as disclosed previously.

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

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

**IFRS standards update**

The following amendments to the IFRS standards endorsed by the EU became effective for the year ended 31 December 2015:

| Title | Subject | Effective for annual periods beginning on or after | Effect on the consolidated financial statements |
|---|---|---|---|
| IAS 19 | Amendments to the standard | 1 February 2015 | No effect |
| Annual Improvements to IFRSs 2010–2012 Cycle (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38, IAS 24) | Amendments to the standards | 1 February 2015 | No effect |
| Annual Improvements to IFRSs 2011–2013 Cycle (IFRS 3, IFRS 13, IAS 40) | Amendments to the standards | 1 January 2015 | No effect |

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

| Title | Subject | IASB effective for annual periods beginning on or after | Effect on the consolidated financial statements in future periods |
|---|---|---|---|
| IFRS 9 | Financial instruments | 1 January 2018 | To be determined |
| IFRS 14 | Regulatory deferral accounts | 1 January 2016 | To be determined |
| IFRS 15 | Revenue from contracts with customers | 1 January 2018 | To be determined |
| IFRS 16 | Leases | 1 January 2019 | To be determined |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment entities: applying the consolidation exception | 1 January 2016 | To be determined |
| Amendments to IAS 1 | Disclosure initiative | 1 January 2016 | To be determined |
| Annual Improvements to IFRSs 2012–2014 Cycle | Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34 | 1 January 2016 | To be determined |
| Amendments to IAS 27 | Equity method in separate financial statements | 1 January 2016 | To be determined |
| Amendments to IAS 16 and IAS 41 | Agriculture: bearer plants | 1 January 2016 | To be determined |
| Amendments to IAS 16 and IAS 38 | Clarification of acceptable methods of depreciation and amortisation | 1 January 2016 | To be determined |
| Amendments to IFRS 11 | Accounting for acquisition of interests in joint operations | 1 January 2016 | To be determined |
| Amendments to IFRS 10 and IAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | 1 January 2016 | To be determined |

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

## 3. Significant accounting policies

### 3.1 Basis of consolidation

**Subsidiaries**

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

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

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

When the Company has less than a majority of the voting rights of an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it the power, including:

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

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

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

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

When the Group loses control of a subsidiary, the profit and loss on disposal is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

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

**Functional currency**

The individual financial statements of the Group's subsidiaries are each prepared in their respective functional currencies. The functional currency of the Company is the US dollar. The Russian rouble ("RUB") is the functional currency of all the subsidiaries of the Group.

### 3.2 Presentation currency

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

- all assets, liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting date;
- starting from 1 January 2015 all income and expenses are translated at the average quarterly exchange rates, except for significant transactions that are translated at rates on the date of such transactions;
- resulting exchange differences are included in equity and presented as Effect of translation to presentation currency within the Translation reserve (on disposal of such entities this Translation reserve is reclassified into the consolidated statement of profit or loss); and
- in the statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. Starting from 1 January 2015 all cash flows are translated at the average quarterly exchange rates, except for significant transactions that are translated at rates on the date of the transaction.

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

| | 2015 | 2014 |
|---|---|---|
| **Russian rouble/US dollar** | | |
| Year end rate | **72.88** | 56.26 |
| **Average for the year** | **60.96** | 38.42 |

### 3.3 Foreign currencies

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

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

### 3.4 Revenue recognition

#### Gold sales revenue

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

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

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

#### Other revenue

Other revenue comprises mainly sales of electricity, transportation, handling and warehousing services, and other. Revenue from the sale of electricity is recognised when it is supplied to the buyer. Revenue from service contracts is recognised when the services are rendered.

### 3.5 Income tax

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

#### Current tax

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

#### Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements of the separate legal entities and the corresponding tax bases used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

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

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

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

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

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

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

### 3.8 Property, plant and equipment
**Mineral rights**
Mineral rights are recorded as assets upon acquisition at fair value and are included within Fixed assets, Mines under development or Exploration and evaluation assets.

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

Fixed assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of the mines in accordance with the mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Amortisation is charged from the date a new mine reaches commercial production quantities and is included in the Cost of production. The estimated remaining useful lives of the Group's significant mines based on the mine operating plans are as follows:

| | |
|---|---|
| Blagodatnoye | 16 years |
| Olimpiada | 13 years |
| Verninskoye | 12 years |
| Kuranakh | 8 years |
| Titimukhta | 2 years |

**Stripping activity asset**

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

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

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

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of the ore body, plus an allocation of directly attributable overhead costs. The costs associated with incidental operations are not included in the costs of the stripping activity asset. The Group uses an allocation basis that compares the expected average life of the mine stripping ratio with the actual stripping ratio in the period for the identified component of the ore body to determine if further stripping costs are to be allocated to stripping activity asset or the cost of inventory.

After initial recognition the stripping activity asset is carried at cost less depreciation and any impairment losses. Those capitalised costs are depreciated or amortised on a systematic basis, by using the units of production method, once production begins.

**3.9 Capital construction-in-progress**

Assets under construction at operating mines are accounted for as capital construction-in-progress, and are carried at cost, less any recognised impairment loss. The cost of capital construction-in-progress comprises its purchase price and any directly attributable costs to bringing it into working condition for its intended use and finance costs capitalised in accordance with the Group's accounting policy.

Capital construction-in-progress is not depreciated.

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

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars)
continued

**3.10 Mine under development**

Comprises amounts related to new mine development and includes the costs directly related to mine development projects such as acquiring and developing mining properties, pre-production expenditure, construction of processing plant and mine infrastructure, depreciation of equipment used in the development, mineral rights and mining and exploration licences and the present value of future mine closure, rehabilitation and decommissioning costs and finance costs capitalised in accordance with the Group's accounting policy.

**3.11 Finance costs directly attributable to the construction of qualifying assets**

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

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

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

**3.12 Impairment of long-lived tangible assets (Fixed assets, Capital construction-in-progress and Mine under development)**

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

The recoverable amount is the higher of fair value less costs to sell or value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

The impairment loss is recognised in the consolidated statement of profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

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

**3.13 Exploration and evaluation assets**

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

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

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

**Impairment of exploration and evaluation assets**
Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, but at least at the end of each reporting period, The following facts and circumstances, among others, indicate that exploration and evaluation assets must be tested for impairment:

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

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

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

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

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

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

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

- financial assets at FVTPL; and
- loans and receivables.

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

# Notes to the consolidated financial statements
## for the year ended 31 December 2015 (in millions of US dollars) continued

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any dividend or interest earned on the financial asset and is included in the Gain / (loss) on derivative financial instruments and investments, net line item in the consolidated statement of profit or loss.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:
- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### Derecognition of financial assets

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

### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense, respectively, over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments, as applicable, through the expected life of the financial asset or liability, or, where appropriate, a shorter period. Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

### Financial liabilities

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

### Financial liabilities at FVTPL

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

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

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

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

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

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 valueat each consolidated statement of financial position date. The resulting gain or loss is recognised in the consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship.

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

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

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

**3.15 Cash flow hedges**
The Group uses derivative financial instruments for hedge accounting as determined in accordance with IAS 39.

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

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

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

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

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

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

### 3.16 Inventories

#### Refined gold, ore stockpiles and gold-in-process

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

#### Stores and materials

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

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

### 3.17 Deferred expenditures

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

### 3.18 Cash and cash equivalents

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

### 3.19 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

**3.20 Site restoration, decommissioning and environmental obligations**

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

Ongoing restoration costs are expensed when incurred.

**3.21 Share-based payment transactions of the Company**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 18.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

## 4. Critical accounting judgements and key sources of estimation uncertainty

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

**Critical judgements in applying accounting policies**

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

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

**Economic useful lives of property, plant and equipment**

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

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

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

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

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

**Depreciation method for property, plant and equipment**

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

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

**Borrowing costs capitalisation**

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

# Notes to the consolidated financial statements
## for the year ended 31 December 2015 (in millions of US dollars) continued

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

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

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

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

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

**Key sources of estimation uncertainty**
The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:
- recoverability of the exploration and evaluation assets;
- impairment of the tangible assets;
- determination and valuation of the stripping activity asset;
- carrying value of stockpiles, gold in process and product inventories;
- estimation of the site restoration, decommissioning and environmental obligations; and
- interpretation of the tax legislation in accounting for income taxes.

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

**Impairment of tangible assets**
The Group reviews the carrying amounts of its tangible assets including mine under development to determine whether there is any indication that those assets are impaired. In making the assessment for impairment indicators, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units and also in estimating the timing and value of underlying cash flows within the value-in-use calculation. The value-in-use calculations for operating mines are based on the plans which include reserves calculated under the Russian

Resource Reporting Code. In respect of other assets considered for impairment (for example, mines under development) the Group uses the best available reserve estimates at the time of the analysis such as JORC.

Factors which could impact the underlying cash flows include:
• commodity prices and exchange rates;
• timelines of granting of licences and permits;
• capital and operating expenditure; and
• available reserves and resources and future production profile.

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

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

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

As a first approximation only the Russian Resource Reporting Code reserves are reconciled with JORC resources. The effect on the current year financial statements of seeking to apply a unit of production depreciation methodology based on Russian Resource Reporting Code instead of JORC is also considered to be immaterial.

