No time to stand still

PJSC Polyus
Annual Report
2016

POLYUS

Annual Report 2016

Pavel Grachev
Chief Executive Officer of PJSC Polyus

Polyus is one of the world's leading gold producers. Our ongoing development is based on smart, organic growth.

Our strategy to unlock the significant potential of Polyus' world-class assets is focused on:

- enhancing operational efficiency and strict discipline towards stringent cost controls
- expanding our resource base through the addition of Tier-1 assets and organic growth at our existing operations

As we expand our industry-leading position, we are confident that our sustainable approach will ensure that we continue to deliver value to all our stakeholders.

Pavel Grachev
Chief Executive Officer of PJSC Polyus

Read more on pages 13–14

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

At a glance

Key financial figures	Key operational figures	Asset portfolio
TCC[1]	LTIFR[2]	Operating assets
$389/oz	**0.13**	**6**
AISC[1]	Processed ore	P&P reserves
$572/oz	**26.4 mt**	**71 moz**
Adj. EBITDA	Average grade in processed ore	Average reserve grade
$1,536 mln	**2.52 g/t**	**1.8 g/t**
Adj. EBITDA margin	Total gold produced	Life of mine[3]
62%	**1,968 koz**	**37 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 'Financial review' on pages 62-64
[2] The lost time injury frequency rate (LTIFR). For a definition and calculation, see the section 'Health and safety'.
[3] Calculated as FY16 attributable gold reserve figures divided by FY16 attributable gold production

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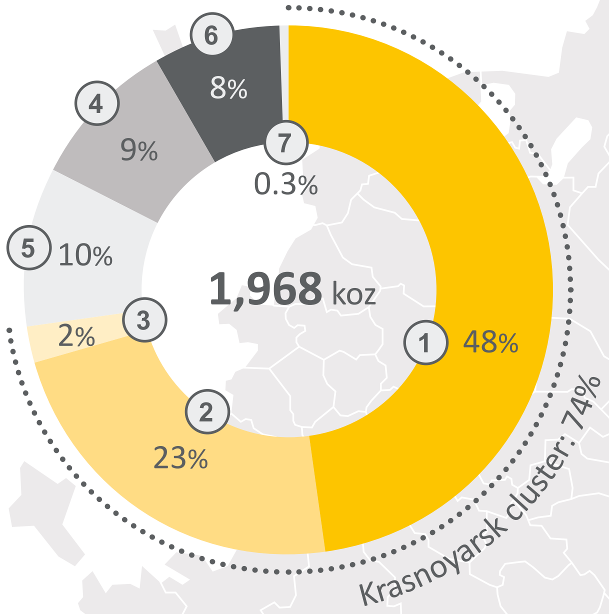
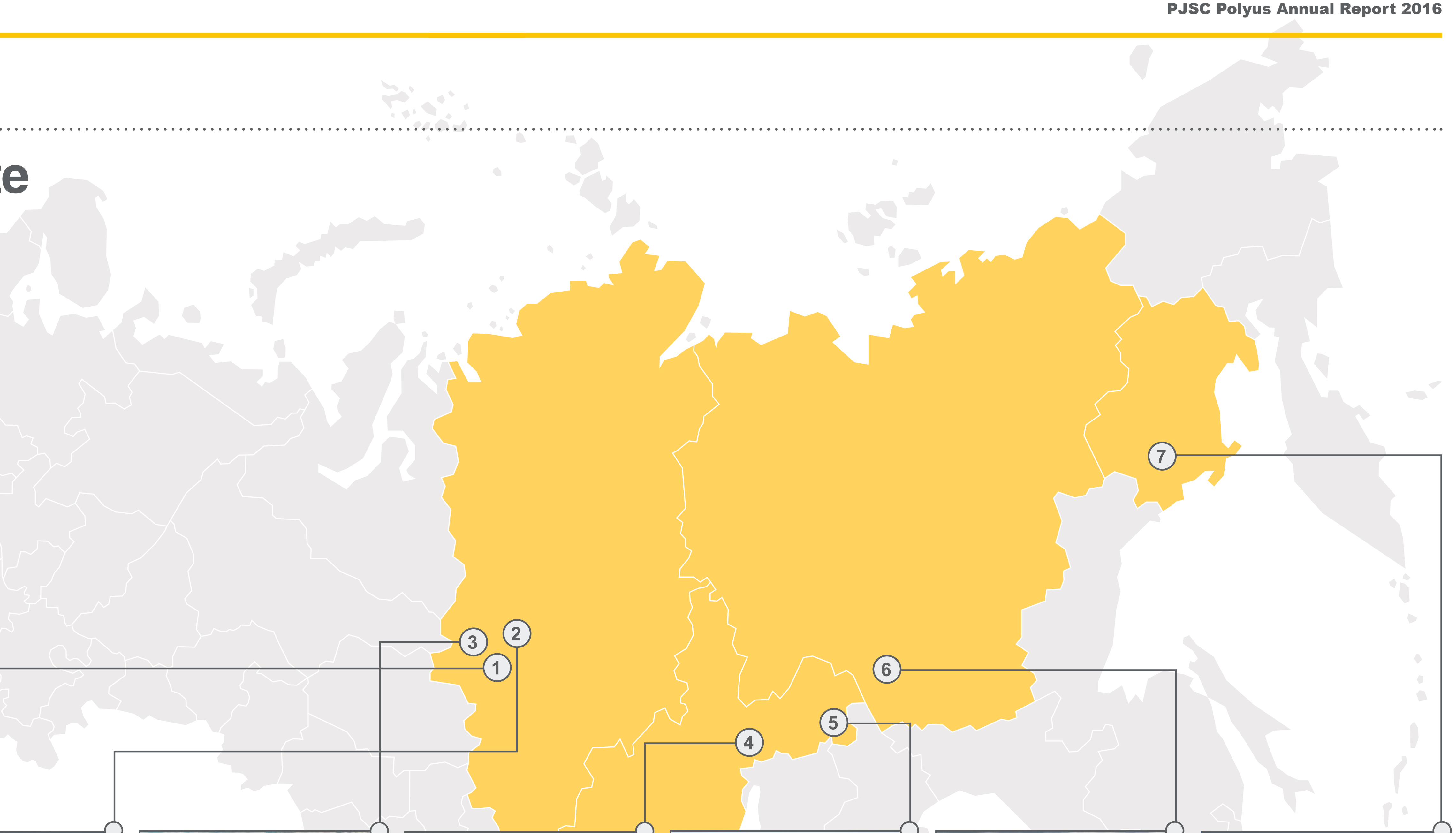
Where we operate