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

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

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

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

# Notes to the consolidated financial statements

for the year ended 31 December 2015 (in millions of US dollars)
continued

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

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

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

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

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

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

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

## 5.Segment information

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

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

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

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

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

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

| | Gold sales | Ounces of gold sold in thousands | Adjusted EBITDA | Total cash cost per ounce of gold sold ($/oz) | Capital expenditures |
|---|---|---|---|---|---|
| **For the year ended 31 December 2015** | | | | | |
| **Business Units** | | | | | |
| Krasnoyarsk | **1,611** | **1,293** | **1,007** | **399** | **58** |
| Irkutsk alluvial | **191** | **168** | **76** | **582** | **5** |
| Irkutsk ore | **189** | **161** | **115** | **417** | **21** |
| Yakutia Kuranakh | **165** | **144** | **70** | **598** | **10** |
| Exploration | **3** | **2** | **3** | **694** | **7** |
| Magadan | **–** | **–** | **–** | **–** | **111** |
| Capital construction | **–** | **–** | **1** | **–** | **53** |
| Unallocated | **–** | **–** | **(4)** | **–** | **3** |
| **Total** | **2,159** | **1,768** | **1,268** | **424** | **268** |
| **For the year ended 31 December 2014** | | | | | |
| **Business Units** | | | | | |
| Krasnoyarsk | 1,602 | 1,219 | 822 | 541 | 84 |
| Irkutsk alluvial | 234 | 190 | 70 | 735 | 17 |
| Irkutsk ore | 186 | 146 | 89 | 594 | 38 |
| Yakutia Kuranakh | 175 | 136 | 50 | 868 | 6 |
| Exploration | – | – | (5) | – | 6 |
| Magadan | – | – | (5) | – | 308 |
| Capital construction | – | – | (3) | – | 54 |
| Unallocated | – | – | (7) | – | 12 |
| **Total** | **2,197** | **1,691** | **1,011** | **585** | **525** |

Gold sales reported above represent revenue generated from external customers (note 25). There were no inter-segment gold sales during the years ended 31 December 2015 and 2014. Included within gold sales in 2015 are realised gains on derivatives of $116 million (note 13) (2014: $41 million).

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

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| **Profit / (loss)** | **1,119** | (182) |
| Income tax expense | **194** | 222 |
| Depreciation and amortisation (note 12) | **128** | 182 |
| Finance costs (note 9) | **48** | 26 |
| Delisting expenses | **15** | – |
| Long Term Incentive Plan (note 18) | **7** | – |
| Foreign exchange gain, net | **(149)** | (123) |
| Interest income on bank deposits | **(59)** | (31) |
| Reversal of impairment | **(22)** | (17) |
| Gain / (loss) on derivative financial instruments and investments, net (note 10) | **(12)** | 934 |
| Other | **(1)** | – |
| **Adjusted EBITDA** | **1,268** | 1,011 |

The measurement of TCC $/oz of gold sold reconciles to the IFRS reported figures on a consolidated basis as follows:

| | | |
|---|---|---|
| **Cost of gold sales** | **876** | 1,174 |
| Adjusted for: | | |
| Depreciation and amortisation (note 12) | **(126)** | (174) |
| Other non-cash items in cost of gold sales | **(1)** | (11) |
| **TCC** | **749** | 989 |
| Ounces of gold sold, in thousands | **1,768** | 1,691 |
| **TCC per ounce of gold sold ($/oz)** | **424** | 585 |

**Capital expenditures primarily related to the following projects:**

- at the Magadan Business Unit: works inside the production units and buildings and spending on the pilot plant, the construction of the main crushed ore conveyor was completed, construction of the tailings thickener, the ore crushing and conveyor complex, a 110 kV power line, the main stepdown substation, as well as circulating pump and slurry pump stations.
- at the Krasnoyarsk Business Unit: launching works to reconfigure the Titimukhta mill and preparations for connecting to the new Razdolinskaya-Taiga grid, upgrading and expanding the Blagodatnoye mill.
- at the Yakutia Kuranakh Business Unit: projects to increase equipment productivity and preparation works related to heap leach installation.
- at the Construction Business Unit: the construction of the Razdolinskaya-Taiga electricity grid.

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

# Notes to the consolidated financial statements

for the year ended 31 December 2015 (in millions of US dollars) continued

### 6. Cost of gold sales

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Labour | **239** | 320 |
| Consumables and spares | **205** | 281 |
| Tax on mining | **140** | 154 |
| Fuel | **74** | 131 |
| Power | **35** | 44 |
| Outsourced mining services | **12** | 19 |
| Refining costs | **3** | 4 |
| Other | **57** | 67 |
| **Total cash operating costs** | **765** | 1,020 |
| Depreciation and amortisation of operating assets (note 12) | **126** | 174 |
| **Total cost of production** | **891** | 1,194 |
| Increase in stockpiles, gold-in-process and refined gold inventories | **(15)** | (20) |
| **Total** | **876** | 1,174 |

### 7. Selling, general and administrative expenses

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Salaries | **103** | 124 |
| Professional services | **31** | 16 |
| Taxes other than mining and income taxes | **12** | 22 |
| Depreciation and amortisation (note 12) | **3** | 4 |
| Other | **17** | 17 |
| **Total** | **166** | 183 |

## 8. Reversal of impairment

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Mine under development (note 12) | **19** | (37) |
| Exploration and evaluation assets (note 12) | **5** | (1) |
| Fixed assets (note 12) | **–** | 29 |
| Stripping activity asset (note 12) | **–** | 13 |
| Capital construction-in-progress (note 12) | **–** | (6) |
| **Long-term stockpiles** | **(2)** | 19 |
| **Total reversal of impairment** | **22** | 17 |

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

Impairment test was performed as of 31 December 2015.

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

The operational considerations reflect the most likely and optimal updated mining plan developed using the revised JORC reserves estimate and with the advice of the mining consultants.

The financial assumptions include significant judgements associated with forecast gold prices determined at a volatile time for our markets.

The key long-term assumptions that were used in the impairment testing were a weighted average long-term gold price of $1,270/oz, exchange rate of RUB 74.5 for USD 1 and a post-tax discount rate of approximately 10%. The assumptions are provided in real terms. The impairment test is particularly sensitive to the assumption for the RUB to USD exchange rate, gold price and discount rate. An impairment would be required:

- if the rouble strengthened to below RUB 59.6 for USD 1; or
- if the gold price decreased below $1,076/oz; or
- if the discount rate increased above 15.3%.

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

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

### 9. Finance costs

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Interest on borrowings | **134** | 100 |
| Unwinding of discounts on site restoration, decommissioning and environmental liabilities | **4** | 4 |
| Gain on exchange of interest payments under cross currency swap (note 13) | **(39)** | (16) |
| Gain on exchange of interest payments under interest rate swaps (note 13) | **(13)** | (4) |
| Other | **2** | 2 |
| **Sub-total finance cost** | **88** | 86 |
| Interest capitalised in the cost of Mine under development | **(40)** | (60) |
| **Total finance cost expensed** | **48** | 26 |

Interest on borrowings includes $4 million of consent fees paid to the bondholders of the Notes due in 2020 (Eurobonds) (note 19) to provide the flexibility for a potential Group restructuring involving a change in the issuer of the Eurobonds and/or a change in the parent company of the Group, and to amend certain related covenants.

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

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Gain / (loss) on currency collars (note 13) | **53** | (594) |
| Revaluation loss on cross currency swaps (note 13) | **(106)** | (403) |
| Revaluation gain on ineffective part of the revenue stabiliser under Tranches 1 and 2 (note 13) | **19** | 15 |
| Revaluation gain on ineffective part of the revenue stabiliser under Tranche 3 (note 13) | **45** | – |
| Revaluation gain on interest rate swap (note 13) | **2** | 9 |
| Other | **(1)** | 5 |
| Gain on initial exchange of cross currency swaps (note 13) | **–** | 34 |
| **Total** | **12** | (934) |

## 11. Income tax expense

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Current tax expense | **198** | 220 |
| Deferred tax (benefit) / expense | **(4)** | 2 |
| **Total** | **194** | 222 |

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

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

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Profit before income tax | **1,313** | 40 |
| Income tax at statutory rate applicable to principal entities (20%) | **263** | 8 |
| Unrecognized deferred tax assets and write-off / (reversal) of losses carried forward resulted from impairments | **(6)** | 19 |
| Allowance for deferred tax assets on derivative financial instruments and deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss | **(37)** | 185 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(9)** | – |
| Income tax effect of impairment reversals | **(4)** | (6) |
| Tax effect of non-deductible expenses and other permanent differences | **-** | 23 |
| Other | **(13)** | (7) |
| **Income tax expense** | **194** | 222 |

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

### 12. Property, plant and equipment

| | Fixed assets | Mine under development | Stripping activity assets | Capital construction in progress | Exploration and Evaluation Assets | **Total** |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance at 31 December 2013** | **2,466** | **1,584** | **221** | **299** | **510** | **5,080** |
| Additions | – | 308 | 109 | 205 | 12 | **634** |
| Transfers from capital construction-in-progress | 163 | – | – | (163) | – | **–** |
| Change in site restoration, decommissioning and environmental obligations | 8 | 1 | – | – | – | **9** |
| Disposals | (19) | – | – | – | – | **(19)** |
| Effect of translation to presentation currency | (1,080) | (759) | (127) | (142) | (215) | **(2,323)** |
| **Balance at 31 December 2014** | **1,538** | **1,134** | **203** | **199** | **307** | **3,381** |
| Additions | - | 111 | 104 | 146 | 11 | **372** |
| Transfers from capital construction-in-progress | 134 | – | – | (134) | – | **–** |
| Change in site restoration, decommissioning and environmental obligations | (6) | – | – | – | – | **(6)** |
| Disposals | (38) | (3) | – | (1) | – | **(42)** |
| Reclassifications | 15 | – | – | (3) | 3 | **15** |
| Effect of translation to presentation currency | (360) | (274) | (64) | (54) | (72) | **(824)** |
| **Balance at 31 December 2015** | 1,283 | 968 | 243 | 153 | 249 | **2,896** |
| **Accumulated amortisation, depreciation and impairment** | | | | | | |
| **Balance at 31 December 2013** | **(1,113)** | **(11)** | **(68)** | **(21)** | **(336)** | **(1,549)** |
| Charge | (214) | – | (16) | – | – | **(230)** |
| Disposals | 17 | – | – | – | – | **17** |
| Reversal of impairment / (impairment losses) (notes 8) | 29 | (37) | 13 | (6) | (1) | **(2)** |
| Effect of translation to presentation currency | 528 | 16 | 33 | 17 | 140 | **734** |
| **Balance at 31 December 2014** | **(753)** | **(32)** | **(38)** | **(10)** | **(197)** | **(1,030)** |
| Charge | (134) | – | (21) | – | – | **(155)** |
| Disposals | 36 | – | – | – | – | **36** |
| Reversal of impairment (notes 8) | – | 19 | – | – | 5 | **24** |
| Effect of translation to presentation currency | 188 | 4 | 14 | 3 | 43 | **252** |
| **Balance at 31 December 2015** | **(663)** | **(9)** | **(45)** | **(7)** | **(149)** | **(873)** |
| **Net book value at** | | | | | | |
| **31 December 2014** | **785** | **1,102** | **165** | **189** | **110** | **2,351** |
| **31 December 2015** | **620** | **959** | **198** | **146** | **100** | **2,023** |

### Fixed assets

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

| | 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Mineral rights | 46 | 45 |

### Exploration and evaluation assets

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

| | 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Chertovo Koryto | 23 | 30 |
| Razdolinskoye | 16 | 18 |
| Olympiada | 14 | 16 |
| Panimba | 13 | 15 |
| Bamsky | 11 | 12 |
| Smezhny | 7 | 8 |
| Blagodatnoye | 6 | 6 |
| Burgakhchan area | 5 | – |
| Medvezhy Zapadny | 2 | 4 |
| Other | 3 | 1 |
| **Total** | **100** | **110** |

Depreciation and amortisation charge is allocated as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Cost of gold sales | 122 | 174 |
| Depreciation in change in inventory | 4 | – |
| **Sub-total: Cost of production (note 6)** | **126** | **174** |
| Selling, general and administrative expenses (note 7) | 3 | 4 |
| Cost of other sales | 3 | 4 |
| Capitalised within capital construction-in-progress | 23 | 48 |
| **Total** | **155** | **230** |

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

**Mine under development**
Mine under development includes only the Natalka mine (Magadan Business Unit).

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

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Interest expenses | 40 | 60 |
| Foreign exchange losses | 1 | 33 |
| Interest income on bank deposits | (5) | (7) |
| **Total** | **36** | **86** |

Following temporary cessation of the active construction at Natalka during the year ended 31 December 2014 borrowing costs capitalization has been suspended until 30 June 2015.

Natalka mine construction has been restarted in the second half of the 2015 year, and, respectively, the Group commenced the capitalisation of the related borrowing costs starting from 1 July 2015.

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

| | 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Mineral rights | 28 | 37 |

## 13. Derivative financial instruments and investments

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Non-current assets** | | |
| Revenue stabiliser | 200 | 132 |
| Interest rate swaps | 11 | 9 |
| Loans receivable | 1 | 1 |
| Gold forward | – | 30 |
| **Sub-total** | **212** | **172** |
| **Current assets** | | |
| Gold forward | 20 | – |
| **Total assets** | **232** | **172** |
| **Non-current liabilities** | | |
| Cross currency swaps | 509 | 403 |
| Revenue stabiliser | – | 20 |
| **Sub-total** | **509** | **423** |
| **Current liabilities** | | |
| Currency collars | – | 547 |
| **Total liabilities** | **509** | **970** |

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

Under the Programme, the Group has entered into a series of price protection arrangements comprised of two components:
- zero cost Asian gold collars ("revenue stabiliser") and
- gold forward contracts.

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

During the year ended 31 December 2015, the Group successfully completed the restructuring of Tranches 1 and 2 of the revenue stabiliser programme and started to sign agreements under Tranche 3.

Restructuring of Tranches 1 and 2 resulted in the close out of a part of the fourth year options and lowering barriers on the remaining options for the first three years.

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

The allocation of volumes, strikes and barriers between years under the revenue stabiliser agreements after restructuring is presented below:

| | Years ended 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2014 | **2015** | 2016 | 2017 | | 2018 | | 2019 | **Total** |
| **Revenue stabiliser volumes under put and call option agreements (thousand ounces)** | | | | | | | | | |
| **Tranche 1 (covering the period 1 April 2014 - 30 March 2018)** | | | | | | | | | |
| Total as per options agreements | 225 | 300 | 300 | 75 | 315 | – | 105 | – | **1,320** |
| Exercised | (225) | (300) | – | – | – | – | – | – | **(525)** |
| **Outstanding as of 31 December 2015** | **–** | **–** | **300** | **75** | **315** | **–** | **105** | **–** | **795** |
| **Tranche 2 (covering the period 1 July 2014 – 29 June 2018)** | | | | | | | | | |
| Total as per options agreements | 60 | 120 | 120 | 60 | 180 | – | 180 | – | **720** |
| Exercised | (60) | (120) | – | – | – | – | – | – | **(180)** |
| **Outstanding as of 31 December 2015** | **–** | **–** | **120** | **60** | **180** | **–** | **180** | **–** | **540** |
| **Tranche 3 (covering the period 1 January 2016 – 31 December 2019)** | | | | | | | | | |
| Total as per options agreements | – | – | 280 | 280 | – | 280 | – | 840 | **1,680** |
| Exercised | – | – | – | – | – | – | – | – | **–** |
| **Outstanding as of 31 December 2015** | **–** | **–** | **280** | **280** | **–** | **280** | **–** | **840** | **1,680** |
| **Total outstanding as of 31 December 2015** | **–** | **–** | **700** | **415** | **495** | **280** | **285** | **840** | **3,015** |

| | | | Years ended 31 December | | | |
|---|---|---|---|---|---|---|
| | 2014 | **2015** | 2016 | 2017 | | 2018 |
| **Tranche 1 (covering the period 1 April 2014 - 30 March 2018)** | | | | | | |
| **First three years (put)** | | | | | | |
| Strike | 1,383 | 1,383 | 1,383 | 1,383 | – | – |
| Knock-out barrier | 950 | 950 | 921 | 911 | – | – |
| **First three years (call)** | | | | | | |
| Strike | 1,518 | 1,518 | 1,518 | 1,518 | – | – |
| Knock-in barrier | 1,662 | 1,655 | 1,634 | 1,634 | – | – |
| **Fourth year (put)** | | | | | | |
| Strike | – | – | – | – | 1,107 | 1,107 |
| Knock-out barrier | – | – | – | – | 900 | 900 |
| **Fourth year (call)** | | | | | | |
| Strike | – | – | – | – | 1,551 | 1,551 |
| Knock-in barrier | – | – | – | – | 1,750 | 1,750 |
| **Tranche 2 (covering the period 1 July 2014 – 29 June 2018)** | | | | | | |
| **First three years (put)** | | | | | | |
| Strike | 1,359 | 1,359 | 1,359 | 1,359 | – | – |
| Knock-out barrier | 950 | 950 | 950 | 950 | – | – |
| **First three years (call)** | | | | | | |
| Strike | 1,425 | 1,425 | 1,425 | 1,425 | – | – |
| Knock-in barrier | 1,525 | 1,525 | 1,525 | 1,525 | – | – |
| **Fourth year (put)** | | | | | | |
| Strike | – | – | – | – | 1,100 | 1,100 |
| Knock-out barrier | – | – | – | – | 900 | 900 |
| **Fourth year (call)** | | | | | | |
| Strike | – | – | – | – | 1,500 | 1,500 |
| Knock-in barrier | – | – | – | – | 1,650 | 1,650 |