FY16 gold production by mine





Olimpiada

- Located in the Krasnoyarsk Region
- 48% of the Group's output
- 47% of the Group's adj. EBITDA
- TCC of $405/oz in 2016
- 3,055 employees
- Processing capacity: 11.7 million tonnes per annum

Read more on page 35

Blagodatnoye

- Located in the Krasnoyarsk Region
- 23% of the Group's output
- 27% of the Group's adj. EBITDA
- TCC of $290/oz in 2016
- 1,466 employees
- Processing capacity: 8.0 million tonnes per annum

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Titimukhta

- Located in the Krasnoyarsk Region
- 2% of the Group's output
- 2% of the Group's adj. EBITDA
- TCC of $414/oz in 2016
- 80 employees

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Alluvials

- Located in the Irkutsk Region
- 9% of the Group's output
- 6% of the Group's adj. EBITDA
- TCC of $598/oz in 2016
- 3,211 employees
- Processing capacity: 9.4 million m³ per annum

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Verninskoye

- Located in the Irkutsk Region
- 9% of the Group's output
- 10% of the Group's adj. EBITDA
- TCC of $389/oz in 2016
- 1,541 employees
- Processing capacity: 2.5 million tonnes per annum

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Kuranakh

- Located in the Republic of Sakha (Yakutia)
- 8% of the Group's output
- 7% of the Group's adj. EBITDA
- TCC of $499/oz in 2016
- 1,802 employees
- Processing capacity: 4.5 million tonnes per annum

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Natalka

- Located in the Magadan Region
- Gold output: 5.7 koz
- 850 employees
- Processing capacity: 10.1 million tonnes per annum

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Highlights of the year

Financial highlights

	Revenue, $ million	Total cash cost, $/oz	All-in sustaining cash cost, $/oz
2016	2,458	389	572
2015	2,188	424	596
2014	2,239	585	819

	Adj. EBITDA, $ million	Adj. EBITDA margin,%	Net debt / adj. EBITDA
2016	1,536	62%	2.1x
2015	1,278	58%	0.3x
2014	1,018	45%	0.3x

Operational highlights

	Ore processed, million tonnes	Average grade in ore processed, g/t	Recovery rate,%
2016	26.4	2.52	83.9
2015	24.8	2.42	83.7
2014	23.7	2.51	82.2

	Gold production, thousand ounces	Lost time injury frequency rate (LTIFR), per 200k hours worked	Greenhouse gas (GHG) emissions, (CO2-e)
2016	1,968	0.13	3.18
2015	1,763	0.08	3.29
2014	1,696	0.09	3.25

Highlights of the year continued

Our year in review

Date / event	Narrative
April 2016 Changes to the Board of Directors	New members were elected to the Group's Board of Directors at the AGM held on 5 April 2016. The new Board comprises nine members: • three representatives of the controlling shareholder (Ms. Anastasia Galochkina, Mr. Said Kerimov, and Ms. Gulnara Kerimova), • three representatives of the Group's Senior Management (Mr. Pavel Grachev (Chief Executive Officer), Mr. Vladimir Polin (Senior Vice-President, Operations), Mr. Mikhail Stiskin (Senior Vice-President, Finance and Strategy), and • three independent directors: Mr. Edward Dowling, who served on the Board of Polyus Gold International Limited between 2013 and 2015 and headed its Health, Safety and Environment Committee; Mr. Kent Potter, who worked at Chevron for over 25 years, holding a variety of senior positions, before being appointed CFO of TNK-BP, and subsequently CFO of LyondellBasell Industries; and Mr. William Champion, who has over 40 years' experience in mining and held a number of senior management positions at Rio Tinto, including Managing Director of Rio Tinto's Diamonds Business Unit and Managing Director of Rio Tinto Coal Australia.
April 2016 Listing Level Upgrade	On 12 April 2016, the Group announced that the Moscow Exchange ("MOEX") had upgraded the Group's listing to Level 1. MOEX's decision followed the approval of a new version of the Company's Charter and the election of new members to the Board, including three independent directors, at the Group's AGM held on 5 April 2016.
April 2016 Appointment of Chairman & Board committees	On 29 April 2016, Polyus announced the appointment of its Independent Director Edward Dowling as Chairman of the Board of Directors. The Group also provided an update on the composition of the Board committees. In addition, the Board established Audit, Nomination & Remuneration, Strategy and Operations committees. The Audit Committee, which is fully made up of Independent Directors, in compliance with MOEX listing rules and recommendations, is represented by Kent Potter (Chairman), Edward Dowling, and William Champion. The Nomination and Remuneration Committee members are Edward Dowling (Chairman), William Champion, Kent Potter, and Anastasia Galochkina. The Strategy Committee, which is chaired by Edward Dowling, is represented by Kent Potter, Pavel Grachev, Mikhail Stiskin, and Said Kerimov. The Operations Committee comprises four members: William Champion (Chairman), Edward Dowling, Vladimir Polin, and Pavel Grachev.
May 2016 S&P Global Ratings assigns PJSC Polyus a "BB-" rating with Stable Outlook	On 13 May 2016, S&P Global Ratings assigned the Group a "BB-" long-term corporate credit rating, with a Stable Outlook. This brought the Group's rating into line with that of Polyus' controlling shareholder, Polyus Gold International Limited.
June 2016 Inclusion of the Group's Shares in MOEX Indices	On 3 June 2016, MOEX approved the inclusion of Polyus ordinary shares in the RTS and MICEX indices, with an effective date of 16 June 2016. The weight of the Group's shares with a 5% free-float was defined at 0.51%.
June 2016 Publication of the Payments to Governments Report	On 30 June 2016, Polyus published its inaugural Report on Payments to Governments for the year 2015. The report is part of a European Union initiative to disclose contributions from the mining industry to those governments in regions where operations are located (EU Accounting Directive 2013/34/EU of 26 June 2013). The report confirms the adherence of Polyus to the highest standards of corporate governance and transparency. In 2015, all appropriate payments were made to the federal budgets of the Russian Federation. Payments totalled $341 million.