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

| | Years ended 31 December | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | **2015** | 2016 | 2017 | | 2018 | | 2019 |
| **Tranche 3 (covering the period 1 January 2016 – 31 December 2019)** | | | | | | | | |
| **First three years (put)** | | | | | | | | |
| Strike | – | – | 1,232 | 1,232 | – | 1,232 | – | 971 |
| Knock-out barrier | – | – | 900 | 900 | – | 900 | – | 921 |
| **First three years (call)** | | | | | | | | |
| Strike | – | – | 1,350 | 1,350 | – | 1,350 | – | 1,391 |
| Knock-in barrier | – | – | 1,450 | 1,450 | – | 1,450 | – | 1,591 |
| **Fourth year (put)** | | | | | | | | |
| Strike | – | – | – | – | – | – | – | 971 |
| Knock-out barrier | – | – | – | – | – | – | – | 921 |
| **Fourth year (call)** | | | | | | | | |
| Strike | – | – | – | – | – | – | – | 1,391 |
| Knock-in barrier | – | – | – | – | – | – | – | 1,591 |
| **Weighted average strikes for Tranches 1, 2 and 3** | | | | | | | | |
| **Leg 1 (put)** | | | | | | | | |
| Strike | 1,378 | 1,377 | 1,319 | 1,278 | – | – | – | – |
| Knock-out barrier | 950 | 950 | 918 | 909 | – | – | – | – |
| **Leg 2 (call)** | | | | | | | | |
| Strike | 1,498 | 1,491 | 1,435 | 1,391 | – | – | – | – |
| Knock-in barrier | 1,633 | 1,618 | 1,542 | 1,494 | – | – | | – |
| **Leg 3 (put)** | | | | | | | – | |
| Strike | – | – | – | – | 1,105 | 1,232 | 1,103 | 971 |
| Knock-out barrier | – | – | – | – | 900 | 900 | 900 | 921 |
| **Leg 4 (call)** | | | | | | | | |
| Strike | – | – | – | – | 1,533 | 1,350 | 1,519 | 1,391 |
| Knock-in barrier | – | – | – | – | 1,714 | 1,450 | 1,687 | 1,591 |

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

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

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

The revenue stabiliser options are exercised quarterly in equal amounts.

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

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

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

Tranche 3 is accounted at fair value through profit and loss. Gain resulted from the change in its fair value totalled $45 million and is presented within the note 10 of 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 $1,321/oz.

| The gold forwards (thousand ounces) are exercised in the following years: | Years ended 31 December | | |
|---|---|---|---|
| | 2014 | **2015** | 2016 |
| Forward agreements | 77.5 | 155.0 | 77.5 |
| Exercised | (77.5) | (155.0) | – |
| **Outstanding as of 31 December 2015** | **–** | **–** | **77.5** |

The gold forward contract is designated as a cash flow hedge. Any change in the forward fair value is recognised in Cash flow hedge revaluation reserve within consolidated statement of changes in equity. During the year ended 31

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

December 2015, $15 million was recognised in the Cash flow hedge revaluation reserve within consolidated statement of changes in equity (the year ended 31 December 2014: $36 million) and following the sale of the hedged amount of gold $25 million was reclassified from the Cash flow hedge revaluation reserve within consolidated statement of changes in equity into Gold sales within the consolidated statement of profit or loss (the year ended 31 December 2014: $6 million). The remaining balance is expected to be evenly reclassified monthly to the consolidated statement of profit or loss through to 30 June 2016.

The fair value is determined using the Black-Scholes valuation technique. Input data used in the valuation model (forward gold prices and volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13. The Group performs prospective and retrospective effectiveness testing for the instruments designated as a cash flow hedge at least at each reporting date.

**Currency collars**

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

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

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

The Group classified these contracts as financial instruments at FVTPL. The fair value was determined using the Black-Scholes valuation technique using the inputs (forward currency exchange rates and volatility) which were observable in the market and correspondently classified as Level 2 in accordance with the hierarchy of fair value.

**Cross currency swaps**

**RUB denominated credit facilities with fixed interest rate**

The revenue of the Group is linked to US dollars, because the gold price is denominated in US dollars. The Group entered into cross currency swaps with leading Russian banks to economically hedge interest payments and principal amounts exchange nominated in RUB.

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

**Rusbonds**

The Group entered into cross currency swaps with leading Russian banks for a total amount of RUB 10 billion to economically hedge interest payments and principal amounts exchange for Rusbonds. According to the cross currency swap agreements the Group will semi-annually pay to the banks 6MLIBOR + Margin 4.45% in USD and receive from the banks 12.1% in RUB; and at maturity (16 July 2021) the Group will exchange principal amounts paying $173 million and receiving RUB 10 billion.

According to IAS 39 the swaps were not eligible to be designated as cash flow or fair value hedges. The Group accounted for these derivative financial instruments at fair value which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps for the year ended 31 December 2015 resulted in a revaluation loss of $106 million recognised in the Consolidated statement of profit or loss (note 10) (the year ended 31 December 2014: loss $403 million). The gain on the exchange of interest payments in amount of $39 million is recognised within the Finance cost (note 9) (the year ended 31 December 2014: $16 million).

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

**Interest rate swaps**
During the year ended 31 December 2014, the Group entered into an interest rate swap agreements with leading Russian banks, according to which the Group pays semi-annually and until 29 April 2020 LIBOR+3.55% in USD and receives 5.625% in USD in respect of a $750 million nominal amount. The purpose of this swap is to decrease the effective interest rate for the $750 million Eurobonds (note 19). According to IAS 39 the swaps were not eligible to be designated as either a cash flow or fair value hedge. The Group accounts for it at fair value which was determined using a discounted cash flow valuation technique.

During the year ended 31 December 2015, gain on changes in the fair value of the interest rate swaps in the amount of $2 million is recognised in the Consolidated statement of profit or loss (note 10) (the year ended 31 December 2014: gain $9 million). The gain on the exchange of interest payments in amount of $13 million is recognised within the Finance cost (note 9) (the year ended 31 December 2014: $4 million).

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

## 14. Inventories

| | 31 December | |
|---|---|---|
| | **2015** | 2014 |
| **Inventories expected to be recovered after 12 months** | | |
| Stockpiles | 174 | 224 |
| Gold-in-process | 10 | 3 |
| **Sub-total** | **184** | **227** |
| **Inventories expected to be recovered in the next 12 months** | | |
| Stockpiles | 44 | 79 |
| Gold-in-process | 59 | 63 |
| Refined gold | 13 | 17 |
| Stores and materials | 188 | 292 |
| Less: Net realisable value provision for stores and materials | (8) | (11) |
| **Sub-total** | **296** | **440** |
| **Total** | **480** | **667** |

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars)

continued

### 15. Taxes receivable

| | 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Reimbursable value added tax | 43 | 45 |
| Income tax prepaid | 15 | 1 |
| Other prepaid taxes | 5 | 2 |
| **Total** | **63** | **48** |

### 16. Bank deposits

During the year ended 31 December 2015, the Group modified certain bank deposit agreements, so that as of 31 December 2015 all of the deposits were available on demand and respectively were presented under the cash and cash equivalents caption (note 17).

As of 31 December 2014, all Group's deposits were denominated in USD and had rates varying from 1.4% to 3.6% per annum.

### 17. Cash and cash equivalents

| | 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Bank deposits | | |
| - USD | 1,630 | 1,093 |
| - RUB | 71 | 50 |
| Current bank accounts | | |
| - USD | 273 | 42 |
| - RUB | 33 | 12 |
| Other cash and cash equivalents | 32 | 20 |
| **Total** | **2,039** | **1,217** |

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

| | | |
|---|---|---|
| Interest rates on bank deposits denominated in: | | |
| - USD | 1.0-6.0% | 0.6-6.0% |
| - RUB | 8.0-11.1% | 8.9-25.0% |

## 18. Share capital

The authorised share capital of the Company comprises 3,600 million ordinary shares with a par value of £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 $482,000 and additional paid-in-capital of $2,159 million (31 December 2014: $2,152 million).

**Dividends to shareholders of the Company**

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Dividend declared and paid during the year: | | |
| USD million | 184 | 500 |
| US cents per share | 6 | 16 |

Dividends in the total amount of $184 million (US 6 cents per share) were declared and paid off during the year ended 31 December 2015.

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

During the year ended 31 December 2015, the Company approved a Long Term Incentive Plan (LTIP) according to which the members of top management of the Group are entitled to a conditional award in the form of the Company's ordinary shares linked to the achievement of a combination of financial and non-financial performance conditions.

The LTIP stipulates three 3-year rolling performance periods (i.e. 2015-2017, 2016-2018 and 2017-2019). The total number of shares that may be distributed under the LTIP is up to 1% of the total share capital of the Company which can be granted from newly issued ordinary shares or from treasury shares, if any. At the end of each performance period the shares shall be transferred to the members of top management depending on whether the performance conditions have been achieved.

Fair value of a share was identified at the grant date of 19 May 2015 as the closing price per London Stock Exchange. Total expense for the reporting period arising from LTIP was immediately recognized in the consolidated statement of profit and loss within the line Salaries included within Selling, general and administrative expenses in the amount of $7 million.