Date / event	Narrative
September 2016 Moody's assigns Polyus Gold International Limited "Ba1" rating	On 30 September 2016, Moody's assigned a Credit Rating of "Ba1", with a Negative Outlook, to Polyus Gold International Limited ("PGIL"), the Group's controlling shareholder and the issuer of $750 million in Guaranteed Notes due in 2020 and, as described below, $500 million in Guaranteed Notes due in 2022. The rating assigned to PGIL is in compliance with Russia's sovereign rating. Moody's noted Polyus' global cost leadership and large high-grade reserve base, as well as the Group's impressive track record of cost-cutting and operational enhancements. In addition, Moody's recognised the Group's strong liquidity, long-term debt maturity profile, and positive free cash flow.
October 2016 New dividend policy	On 7 October 2016, the Board of Directors approved the Group's dividend policy, pursuant to which the Group will pay dividends on a semi-annual basis in the amount of 30% of the EBITDA of Polyus for the respective reporting period. Payments will be calculated on the basis of the consolidated financial statements of the Group in accordance with IFRS requirements, provided that the net debt/adjusted EBITDA (past 12 months) ratio based on the consolidated financial statements of Polyus is lower than 2.5x. Should the net debt / adjusted EBITDA (for the past 12 months) ratio increase to higher than 2.5x, the Board will exercise its discretion over making dividend payments, taking into account the Group's financial position, free cash flow, outlook, and macro environment. The Board may consider the option of paying special dividends, subject to the Group's liquidity position, capital expenditure requirements, free cash flows, and leverage.
October 2016 Fitch Affirms Polyus Gold International Limited's "BB-" rating; Outlook revised to Positive	On 11 October 2016, Fitch Ratings affirmed the Long-term Issuer Default Rating of PGIL at "BB-". PGIL's outlook was revised from Negative to Positive. As the key rating drivers, Fitch highlighted the Group's high-quality gold reserves and large, efficient open-pit assets, which underpin Polyus' leading competitive position on the global cost curve. In addition, Fitch noted the Group's strong production results and outlook and Polyus' intention to concentrate on streamlining and improving capacity at its key producing mines.
October 2016 PGIL completed $500 million Notes due 2022 issuance	On 26 October 2016, PGIL issued $500 million in notes, due in 28 March 2022 and with a coupon of 4.699% per annum. The notes are guaranteed by JSC Gold Mining Company Polyus, a 100% subsidiary of the Group. The Group intends to borrow the net proceeds from the issue of the notes and use them primarily for debt refinancing and other general corporate purposes.
December 2016 Treasury shares cancellation	On 22 December 2016, PJSC Polyus' Extraordinary General Shareholder Meeting approved the reorganisation of PJSC Polyus by way of a merger of LLC Polyus-Invest into PJSC Polyus and the decrease of PJSC Polyus' charter capital by way of the cancellation of PJSC Polyus' ordinary shares held by LLC Polyus-Invest following the completion of the merger. 63,082,318 treasury shares of the Company were cancelled on 10 April 2017.

Chairman of the Board address

Edward Dowling
Chairman of the Board

Dear shareholders,

2016 was a transformational year for Polyus. We continued to successfully execute our strategy, and the Group once again outperformed both its operational and financial targets despite global economic uncertainty driven by political change and instability. In a volatile macro environment, businesses must constantly evolve to overcome various challenges and to unlock growth potential. For Polyus, there was certainly no time to stand still.

We made great strides in 2016 to ensure that we continue to deliver long-term, sustainable growth and we introduced a range of initiatives to maximise the value of our world-class assets, while at the same time ensuring that safety remains at the heart of our approach.

Corporate governance

I was delighted to be elected Chairman of the Board of Directors at the Annual General Meeting in April, alongside new independent directors Kent Potter and Bill Champion, both of whom have considerable industry expertise. These and further Board appointments in 2016 demonstrated Polyus' continued commitment to improving corporate governance, and this was also reflected by the Group's obtaining a Level 1 listing on the Moscow Stock Exchange.

In addition, in 2016 the Board established four Committees: Audit, Nomination & Remuneration, Strategy, and Operations, all of which are headed by independent directors.

Our aim is to ensure that we are fully transparent and, as of the third quarter of 2016, we changed our disclosure and reporting policy, with the Group now reporting its financial results on a quarterly basis.

As part of our ongoing drive to ensure best-in-class governance and transparency for all stakeholders, in October 2016, the Group introduced a new dividend policy linked to our net debt/EBITDA ratio. Our operational and financial progress was also recognised in international capital markets, where we were pleased to attract strong demand for two Eurobond issues, in October 2016 and February 2017, raising a total of $1.3 billion.

Sustainability

Nothing is more important than the safety, health, and well-being of our colleagues and their families, and we are proud that Polyus is the only East European company that has been admitted to and joined the International Council on Mining and Metals (ICMM), an international organisation that drives progress in health and safety and sustainability in the metals and mining industry.

Polyus is committed to ensuring that every Group employee and contractor operates in a safe and healthy work environment. Unfortunately, in 2016, we were deeply saddened to report two fatalities. Following a thorough investigation into the causes of these accidents, we have taken appropriate actions to ensure that similar situations do not occur in the future. We are commited to ensuring health and safety is a key part of every decision, which is an essential approach for achieving zero injuries in the business.

We believe environmental and social responsibility is integral to the success of our business and we strive to adhere to best-in-class industry standards.

Market overview

2016 was a mixed year for the gold market. The gold price rose in the first half of the year, reaching a peak of $1,366/oz immediately following the UK vote to leave the EU. Gold then gradually retreated, falling below $1,150/oz in December.

The key factors likely to affect the gold market in 2017 are the US Federal Reserve's interest rate policies and remaining political risks.

Strategy

During the year we made further progress in our strategy to optimise value from our portfolio of world-class assets, through efficient development and low-cost production.