Weighted average number of ordinary shares for the year ended 31 December 2015 including dilutive effect of potentially issuable shares is presented below:

| | Number of shares, million |
|---|---|
| Ordinary shares in issue at the beginning of the year ended 31 December 2015 | 3,032 |
| Dilutive effect of LTIP (9 million shares starting from 19 May 2015) | 5 |
| **Weighted average number of ordinary shares for the year ended 31 December 2015** | **3,037** |

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

### 19. Borrowings

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

The Company and subsidiaries of the Group from time to time obtain credit facilities from different financial institutions, raise financing from the noteholders to fund its general corporate purposes and to finance its capital investment projects.

**Unused credit facilities**
In 2014, one of the companies of the Group, entered into a five year RUB 40,000 million credit line with a bank to fund its general corporate purposes. As of 31 December 2015 and 31 December 2014, the amount of unused credit facilities was RUB 40,000 million equivalent to $549 million and $711 million, respectively.
In 2015, one of the companies of the Group, entered into an eleven year RUB 6,054 million credit line with a bank to fund deployment of Razdolinskaya-Taiga power grid construction. As of 31 December 2015, the credit facilities in the amount of $65 million (RUB 4,707 million) were unused.

**Other matters**
JSC "Gold Mining Company Polyus" guaranteed liabilities of all the companies in the Group for all borrowings.

There were a number of financial covenants under several loan agreements in effect as of 31 December 2015 according to which the respective subsidiaries of the Company and the Company itself are limited:
- in the distribution of their assets. The Group is not allowed to divest more than 10% of its assets in any form of transaction without prior consent of the banks. This limitation is applicable to the most significant subsidiaries of the Group;
- in its right to dispose of the controlling share in certain significant subsidiaries of the Group; and
- in the transfer of non-core assets between certain subsidiaries of the Group.

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

The fair value of the Notes due in 2020 and 2021 are within Level 1 of the fair value hierarchy. Whilst measured at amortised cost, the fair value of all of the borrowings, except for the Notes, are within Level 2 of the fair value hierarchy in accordance with IFRS 13. The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB interest rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value. The fair value of the borrowings as of 31 December 2015 was equal to $2,013 million (31 December 2014: $1,437 million).

## 20. Deferred tax assets and liabilities

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

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| **Net deferred tax liability at beginning of the year** | **103** | **134** |
| Recognised in the consolidated statement of profit or loss | (4) | 2 |
| Recognised in the consolidated statement of comprehensive income | 10 | 19 |
| Effect of translation to presentation currency | (22) | (52) |
| **Net deferred tax liability at end of the year** | **87** | **103** |

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

| | 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Property, plant and equipment | 155 | 160 |
| Inventory | 43 | 60 |
| Deferred expenditures | 3 | 3 |
| Derivative financial instruments and investments | - | 27 |
| Offset of deferred tax asset and liability within the same taxable entity | (68) | (100) |
| **Total deferred tax liabilities** | **133** | **150** |
| Tax losses carried-forward | 106 | 131 |
| Property, plant and equipment | 1 | 2 |
| Accrued expenses | 3 | 4 |
| Payables | 4 | 10 |
| Offset of deferred tax asset and liability within the same taxable entity | (68) | (100) |
| **Total deferred tax assets** | **46** | **47** |

### Unrecognised deferred tax asset

| | | |
|---|---|---|
| Unrecognised deferred tax asset resulting from losses on derivative financial instruments | 115 | 185 |
| Unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit | 18 | 30 |
| Unrecognized deferred tax assets resulted from impairments | 33 | 48 |
| **Total** | **166** | **263** |

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

Deferred tax assets on losses from derivative financial instruments and those resulted from impairments were not recognised as of 31 December 2015 because there is no enough evidence that those tax losses might be utilised.

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

| **Unrecognised deferred tax liability** | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| The unrecognised deferred tax liability for taxable temporary differences associated with investments in subsidiaries | 16 | 63 |

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

### 21. Trade, other payables and accrued expenses

| | 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Wages and salaries payable | 56 | 57 |
| Interest payable | 29 | 24 |
| Trade payables to third parties | 24 | 21 |
| Other accounts payable and accrued expenses | 24 | 31 |
| Accrued annual leave | 16 | 19 |
| Dividends payable to non-controlling interests | 1 | 2 |
| **Total** | **150** | **154** |

The average credit period for trade payables at 31 December 2015 was 21 days, (2014: 18 days). No interest was charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

### 22. Taxes payable

| | 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Tax on mining | 10 | 11 |
| Value added tax | 6 | 3 |
| Social taxes | 5 | 6 |
| Income tax payable | 4 | 11 |
| Property tax | 2 | 2 |
| Other taxes | 2 | 3 |
| **Total** | **29** | **36** |

## 23. Related parties

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

The Group had no transactions with its shareholders during years ended 31 December 2015 and 2014.

### Entities under common ownership

The Group had no balances and transactions with entities under common control as of 31 December 2014 and 2015.

| Key management personnel | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Short-term compensation of key management personnel including LTIP (Note 18) | 23 | 31 |
| including termination benefits to the former key management personnel | 1 | 8 |

## 24. Commitments and contingencies

### Commitments

### Capital commitments

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

| | 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Contracted capital expenditure commitments | 30 | 23 |
| including contracted capital expenditure commitments related to the Natalka project | 9 | 11 |

### Operating leases: Group as a lessee

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

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

| | 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Due within one year | 4 | 3 |
| From one to five years | 18 | 8 |
| Thereafter | 17 | 20 |
| **Total** | **39** | **31** |

### Contingencies

### Litigations

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

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

### Insurance

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

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

### Taxation contingencies in the Russian Federation

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. [Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities]. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

### Environmental matters

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

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

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

### Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Starting from March 2014, sanctions have been imposed in several packages by the US and the EU on certain Russian officials, businessmen and companies.

In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. In the first quarter of 2015 international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

## 25. Financial instruments risk management activities

### Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt which is borrowings (note 19) less banks deposits (note 16) and cash and cash equivalents (note 17), and equity of the Group.

### Major categories of financial instruments

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

| | 31 December | |
|---|---|---|
| | **2015** | 2014 |
| **Financial assets** | | |
| Cash and cash equivalents | 2,039 | 1,217 |
| Derivative financial instruments and investments | 231 | 171 |
| Trade and other receivables | 14 | 11 |
| Loans receivable | 1 | 1 |
| Bank deposits | – | 269 |
| **Total financial assets** | **2,285** | **1,669** |
| **Financial liabilities** | | |
| Borrowings | 2,185 | 1,813 |
| Derivative financial instruments and investments | 509 | 970 |
| Trade and other payables | 134 | 135 |
| **Total financial liabilities** | **2,828** | **2,918** |

Derivative financial instruments are carried at fair value.

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

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

**Gold price risk**
The Group is exposed to changes in the gold price due to its significant volatility. According to the approved hedging strategy the Group may hedge up to 1/3 of its annual gold sales. During 2014, the Group entered into a number of derivative transactions (revenue stabiliser and gold forward agreements) under a Strategic Price Protection Programme to limit its exposure to future possible fluctuations of gold price (as detailed further in note 13).

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

If the gold price was 10% higher / lower during the year ended 31 December 2015 gold sales for the year would have increased / decreased by $134 million / $138 million, respectively (the year ended 31 December 2014: $181 million / $175 million).

**Interest rate risk**
The Group is exposed to interest rate risk as it borrows funds. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's current policy considering the relatively low LIBOR rates is to borrow funds in USD with floating interest rates. During the year ended 31 of December 2014 and 2015, the Group, in order to align its borrowings with the policy, entered into a number of derivative transactions (note 13):

- to swap cash flows under a rouble denominated credit facility with a fixed interest rate of 10.35% into USD dollar denominated cash flows with a floating interest rate of LIBOR+2.32%. The credit facility was initially arranged in RUB with the view to swapping it into a USD denominated cash flow, because this was more cost effective than obtaining funding directly in USD (note 19);
- to swap interest payments under the 750 million Eurobond from a fixed rate of 5.625% into a floating rate of LIBOR+3.55% (note 19);
- to swap cash flows under a 10 billion rouble denominated bonds with a fixed coupon of 12.1% into USD-denominated cash flows with a floating interest rate of 6MLIBOR+4.45%. The bond was initially arranged in RUB with the view to swapping it into a USD denominated cash flow, because this was more cost effective than obtaining funding directly in USD (note 19).

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

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

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

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

During 2014, the Group entered into a number of derivative agreements, in the form of currency collars (note 13) in order to economically hedge its Russian rouble denominated expenses. As of 31 December 2015, no currency collars remained outstanding.

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

| | 31 December | |
|---|---|---|
| | **2015** | 2014 |
| **Assets** | | |
| USD | 2,135 | 1,581 |
| EURO (presented in USD at closing exchange rate) | 1 | 17 |
| **Total** | **2,136** | **1,598** |
| | | |
| **Liabilities** | | |
| USD | 2,084 | 2,135 |
| EURO (presented in USD at closing exchange rate) | 14 | 71 |
| **Total** | **2,098** | **2,206** |

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

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

If the USD or EURO exchange rate had increased by 25% for the year ended 31 December 2015 and year ended 31 December 2014 compared to RUB as of the end of respective year, the Group would have incurred the following (gain) / loss:

| | 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Gain / (loss) (USD exchange rate increased compared to RUB) | (13) | 139 |
| Loss (EURO exchange rate increased compared to RUB) | 3 | 13 |

**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

# Notes to the consolidated financial statements

## for the year ended 31 December 2015 (in millions of US dollars) continued

appropriate individual risk limitations. Within the Group's core companies the procedures for preparing new agreements include analysis and contemplation of credit risk, estimation of the aggregate risk associated with a counterparty (arising both from an agreement under consideration and from previously existing contracts, if any) and verifying compliance with individual credit limits.

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

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

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

Although the Group sells more than 90% of the total gold sales to 4 major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore the credit risk related to trade receivables is minimal. There were no outstanding receivables for gold sales as of 31 December 2015.

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

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Otkritie Bank | 668 | 704 |
| Sberbank | 651 | 220 |
| VTB Bank | **493** | 841 |
| MDM Bank | **166** | 298 |
| Bank of Moscow | – | 85 |
| Other | **181** | 49 |
| **Gold sales** | **2,159** | **2,197** |

### Liquidity risk

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

For assessing own credit risk, a proxy CDS for the industry is used since Polyus does not have quoted CDS.

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

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2015 based on undiscounted contractual payments / (receipts), including interest payments:

| | Borrowings | | Trade and other payables | |
|---|---|---|---|---|
| | Principal | Interest | | **Total** |
| Due in the first year | 38 | 138 | 105 | 281 |
| Due in the second year | 258 | 135 | – | 393 |
| Due in the third year | 418 | 129 | – | 547 |
| Due in the fourth year | 578 | 86 | – | 664 |
| Due in the fifth year | 762 | 38 | – | 800 |
| Due in the period between sixth to eight years | 144 | 17 | – | 161 |
| **Total** | **2,198** | **543** | **105** | **2,846** |

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2014 based on undiscounted contractual payments, including interest payments:

| | Borrowings | | Trade and other payables | |
|---|---|---|---|---|
| | Principal | Interest | | **Total** |
| Due in the first year | 90 | 118 | 111 | 319 |
| Due in the second year | 38 | 116 | – | 154 |
| Due in the third year | 87 | 115 | – | 202 |
| Due in the fourth year | 136 | 111 | – | 247 |
| Due in the fifth year | 710 | 76 | – | 786 |
| Due in the period between sixth to eight years | 764 | 22 | – | 786 |
| **Total** | **1,825** | **558** | **111** | **2,494** |

Maturity of the derivative financial instruments in presented within Note 13.

# Notes to the consolidated financial statements
for the year ended 31 December 2015 (in millions of US dollars) continued

### 26. Events after the reporting date
In January 2016, the Group completed an execution of a joint venture agreement with Polymetal International plc ("Polymetal"), under which Polymetal will participate in advancing the development of the Group's Nezhdaninskoye gold deposit in Yakutia, Russia. The arrangement will allow Polymetal to acquire up to 50% in the joint venture entity holding 100% of JSC South-Verkhoyansk Mining Company through an earn-in mechanism.

In January and February 2016, the Group signed the following new credit facility agreements with banks:
- $2,500 million credit facility agreement with maturity in 2023 at LIBOR + 4.5%
- $100 million credit facility agreement with maturity in 2019 at LIBOR + 4.5%.

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

### 27. Investments in significant subsidiaries
#### 27.1 Information about significant subsidiaries of the Group

| | | Effective % held[45] at | |
|---|---|---|---|
| Subsidiaries[46] | Nature of business | **31 December 2015** | 31 December 2014 |
| **Incorporated in Russian Federation** | | | |
| PJSC "Polyus Gold" | Management company | 95 | 95 |
| JSC "Gold Mining Company Polyus" | Mining (open pit) | 95 | 95 |
| JSC "Aldanzoloto GRK" | Mining (open pit) | 95 | 95 |
| JSC "Pervenets" | Mining (open pit) | 95 | 95 |
| PJSC "Lenzoloto" | Market agent | 61 | 61 |
| JSC "ZDK Lenzoloto" | Mining (alluvial) | 63 | 63 |
| JSC "Svetliy" | Mining (alluvial) | 53 | 53 |
| JSC "Matrosova Mine" | Mining (development stage) | 95 | 95 |
| LLC "Polyus Stroy" | Construction | 95 | 95 |
| CJSC "TaigaEnergoStroy" | Construction | 95 | 95 |
| **Incorporated in British Virgin Islands** | | | |
| Polyus Exploration Limited | Geological research | 95 | 98 |

45. Effective % held by the Company, including holdings by other subsidiaries of the Group.
46. Following change in legislation, most of the significant subsidiaries were renamed from open joint stock company (OJSC) and from closed joint stock company (CJSC) into joint stock company (JSC).

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

The summarised financial information below represents amounts before intragroup eliminations.

| Summarized statements | PJSC "Polyus Gold" consolidated | | PJSC "Lenzoloto" consolidated | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **Information as of 31 December** | | | | |
| Current assets | **2,438** | 2,009 | 179 | 155 |
| Non-current assets | **2,672** | 2,996 | 51 | 46 |
| Current liabilities | **217** | 830 | 15 | 16 |
| Non-current liabilities | **2,845** | 2,373 | 11 | 10 |
| Equity attributable to the shareholders of the subsidiary | **1,900** | 1,656 | 136 | 110 |
| Non-controlling interests | **148** | 146 | 68 | 65 |
| **Information for the years ended 31 December** | | | | |
| Revenue | **2,189** | 2,197 | 197 | 234 |
| Profit / (loss) for the year | **1,061** | (1,081) | 72 | 89 |
| Profit / (loss) attributable to non-controlling interests | **14** | (18) | 15 | 37 |
| Total comprehensive income / (loss) | **459** | (2,720) | 72 | 89 |
| Net cash inflow from operating activities | **1,100** | 673 | 56 | 65 |
| Net cash (outflow) / inflow from investing activities | **(677)** | (1,169) | 70 | (61) |
| Net cash inflow / (outflow) from financing activities | **223** | 992 | (12) | (10) |
| Dividends paid to non-controlling interests | **12** | 10 | 12 | 10 |

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

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

GRI Materiality Disclosures Polyus Gold International Limited Apr 2016 Service

# GRI Content Index

## General standard disclosures

| General Standard Disclosures | Disclosure | Page Number (or Link) | Comment | Omission | External Assurance |
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| **STRATEGY AND ANALYSIS** | | | | | |
| **G4-1** | Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and its strategy | Executive Director's statement, 12<br>Chief Executive Officer's review, 16<br>Managing Director Message, 70 | | | |
| **G4-2** | Description of key impacts, risks, and opportunities | Chief Executive Officer's review, 16<br>Principal risks and uncertainties, 44<br>Sustainability approach, 79<br>Sustainability governance, 90<br>Health and Safety, 94<br>Employees, 108<br>Environmental Stewardship, 100<br>Communities, 116<br>Materiality assessment, 93<br>Risk Committee report, 146 | | | |
| **ORGANIZATIONAL PROFILE** | | | | | |
| **G4-3** | Name of the organisation | About Report, 72 | | | |
| **G4-4** | Primary brands, products, and/or services | Polyus at a glance, 1 | | | |
| **G4-5** | Location of organisation's headquarters | | The Group is headquartered in London, United Kingdom | | |
| **G4-6** | Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report | Polyus at a glance, 1<br>About this Report, 73 | | | |
| **G4-7** | Nature of ownership and legal form | Polyus at a glance, 1 | | | |
| **G4-8** | Markets served | Polyus at a glance, 1 | | | |
| **G4-9** | Scale of the reporting organisation | Polyus at a glance, 1<br>About this Report: Report boundaries, 73;<br>Employees, 118<br>Financial statements, 155 | In 2015 the average headcount of the Group was 18,117 employees | | |

| General Standard Disclosures | Disclosure | Page Number (or Link) | Comment | Omission | External Assurance |
|---|---|---|---|---|---|
| **G4-10** | Total workforce by employment type, employment contract, and region, broken down by gender | Employees, 112-113 | | | Independent assurance statement, 84–86 |
| **G4-11** | Percentage of employees covered by collective bargaining agreements | | In 2015, 97% of employees are covered by collective bargaining agreements | | |
| **G4-12** | The organisation's supply chain | Sustainable approach: Supply chain management, 81 | | | |
| **G4-13** | Significant changes during the reporting period regarding size, structure, or ownership | About this Report, 75 | | | |
| **G4-14** | Explanation of whether and how the precautionary approach or principle is addressed by the organisation | | In the reporting period the Group did not apply the precautionary approach to identify, monitor and manage risks | | |
| **G4-15** | Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses | Sustainability approach, 83 | | | |
| **G4-16** | Memberships of associations (such as industry associations) and/or national/ international advocacy organisations | Sustainable approach: Commitments to external initiatives, 83 | | | |

## IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES

| | | | | | |
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| **G4-17** | Entities included in the organisation's consolidated financial statements or equivalent documents | About this report: Report boundaries, 73 | | | |
| **G4-18** | The process for defining the report content and the Aspect Boundaries | About this report: Report content, 74 | | | |
| **G4-19** | Material Aspects identified in the process for defining report content | Materiality assessment, 93 | | | |