Although market conditions remain uncertain, we enter 2017 with optimism. We are excited about the launch of our flagship Natalka project, which we anticipate will be towards the end of 2017. Moreover, we are delighted to have been awarded the license to develop one of the world's largest undeveloped gold deposits, Sukhoi Log, following an auction held by the Russian Government in early 2017.

We have announced a mid-term annual production target of 2.8 million ounces of gold by 2019, which will be supported by the Group's existing portfolio of advanced development projects.

Looking ahead

I am confident that our focus on operational excellence and stringent cost controls will ensure that the Group remains resilient and well positioned for continued growth in a constantly changing market environment.

We are committed to retaining our status as one of the lowest-cost gold producers globally, while at the same time remaining focused on strong corporate governance, the highest health and safety standards, and looking after the interests of all our stakeholders.

We look forward to the future with confidence.

Sincerely yours,

Edward Dowling,
Chairman of the Board

Chief Executive Officer address

Pavel Grachev
Chief Executive Officer of PJSC Polyus

Dear shareholders,

I am delighted to report that in 2016 Polyus beat production guidance for the third consecutive year, achieving gold output of 1.97 million ounces. The Group's outstanding progress was again underpinned by its strict focus on operational excellence and tight cost control.

2016 was a significant year for Polyus in many respects. Not only did it re-affirm its status as Russia's leading gold miner, operating some of the world's highest-quality gold assets, but with 62% it also achieved the highest EBITDA margin among mining peers globally.

Polyus remained one of the lowest-cost gold producers in the world, with a TCC of $389/oz in 2016, which is underpinned by our rigorous focus on efficiency improvements and prudent cost management.

Strategic progress

Last year our development projects entered an active execution stage, which will support the continued organic growth of our operations. Robust operational performance at existing assets provides a solid foundation from which we can focus on smart organic growth through developing our brownfield projects. That said, we successfully completed the reconfiguration of Mill No. 1 in September 2016. Also, significant progress was made on capacity expansion initiatives at Blagodatnoye, Verninskoye, and Kuranakh.

The development of our Natalka mine remains a strategic priority for the Group and, following a thorough review, we relaunched the project in 2016. We revised the model for the project's mining and processing operations, and we look forward to commissioning Natalka by the end of 2017.

Growth options

Polyus' operations are focused in the CIS region, which has the largest undeveloped reserve base in the world and has demonstrated the highest production growth among key producing regions in recent years.

In early 2017, we were excited to win the auction for Sukhoi Log this year – one of the world's largest undeveloped gold deposits – and feel that we are ideally placed to develop this asset, given our expertise and regional presence.

We believe this unique asset fits perfectly with Polyus' portfolio of large-scale, open-pit operations as well as our long-term development strategy. We see multiple synergies with our already well-established operating assets – the Irkutsk Region is core to Polyus operations and Sukhoi Log is located only 20 km from the Verninskoye deposit. Polyus has extensive alluvial operations via Lenzoloto in the region, and in 2016, we completed construction of the Peleduy Mamakan grid, which will be the main power supplier.

Polyus is best positioned to efficiently develop this asset, which will add significant value to the business by enhancing our production growth profile and cementing our position among global gold majors.

Focus on health and safety

Here in Polyus, we believe that all incidents are preventable and safety is undoubtedly a top priority for Polyus, which is fully comitted to being a zero injury company.

During 2016, we laid strong foundations for the development of a world-class safety culture, including enhanced transparency of our health and safety data collection and reporting. Core activities for the year were implemented in partnership with DuPont. Among other initiatives, Polyus introduced standards for contractors' safety management, personal protective equipment, and traffic safety management.

In addition to our strict health and safety policy, the Group pays special attention to environmental protection, as we understand the importance of reducing our impact on the environment and local communities.

Returns to shareholders

In October 2016, we also introduced a new dividend policy designed to provide a sustainable industry leading return to shareholders. On a semi-annual basis we will pay dividends of 30% of EBITDA if the net debt/adjusted EBITDA ratio is lower than 2.5x.

By the time this report is issued, the dividend for the period of 2H 2016 was recommended by the Board and paid out to shareholders.

Outlook

We see significant opportunities for Polyus in 2017, which we will aim to make progress on despite the gold market volatility being witnessed. In 2017, we anticipate another year of production growth for the Group and expect our total gold output to exceed 2.0 million ounces, as previously guided, to total 2.075–2.125 million ounces.

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

Polyus remains focused on further cost optimisation, free cash flow generation, and exploring new growth opportunities.

Special note of appreciation

I would like to thank all our employees and their families for their hard work. The dedication that they show underpins our success. Our collaborative and focused approach will be a key factor in ensuring that we continue to deliver value for all our stakeholders.

Pavel Grachev
Chief Executive Officer of PJSC Polyus

Market overview

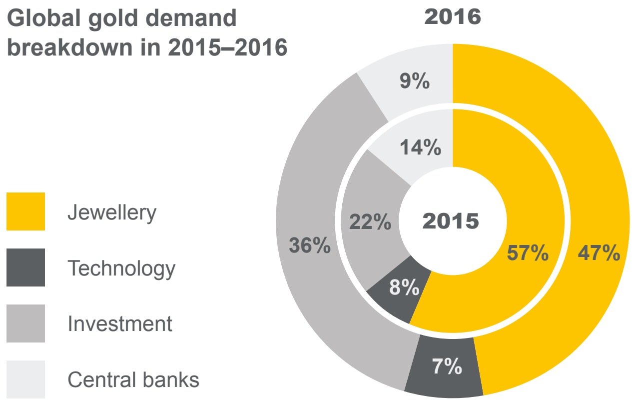
Demand

In 2016, global gold demand rose 2% on the previous year, to a three-year high of 4,309 tonnes, according to the World Gold Council's Gold Demand Trends report published on 3 February 2017. This increase was largely driven by investment demand of 1,561 tonnes, up 70% year-on-year. However, declines in jewellery and central bank purchases almost offset this growth. Burdened by higher gold prices, global jewellery demand fell to 2,042 tonnes, down 15% from 2,389 tonnes in 2015. Central banks were facing challenges, with increased pressure on foreign exchange reserves, resulting in demand falling by 33%, to 384 tonnes for the year. Despite an upturn late in the year, annual demand for gold in technology fell 3% in 2016, from 332 tonnes to 323 tonnes.