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| **G4-20** | Materials Aspects' Boundary within the organisation | Materiality assessment, 93 | | | |
| **G4-21** | Materials Aspects' Boundary outside the organisation | Materiality assessment, 93 | | | |
| **G4-22** | The effect of any restatements of information provided in previous reports, and the reasons for such restatements | About this report: Restatement and significant changes, 75 | | | |
| **G4-23** | Significant changes from previous reporting periods in the Scope and Aspect Boundaries | Materiality assessment, 93 | | | |
| **G4-24** | List of stakeholder groups engaged by the organisation | Stakeholder engagement, 81 | | | |
| **G4-25** | The basis for identification and selection of stakeholders with whom to engage | Stakeholder engagement, 80 | | | |
| **G4-26** | The organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process | Stakeholder engagement, 81 | | | |
| **G4-27** | Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting | Stakeholder engagement, 81 | | | |
| **REPORT PROFILE** | | | | | |
| **G4-28** | Reporting period for information provided | About this Report, 72 | | | |
| **G4-29** | Date of most recent previous report | About this Report, 72 | | | |
| **G4-30** | Reporting cycle | About this Report: Data measurement techniques, 74 | | | |

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| **G4-31** | Contact point for questions regarding the report or its contents | About this Report: Contact information, 75 | | | |
| **G4-32** | The 'in accordance' option the organisation has chosen and the GRI Content Index for the chosen option | About this Report: Guidelines and standards, 73 | | | |
| **G4-33** | Policy and current practice with regard to seeking external assurance for the report | About this Report: Assurance, 75 | | | |
| **GOVERNANCE** | | | | | |
| **G4-34** | The governance structure of the organisation, including committees of the highest governance body | Sustainability Governance, 89<br>Corporate Governance Report, 124 | | | |
| **G4-35** | The process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees | Sustainability Governance, 89<br>HSEC Committee report, 150 | | | |
| **G4-36** | Whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics | Sustainability Governance, 89 | | | |
| **G4-37** | Processes for consultation between stakeholders and the highest governance body on economic, environment and social topics | Sustainability Governance, 89<br>Stakeholder engagement, 80 | | | |
| **G4-38** | The composition of the highest governance body and its committees | Diversity policy | | | |
| **G4-39** | Whether the Chair of the highest governance body is also an executive officer | Board of Directors composition, 132 | | | |
| **G4-40** | The nomination and selection processes for the highest governance body and its committees | Nomination Committee report, 149 | | | |

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| General Standard Disclosures | Disclosure | Page Number (or Link) | Comment | Omission | External Assurance |
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| **G4-41** | Process for the highest governance body to ensure conflicts of interest are avoided and managed | Code of Corporate Ethics, Relationship agreements: www.polyusgold.com/company/corporate_governance/relationship_agreements/ Lists of affiliated persons: www.polyusgold.com/investors/ojsc_polyus_gold/lists_of_affiliated_persons/ | | | |
| **G4-42** | The role of senior executives and the highest governance body in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts | HSEC Committee report, 150 | | | |
| **G4-43** | Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics | HSEC Committee report, 150 | | | |
| **G4-44** | Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance | Corporate governance report, 124<br>HSEC Committee report, 150 | | | |
| **G4-45** | The highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities | Sustainability governance, 88<br>HSEC Committee report, 150 | | | |
| **G4-46** | The highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics | Materiality assessment, 93<br>Risk Committee Report, 146 | | | |
| **G4-47** | The frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities | Sustainability governance, 89<br>HSEC Committee report, 150<br>Risk Committee Report, 146 | | | |

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| **G4-48** | The highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material Aspects are covered | Sustainability governance, 88<br>HSEC Committee report, 150 | | | |
| **G4-49** | The process for communicating critical concerns to the highest governance body | HSEC Committee report, 150 | | | |
| **G4-50** | The nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them | HSEC Committee report, 150 | | | |
| **G4-51** | The remuneration policies for the highest governance body and senior executives | Remuneration of the board of directors and top management, 137 | | | |
| **G4-52** | The process for determining remuneration | Remuneration of the board of directors and top management, 137 | | | |
| **G4-53** | How stakeholders' views are sought and taken into account regarding remuneration | Remuneration of the board of directors and top management, 137 | | | |
| **G4-54** | The ratio of the annual total compensation for the organization's highest paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country | Remuneration of the board of directors and top management, 137 | | | |
| **G4-55** | The ratio of percentage increase in annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country | Remuneration of the board of directors and top management, 137 | | | |

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| **ETHICS AND INTEGRITY** | | | | | |
| **G4-56** | The organisation's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics | Mission<br>Code of Ethics<br>Human Rights Policy<br>Diversity Policy<br>Stakeholder Engagement, 80 | | | |
| **G4-57** | The internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organisational integrity, such as helplines or advice lines | Anti-corruption efforts, 135 | | | |
| **G4-58** | The internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organisational integrity | Anti-corruption efforts, 135 | | | |

**Specific standard disclosures**

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| **MATERIAL ASPECT: ECONOMIC PERFORMANCE** | | | | | |
| **G4-DMA** | | Strategy, 22<br>Business model, 24 | | | |
| **G4-EC1** | Direct economic value generated and distributed | Financial statements, 156 | | | |
| **G4-EC2** | Financial implications and other risks and opportunities for the organization's activities due to climate change | Environmental stewardship, 100;<br>Principal risks and uncertainties, 44;<br>Risk Committee report, 146 | Natalka ESIA assessed risks for Natalka project due to climate change | | |
| **G4-EC3** | Coverage of the organization's defined benefit plan obligations | | The Group fully complies with Russian laws by paying contributions to the pension fund | | |
| **G4-EC4** | Financial assistance received from government | | No financial assistance was received from the government during the reporting period | | |
| **MATERIAL ASPECT: MARKET PRESENCE** | | | | | |
| **G4-DMA** | | Employees, 108 | | | |
| **G4-EC5** | Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation | Employees: Performance results, 113 | The Group does not allow any forms of discrimination, thus all employees, regardless of their gender or any other diversity factors, receive equal wages for the same scope, quantity and quality of labour | | Independent assurance statement, 84-86 |
| **G4-EC6** | Proportion of senior management hired from the local community at significant locations of operation | Employees: Performance results, 115 | | | |
| **MATERIAL ASPECT: INDIRECT ECONOMIC IMPACTS** | | | | | |
| **G4-DMA** | | Communities, 116 | | | |
| **G4-EC7** | Development and impact of infrastructure investments and services supported | Communities, 118 | | | Independent assurance statement, 84-86 |
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| **G4-DMA** | | Sustainable approach: Supply chain management, 81 | | | |
| **G4-EC9** | Proportion of spending on local suppliers at significant locations of operation | Sustainable approach: Supply chain management, 81 | | | |
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| **MATERIAL ASPECT: ENERGY** | | | | | |
| **G4-DMA** | | | | | |
| **G4-EN3** | Energy consumption within the organisation | Environmental stewardship, 102 | | | Independent assurance statement, 84-86 |
| **G4-EN4** | Energy consumption outside of the organization | 102 | The data is not aggregated within the current reporting system. | | Independent assurance statement, 84-86 |
| **G4-EN5** | Energy intensity | | Energy intensity ratio – 0.93. The ratio denominator: ore processed t. Data on energy consumed within the organisation was used. Energy types included: fuel, electricity, heating | | Independent assurance statement, 84-86 |
| **G4-EN6** | Reduction of energy consumption | Environmental stewardship, 103 | | | Independent assurance statement, 84-86 |
| **G4-EN7** | Reductions in energy requirements of products and services | Environmental stewardship, 103 | Due to the nature of the product | | |
| **MATERIAL ASPECT: WATER** | | | | | |
| **G4-DMA** | | Environmental stewardship, 101 | | | |
| **G4-EN8** | Total water withdrawal by source | Environmental stewardship, 105 | | | Independent assurance statement, 84-86 |
| **G4-EN9** | Water sources significantly affected by withdrawal of water | Environmental stewardship, 101 | There are 16 water bodies significantly affected by the organisation's withdrawal at Irkutsk alluvial BU and 2 at Irkutsk ore BU, 1 at Yakutia BU (Kuranakh), 1 at Magadan BU and 1 at Energy service. | | Independent assurance statement, 84-86 |
| **G4-EN10** | Percentage and total volume of water recycled and reused | Environmental stewardship, 106 | | | Independent assurance statement, 84-86 |

| DMA and Indicators | Disclosure | Page Number (or Link) | Comment | Omissions | External Assurance |
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## MATERIAL ASPECT: EMISSIONS