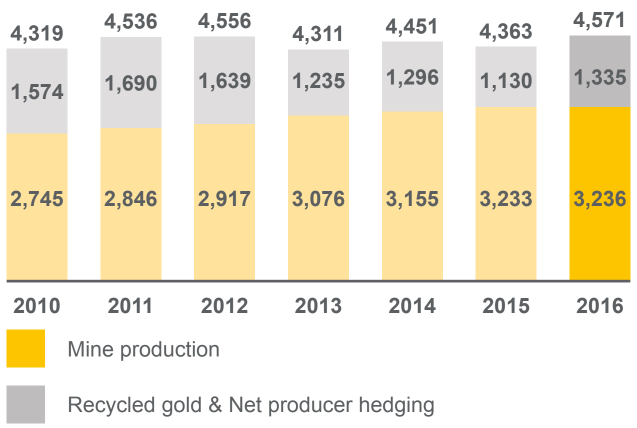
The investment sector was the main contributor to the total demand growth, as the share of investment surged 14% over the prior year and amounted to 36% of global gold demand (22% in 2015). Annual inflows into exchange-traded funds (ETFs) reached 532 tonnes, which was the second-highest level on record, behind 2009 figures. Political and economic factors such as future interest rate hikes, the US election, Brexit, negative interest rates, and price momentum drove a flow of investment into ETFs. At the same time, bar and coin purchases declined 2% versus 2015, totalling 1,029 tonnes, mainly due to the high gold prices for much of the year. Falling gold prices sparked investor interest in the fourth quarter of 2016. In China, demand was up 86% on the 2015 level, pushing the full-year figure to 285 tonnes, which made up around 28% of global annual bar and coin demand. India's gold market suffered in 2016, as a raft of regulatory developments, fragile rural sentiment following weak monsoons in 2014 and 2015, and the soaring gold price for most of the year pushed bar and coin demand to its lowest level since 2005.

Jewellery, with a 47% share in total demand, fell to a seven-year low of 2,042 tonnes and remained subdued in the face of persistently high gold prices. Its contribution to global gold demand was down 10%, from 57% in 2015. Nevertheless, the gold price was not the only factor that weighed on demand in the jewellery sector, with demand in India suffering from strikes, regulations, a shock demonetisation policy, and high gold prices. Meanwhile, consumer behaviour in China was changeable and European and US consumers remained hesitant.

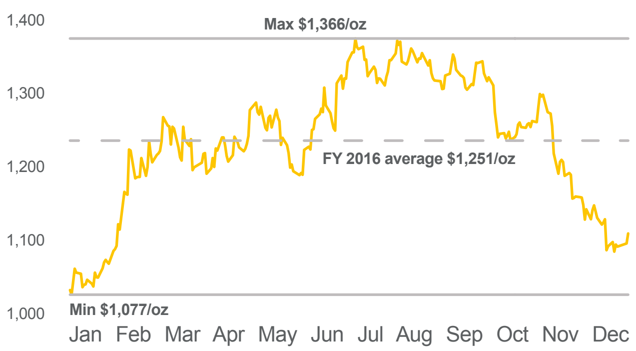
Global gold demand breakdown in 2015–2016



Global gold production, T



LBMA gold price dynamics in FY 2016, $/oz



Source: London Bullion Market Association

Central bank net purchases fell 33% year-on-year, to 384 tonnes on a net basis, while their share in global demand fell 5%, to 9% in 2016. Despite this, 2016 was the seventh consecutive year of net purchases by central banks, with Russia, China, and Kazakhstan pushing forward with their buying programmes.

Technology recorded a relatively flat year, down 3% to 323 tonnes, primarily due to substitutions and savings in the wireless industry and dentistry.

Supply

The total gold supply stood at 4,571 tonnes, a rise of 5% on 2015. Mine production was broadly in line with the 2015 level and amounted to 3,236 tonnes, as high grading continued to support mining activity. However, higher gold prices and lower costs supported renewed exploration interest. Net producer hedging has been a feature of the gold market since the second half of 2015, and this increased 95%, to 26 tonnes in 2016, as gold producers saw an opportunity to secure cash flows at higher prices. Recycled gold volumes totalled 1,309 tonnes in 2016, surging 17% on the prior year due to significant recycling levels in Europe and the Middle East, driven by weak currencies and a high gold price.

Prices

In the first months of 2016 gold prices were highly volatile, surging from $1,077/oz to $1,366/oz from January to July due to a weaker US dollar, a collapse in bond yields, weakness and volatility on equity markets, and fears of a financial fallout from the UK leaving the European Union. In the fourth quarter of 2016, gold relinquished some of its gains against a background of the US Presidential Election and expectations for a Federal Open Market Committee interest rate hike. November 2016 was the worst month for gold prices since June 2013. In one month alone the gold price fell around 9%. Overall, in 2016, the average London Bullion Market Association (LBMA) gold price was $1,251/oz, 8% above the 2015 average of $1,160/oz.

Outlook for 2017

The gold market is cyclical and sensitive to changes in general economic conditions, and it can be subject to significant volatility. Looking back, the gold price performed strongly in the past year, rising close to 10% in US dollar terms (higher than in most other currencies). Physically-backed gold ETFs enjoyed multi-year record inflows, though there was a post-US election pullback. In 2016, investors were looking for safe havens during the year, amid global political and economic uncertainty.

In 2017, political risks may arise from elections in the Netherlands, France, and Germany, as well as Brexit negotiations between the UK and the European Union. Moreover, in the US, political risks could intensify, as the new US administration begins to implement protectionist campaign pledges. Historically, gold performs better than other high-quality liquid assets during periods of crisis, and this makes it an excellent liquidity provider of last resort. Thus, in the event of political uncertainty, gold investment demand is likely to remain firm in 2017.

From an economic perspective, rising inflation expectations may affect gold prices in 2017. Nominal interest rates are expected to increase widely in the US this year, however, analysts also expect inflation to grow as well. Gold is usually considered to be an inflation hedge, and it will become more attractive for investors if higher inflation keeps real interest rates low.