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| **G4-DMA** | | Environmental stewardship, 101 | | | |
| **G4-EN15** | Direct greenhouse gas (GHG) emissions (scope 1) | Environmental stewardship, 104 | | The data for 2013-2014 was amended to reflect changes to accounting methodology | Independent assurance statement, 84-86 |
| **G4-EN16** | Energy indirect greenhouse gas (GHG) emissions (scope 2) | Environmental stewardship, 104 | | The data for 2013-2014 was amended to reflect changes to accounting methodology | Independent assurance statement, 84-86 |
| **G4-EN17** | Other indirect greenhouse gas (GHG) emissions (Scope 3) | | The data is not aggregated within the current reporting system | | |
| **G4-EN18** | Greenhouse gas (GHG) emissions intensity | | GHG intensity ratio: 51.34. GHG intensity is measured in thousand tonnes of CO2-e per million cubic metres of rock moved GHG emissions included: direct (Scope 1), indirect (Scope 2). Gases included in the calculation: CO2, CH4, N2O | The data for 2013-2014 was amended to reflect changes to accounting methodology | |
| **G4-EN19** | Reduction of greenhouse gas (GHG) emissions | Environmental stewardship, 101 | | | |
| **G4-EN20** | Emissions of ozone-depleting substances (ODS) | | No significant emissions of ozone-depleting substances were identified in the reporting period | | |
| **G4-EN21** | NOX, SOX, and other significant air emissions | Environmental stewardship, 103 | | | Independent assurance statement, 84-86 |

## MATERIAL ASPECT: EFFLUENTS AND WASTE

| DMA and Indicators | Disclosure | Page Number (or Link) | Comment | Omissions | External Assurance |
|---|---|---|---|---|---|
| **G4-DMA** | | Environmental stewardship, 101 | | | |
| **G4-EN22** | Total water discharge by quality and destination | Environmental stewardship, 105 | Discharges are not reused by other organisations. | | |
| **G4-EN23** | Total weight of waste by type and disposal method | Environmental stewardship, 107 | Other methods of waste disposal are not used | | Independent assurance statement, 84-86 |

# GRI Content Index continued

| DMA and Indicators | Disclosure | Page Number (or Link) | Comment | Omissions | External Assurance |
|---|---|---|---|---|---|
| **G4-EN24** | Total number and volume of significant spills | | During 2015 there were no significant spills (reportable environmental incidents) | | Independent assurance statement, 84-86 |
| **G4-EN25** | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention2 Annex I, II, III, and VIII, and percentage of transported waste shipped internationally | | The Group is not involved in transportation, import, export, or treatment of waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII | | |
| **G4-EN26** | Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff | ` | There are 4 water bodies significantly affected by the organisation's discharges of water and runoff at Krasnoyarsk BU, 12 – at Irkutsk alluvial BU, 1 at Irkutsk ore BU, 1 at Yakutia Kuranakh BU, 1 at Magadan BU and 2 at Energy service. All water bodies fall into different commercial fishing importance categories | | |

## MATERIAL ASPECT: COMPLIANCE

| | | | | | |
|---|---|---|---|---|---|
| **G4-DMA** | | Environmental stewardship, 100 | | | |
| **G4-EN29** | Monetary value of significant fines and total number of nonmonetary sanctions for noncompliance with environmental laws and regulations | Environmental stewardship, 107 | | | Independent assurance statement, 84-86 |

## MATERIAL ASPECT: OVERALL

| | | | | | |
|---|---|---|---|---|---|
| **G4-DMA** | | Environmental stewardship, 100 | | | |
| **G4-EN31** | Total environmental protection expenditures and investments by type | Environmental stewardship, 107 | | | |

## MATERIAL ASPECT: ENVIRONMENTAL GRIEVANCE MECHANISMS

| | | | | | |
|---|---|---|---|---|---|
| **G4-EN34** | Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms | Environmental stewardship, 102 | In the reporting period through formal grievance mechanisms no grievances regarding environmental impact was submitted. Currently the Group's formal grievance mechanisms is hotline, which includes mail, e-mail and number phone | | Independent assurance statement, 84-86 |

| DMA and Indicators | Disclosure | Page Number (or Link) | Comment | Omissions | External Assurance |
|---|---|---|---|---|---|
| **CATEGORY: SOCIAL** | | | | | |
| **SUB-CATEGORY: LABOR PRACTICES AND DECENT WORK** | | | | | |
| **MATERIAL ASPECT: EMPLOYMENT** | | | | | |
| **G4-DMA** | | Employees, 108 | | | |
| **G4-LA1** | Total number and rates of new employee hires and employee turnover by age group, gender, and region | Employees: Performance results, 112, 115 | 5840 employees or 32% of total headcount were hired in 2015. The Group's turnover rate was 25.7% in 2015 (data of Irkustsk alluvial BU (Lenzoloto) was excluded because the BU's workers are temporary employed). Turnover rate of other BUs: Krasnoyarsk BU – 11.5%, Irkutsk ore BU – 28.3%, Yakutia Kuranakh BU – 16.3% | Turnover by age group and gender. No such data is available within current reporting system. | Independent assurance statement, 84-86 |
| **G4-LA2** | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation | | The Group provides the same benefits to all employees, except for additional medical insurance which is not provided to part-time employees. | | |
| **G4-LA3** | Return to work and retention rates after parental leave, by gender | | All employees who are entitled by law to go on leave for child care/parental leave, are free to use it | | |
| **MATERIAL ASPECT: OCCUPATIONAL HEALTH AND SAFETY** | | | | | |
| **G4-DMA** | | Health and Safety, 94 | | | |
| **G4-LA5** | Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes | See Sustainability Governance, 88 for information on HSEC Committee | The HSEC Committee operating at the Board level is the key body responsible for the health and safety issues in the Group. A separate management-worker health and safety committee also operates at Natalka | Percentage of total workforce represented in formal joint management. No such data available within current reporting system | |
| **G4-LA6** | Type of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender | Health and Safety, 97 | | No data available for contractors on occupational diseases rate, lost day rate and absentee rate within current reporting system | Independent assurance statement, 84-86 |

# GRI Content Index continued

| DMA and Indicators | Disclosure | Page Number (or Link) | Comment | Omissions | External Assurance |
|---|---|---|---|---|---|
| **G4-LA7** | Workers with high incidence or high risk of diseases related to their occupation | | The Group has no operations in areas with a high risk of serious diseases | | |
| **G4-LA8** | Health and safety topics covered in formal agreements with trade unions | | The cooperation in the field of H&S with the trade unions is carried out at Yakutia BU (Kuranakh) | | |
| **MATERIAL ASPECT: TRAINING AND EDUCATION** | | | | | |
| **G4-DMA** | | Employees: Employee development and maintaining the talent pool, 110 | | | |
| **G4-LA9** | Average hours of training per year per employee by gender, and by employee category | Employees: Performance results, 114 | | Training per year per employee by gender. No such data is available within current reporting system | Independent assurance statement, 84-86 |
| **G4-LA10** | Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings | Employees: Performance results, 114 | | | Independent assurance statement, 84-86 |
| **G4-LA11** | Percentage of employees receiving regular performance and career development reviews, by gender and by employee category | | All employees undergo performance reviews on the basis of a functional and individual KPI system | | |
| **EQUAL REMUNERATION OF WOMEN AND MEN** | | | | | |
| **G4-LA13** | Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation (%) | | | Ratio of basic salary and remuneration by age group and gender. No such data is available within current reporting system | Independent assurance statement, 84-86 |
| **SUB-CATEGORY: SOCIETY** | | | | | |
| **MATERIAL ASPECT: LOCAL COMMUNITIES** | | | | | |
| **G4-DMA** | | Communities, 116 | | | |

| DMA and Indicators | Disclosure | Page Number (or Link) | Comment | Omissions | External Assurance |
|---|---|---|---|---|---|
| **G4-SO1** | Percentage of operations with implemented local community engagement, impact assessments, and development programmes | | All the new sites/assets which are under development underwent EIA. ESIA was carried out at Natalka. The community development programs at all sites are implemented as part of the Group's charity and sponsorship activities | | Independent assurance statement, 84-86 |
| **G4-SO2** | Operations with significant actual and potential negative impacts on local communities | | An SEA was conducted for the Irkustsk alluvial BU (Lenzoloto). The study assessed key positive and negative impacts on local community and developed mitigation measures. The Group plans to continue efforts in this field in the following years | | Independent assurance statement, 84-86 |
| **G4-MM6** | Number and description of significant disputes relating to land use, customary rights of local communities and indigenous peoples | Sustainability Report 2012: Indigenous people settlements, 44 | In the reporting year there were no disputes relating to land use, customary rights or local communities and Indigenous Peoples | | Independent assurance statement, 84-86 |
| **G4-MM7** | The extent to which grievance mechanisms were used to resolve disputes relating to land use, customary rights of local communities and indigenous peoples, and the outcomes | Sustainability Report 2012: Indigenous people settlements, 44 | In the reporting year there were no disputes relating to land use, customary rights or local communities and Indigenous Peoples | | Independent assurance statement, 84-86 |

## MATERIAL ASPECT: ANTI-CORRUPTION

| | | | | | |
|---|---|---|---|---|---|
| **G4-DMA** | | Anti-Corruption efforts, 135 | | | |
| **G4-SO3** | Total number and percentage of operations assessed for risks related to corruption and the significant risks identified | Anti-Corruption efforts, 135 | | | |
| **G4-SO4** | Communication and training on anti-corruption policies and procedures | Anti-Corruption efforts, 135 | | Company does not aggregate data broken down by governance body members and region | |
| **G4-SO5** | Confirmed incidents of corruption and actions taken | Anti-Corruption efforts, 135 | | | |

# Notes

Photo: The new Peleduy-Mamakan grid