Key competitive advantages

The Directors believe that the Group's competitive advantages include:

A leading position globally in terms of production, with an extensive and high-quality reserve and resource base

With 2016 production of approximately 2.0 million ounces and 71.0 million ounces of proven and probable ore reserves, the Group is the largest gold mining company in Russia in terms of both production and reserves, according to a Metals Focus report. The Group is also among the top-10 gold companies globally based on production and it is the second-largest gold company globally in terms of gold reserves. The Group benefits from an average mine life of approximately 37 years, based on attributable 2016 production volumes, which is more than double the average mine life of its top-10 global peers. All the Group's hard rock operations are open pit and have an average reserve grade of 1.8 g/t. Because of its strong foothold in, and commitment to, the Russian market, the Group believes that it is well-positioned to capitalise on existing and future opportunities in the region and that it has a competitive advantage in bidding for new licenses and assets.

Industry leading production growth profile from large development assets and brownfield expansion projects

Given its track record of organic growth, asset optimisation, and project development, achieving a 70% increase in production from the beginning of 2005 to the end of 2016, and 19% between 2014 and 2016, the Group believes it is well-positioned to convert its reserve base into gold production while maintaining a long-term sustainable low-cost profile. Management is targeting a robust growth profile, with the goal of increasing gold production from around 2.0 million ounces in 2016 to 2.8 million ounces in 2019, representing 44% growth and a 13% CAGR. Around 420-470 thousand ounces per annum are expected from the planned launch of operations at Natalka, where construction is nearing completion and commissioning is expected at the end of 2017. Additional 350-400 thousand ounces are expected from expansions and additional debottlenecking measures at Olimpiada, Blagodatnoye, Verninskoye, and Kuranakh. Given its comfortable liquidity position and experience in asset development, the Group is well-placed to bring its existing development projects to fruition. The Group received the license for the Sukhoi Log deposit, and its subsequent development, one of the Group's mid-term projects, is expected to raise significantly the Group's existing production growth profile.

Extensive and successful experience in asset development and optimisation

The Group has a strong track record of organic growth and project execution, from the initial exploration stage to mining and flowsheet design and development, as demonstrated by Blagodatnoye and Verninskoye. The construction of Blagodatnoye, one of the largest Russian exploration projects developed in the past decade, and which contributed 23% of the Group's output in 2016, was completed in two years from its greenfield state, including the commissioning of all supporting infrastructure. In addition, the current management team has demonstrated strong capabilities in optimising and debottlenecking existing operations. Following a number of targeted improvements in mining and processing technologies, cash costs, recovery rates, and throughput capacity have improved significantly at Kuranakh, Verninskoye, and Olimpiada. Also, some brownfield development projects identified in the Strategic Asset Review Programme either had already been completed or had entered the second execution stage by the end of 2016, thus facilitating an increase in production of 12%, to 1,968 million ounces in 2016 compared to 2015.

A leading low-cost profile, with sustainable cost advantages compared to global peers

The Group efficiently manages a portfolio of high-grade, large-scale open-pit mines, which the Group believes provides it with a sustainable cost advantage and low operating leverage in comparison to its global gold mining peers. All of the Group's existing operations have access to power grids. The Group's cash cost advantage has been further improved by the depreciation of the rouble and ongoing operational efficiency initiatives undertaken by the current management between the end of 2013 and 2016. As a result, the Group's average TCC/oz and average AISC/oz of $389/oz and $572/oz in 2016, respectively, are in the first decile of the 2016 global cost curves, having moved from the fifth decile of the global cost curve, according to Metals Focus' Quarterly Gold Mine Cost Service report. Furthermore, in 2014, as part of its focus on operational excellence and cost discipline, the Group launched the Total Optimisation Program ("TOP") in order to incentivise the implementation of Capex-light operational improvements across its business. The TOP's objective is to introduce rapid measures that do not require investment in excess of RUB 35 million for any given initiative. These measures are expected to have a payback period of not more than two years. The Group continues to identify further cost-cutting opportunities and to launch multifaceted initiatives under the TOP. From 2013 to 2016, adjusted EBITDA rose by 68%, from $917 million to $1,536 million. The Group intends to retain its status as one of the lowest-cost gold producers globally.

Ability to efficiently expand resource base

Because of its strong foothold in and commitment to the Russian market, the Group believes it is well-placed to capitalise on existing and future opportunities in the region and that it has a competitive advantage when it comes to bidding for new licenses and assets. On 21 February 2017, Rosnedra issued to SL Gold, a company established by JSC Polyus and LLC "RT Business Development" ("RT"), a wholly owned subsidiary of Russian State Corporation Rostec, a license to develop the Sukhoi Log deposit. This deposit is one of the 30-largest gold mineral deposits globally in terms of reserves, according to the Metals Focus Gold Focus 2016 report, with total reserves estimated by the Russian state authorities of 53.3 million ounces, with a 2.0 g/t reserve grade for open-pit mining and 9.5 million ounces having a grade of 2.8 g/t for underground mining, classified according to Russian Standards (GKZ).

Strategy

The Group's strategy is focused on creating value by growing organically through the effective execution of expansion projects and the construction and launch of projects at new deposits. Through its strategy, the Group seeks to generate industry competitive shareholder returns, while maintaining a commitment to operational excellence and its social and environmental responsibilities. The Group's strategy focuses on the following aspects:

1. Maintaining and expanding an extensive reserve and resource base

Description

The Group operates in a gold-rich region. It operates and develops the Olimpiada and Natalka deposits, which are two of three Russian deposits included in the world's 30-largest assets in terms of resources, according to the Metals Focus Gold Focus 2016 report.

Already achieved

PJSC Polyus is the largest gold mining company in Russia by reserves, according to the Russian Union of Gold Miners.
The Group is the second-largest gold company globally in terms of gold reserves, according to the latest company reports, with 71 million ounces of proved and probable ore reserves.

Mid-term target

Because of its strong foothold in and commitment to the Russian market, the Group believes it is well-placed to capitalise on existing and future opportunities in the region and that it has a competitive advantage in bidding for new licences and assets.

Risks to strategy

- Market risks
- Mineral resources and ore reserves
- Natural hazards and technology risks
- Capital construction / project risks
- Regulatory risks
- Supply chain risks

2. Pursuing capital-efficient growth opportunity

Description

The Group surpassed its annual production guidance in 2014, 2015, and 2016 by 5%, 6% and 11%, respectively. Following a 19% gold production increase between 2013 and 2016, the Group aims to deliver sustainable organic growth by executing an identified set of brownfield development projects, which will allow the Group to extract maximum output from existing assets through targeted expansion and debottlenecking initiatives with high IRRs. Furthermore, the Group is proceeding with developing a large-scale greenfield project – Natalka, which is expected to begin operations at the end of 2017.

Already achieved

The first stages of the throughput capacity expansion projects at the Blagodatnoye, Verninskoye, and Kuranakh mills, identified under the Strategic Asset Review, were completed in 2016.
The reconfiguration of Mill No. 1 to process high-grade Olimpiada ore and to increase throughput capacity to 3.0 million tonnes per annum was completed in September 2016.
In 2016, the mills at Olimpiada, Blagodatnoye, Verninskoye, and Kuranakh operated at above-nominal capacity.
Average recoveries have improved, by 0.2 ppts to 83.9% in 2016, chiefly due to significant progress at Olimpiada, Verninskoye, Kuranakh, and Titimukhta.

Mid-term target

The Natalka project is slated for launch by the end of 2017.
An additional BIO circuit at Mill No. 1, 2 and 3 is to be launched by the end of 2017, enabling the Group to process all gold in concentrate into doré gold in-house.
Operational initiatives introduced at Verninskoye will stabilise the achieved throughput run rate in order to proceed with further capacity expansion, to 3.0 million tonnes per annum by the end of 2018.
The 1.5 million tonnes per annum heap leaching facility at Kuranakh to be completed by the end of 2017.
The heap leaching facility at Blagodatnoye is to be launched in 2019.

Risks to strategy

- Market risks
- Mineral resources and ore reserves
- Natural hazards and technology risks
- Capital construction / project risks
- Regulatory risks
- Supply chain risks

3. Preserving cost leadership

Description

The Group is one of the lowest-cost gold producers, being in the first decile of the global cost curve.
The Group efficiently manages a portfolio of high-grade, large-scale open-pit mines, which the Group believes provides it with a sustainable cost advantage and low operating leverage in comparison to its global gold-mining peers.

Already achieved

A weaker rouble and ongoing efficiency programmes in 2016 pushed the costs incurred by Polyus to new lows:
- TCC fell by 8% year-on-year, to $389/oz
- AISC retreated 4% year-on-year, to $572/oz

Operational optimisation initiatives under the Total Optimisation Programme continued to have a positive impact on costs in 2016.

Mid-term target

The Group intends to retain its status as one of the lowest-cost gold producers globally through its disciplined approach to project selection, concentrating on large scale "Tier 1" assets and projects, which are long-life, low-cost, and high-grade.
The Group also plans to continue to implement operational efficiency initiatives aimed at increasing throughput and recovery rates as well as achieving cost reductions.

Risks to strategy

- Market risks
- Supply chain risks
- Natural hazards and technology risks

4. Striking a balance between shareholder returns and an optimum capital structure

Description

In 2016, the Group established an objective dividend policy focused on shareholder returns, while ensuring that adequate liquidity is maintained. The Group continues to have a comfortable leverage profile with limited repayments in the coming years and a strong cash position, which it believes will allow it to meet its financing obligations and the planned capital expenditures programme.

Already achieved

Under the new dividend policy, the Group will pay dividends on a semi-annual basis at 30% of the EBITDA for the applicable reporting period, provided that the net debt/adjusted EBITDA ratio for the past 12 months, based on the consolidated financial statements of the Group, is lower than 2.5x.

Mid-term target

The Group believes its low-cost position should allow it to sustain industry leading dividend payments throughout the cycle.

Risks to strategy

- Market risks
- Political and country risks
- Capital construction / project risks

5. Maintaining high standards of corporate governance and corporate disclosure

Description

The Group is committed to maintaining high standards of corporate governance and disclosure. It has adopted a disclosure and reporting policy that is consistent with applicable regulatory requirements and is in compliance with the relevant best practice standards.

Already achieved

The Group's Board of Directors includes three independent non-executive directors, all of whom have extensive experience in large public companies and in the mining industry.
Edward Dowling, the Chairman of the Group's Board, has over 30 years' experience in the mining industry and currently serves as the Chairman of the board of Alacer Gold, and as a member of the board of Teck Resources, Canada's largest diversified mining company, and Detour Gold Corporation, a Canadian intermediate gold mining company.
Kent Potter has held various senior managerial positions in Chevron, TNK-BP, and LyondellBasell Industries during a 30-year career in the natural resources industry. He also serves on the Board of EuroChem Group AG.
William Champion has over 40 years' experience in the mining industry and currently serves on the Board of Compañía de Minas Buenaventura, Peru's largest publicly traded precious metals company.
In addition, the Group's Audit, Nomination and Remuneration, Strategy, and Operations committees each have at least two independent non-executive directors as members and all of these Committees are chaired by an independent non-executive.

Mid-term target

The Group continues to work towards achieving the free float level required to fully comply with its MOEX Level 1 listing.

Risks to strategy

- Regulatory risk
- Political and country risks

6. Maintaining stringent health and safety standards

Description

The Group is committed to the best HSE practices and continues to implement a two-year action plan (begun in 2015) to ensure full compliance with ICMM Sustainable Development principles.

Already achieved

The Group is the only Eastern European company and one of only four companies from emerging markets that is committed to full compliance with ICMM Sustainable Development principles.

Mid-term target

The Group's ultimate goal is to achieve a zero injuries rate.

Risks to strategy

- Environmental risk
- Regulatory risk

For additional information, see section "Principal risks and uncertainties" on pages 159–163

POLYUS

Strategic asset review update

In 2014, the Group began a comprehensive review of its assets, with a view to monetising its substantial resource base, identifying additional low-risk growth opportunities, and optimising the development pipeline. In March 2015, the Group developed its Strategic Asset Review Programme to develop low-risk, low-cost, brownfield projects. The programme identified a number of medium-scale initiatives at core assets at the Krasnoyarsk, Irkutsk, and Yakutia business units, with the potential to deliver up to 350-400 thousand ounces per annum (not including the Natalka project) of incremental gold production. The Group's gold production in 2016 amounted to almost 2.0 million ounces. The Group expects production to increase further in 2017, estimating levels of approximately 2.1 million ounces and another year of production growth. In the mid-term, the Group's annual production target is 2.8 million ounces of gold by 2019. Attaining these target projections will depend on a number of factors, including market conditions, the successful implementation of our development and expansion projects, and various operational and other risks described elsewhere in this report. Under the Strategic Asset Review Programme the anticipated brownfield projects are expected to include:

the Krasnoyarsk BU will remain the principal growth platform of the Group, with four major projects identified:

- reconfiguration of Mill No. 1 to process higher-grade ore from the Olimpiada deposit
- bio-oxidation capacity expansion at No. 1, 2, and 3 mills at Olimpiada
- expansion of the Blagodatnoye Mill to 8.0 million tonnes per annum of throughput capacity
- the introduction of heap leaching at Blagodatnoye

At Verninskoye, the Group is planning to increase the capacity of the mill to 3.0 million tonnes per annum

At Kuranakh, the Group is considering commissioning heap leaching and increasing the existing throughput capacity of the Kuranakh Mill to 5.0 million tonnes per annum

In 2016, one of these projects was fully completed and the first stage of expansion was concluded for the three other projects:

1. The reconfiguration of Mill No. 1 was completed in September 2016
2. The Blagodatnoye Mill has already reached its target throughput capacity of 8.0 million tonnes per annum, and the Group is now implementing initiatives to stabilise this run rate
3. The throughput capacity at the Verninskoye Mill has already achieved a 2.5 million tonnes per annum annualised run rate and the Group is now preparing for further capacity expansion
4. The throughput capacity at the Kuranakh Mill has already achieved an annualised run rate of 4.5 million tonnes per annum, and the Group is currently implementing initiatives to proceed with further capacity expansion

Following completion of the first stages, the expansion projects are expected to be finalised in 2017–2018.

For additional information, see section "Operational Review" on pages 35–48

Photo: At the Natalka mine

Key performance indicators

To measure progress against the Group's strategy, we have benchmarked our performance in 2016 against a set of key financial, operational, and sustainability KPIs.

KPI	Dynamics	Relevance to strategy	Fy 2016 performance	Looking ahead
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.	**Adj. EBITDA,** $ million **2016** **1,536** **2015** **1,278** **2014** **1,018**	Demonstrates the Group's ability to generate operating cash flows, which are a major contributor to Polyus' capital expenditures programme, working capital requirements, and credit portfolio servicing.	The Group's adjusted EBITDA rose 20% over the past year, to $1,536 million. This reflects higher sales volumes and gold price coupled with reduced operating costs driven by Polyus' Total Optimisation Programme and the weaker rouble.	Polyus is focused on growing adjusted EBITDA through sustainable cost reduction and operating efficiency initiatives. For additional information, see section "Management discussion and analysis ('MD&A') on financial performance" on page 59
Volume of gold produced from Polyus' hard-rock mines and alluvial operations in the reporting period. Gold production volumes are measured in thousands of troy ounces.	**Total gold output,** thousand ounces **2016** **1,968** **2015** **1,763** **2014** **1,696**	Gold production is an indication of Polyus' operational performance and demonstrates the operational and management teams' progress against mining plan targets.	Polyus' gold output increased a further 12% year-on-year, exceeding both the previous year's performance and internal targets.	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 "Operational review" on page 33
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.	**Total cash cost,** $/oz **2016** **389** **2015** **424** **2014** **585**	TCC is a key measure of efficiency at the Group's 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 next stage of the programme will introduce more multifaceted and intensive measures to contain cost inflation and improve productivity. For additional information, see section "Management discussion and analysis ('MD&A') on financial performance" on page 59
The lost time injury frequency rate (LTIFR) measures delivery against Polyus' commitment to health and safety across the business.	**LTIFR,** per 200k hours worked **2016** **0.13** **2015** **0.08** **2014** **0.09**	Polyus tracks a range of safety performance indicators and data to measure the efficiency of the Group's health and safety initiatives and their application across Polyus' operations.	The Polyus HSE Management System was developed and advanced in partnership with DuPont at all the Group's business units.	Polyus targets zero fatalities in the business through maintaining a constant focus on improving its Health and Safety management systems. For additional information, see section "Health and Safety" on pages 103–108

Key risks

At Polyus, we have developed a strict and robust risk management culture which, we believe, is paramount to delivering sustainable value to our stakeholders. As global and local markets continue to be volatile in numerous ways – commodity prices, exchange rates, macroeconomic stability, climatic conditions – we continue to place a significant focus on risk management, in particular both the identification and response aspects.

Potential risks include:

Category	Description	Reaction
Industrial	The Group's earnings are exposed to gold price movements, as this provides the Group's primary 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 the Strategic Price Protection Programme, which comprises a revenue stabiliser and gold futures contracts.
Industrial	The Group's performance is reliant on the quantity and quality of mineral resources and the ore reserves available to it.	The Group employs the cutting-edge technology in its geological surveys and engages independent international experts to conduct audits on prospective or existing deposits. The Group was awarded the license to develop the Sukhoi deposit in February 2017, which has further improved the Polyus' mineral reserve base.
Strategic	The implementation of the Group's investment projects is subject to geological, market, operational, and compliance risks.	To reduce these project risks, the Group has defined detailed procedures to ensure that proposed investment projects are carefully and comprehensively studied and analysed prior to selection.
Operational	The Group's open pit-mining operations are subject to all the hazards and risks normally associated with the exploration, development, and production of natural resources.	The Group engages highly qualified professionals to conduct expert appraisals of strategic projects, including international engineering companies. Exploration drilling and analyses of the geological environment at sites is conducted on a regular basis. Furthermore, the Group implements ICMM standards as part of its ongoing operations.
Financial	The Group is exposed to interest rate risk, as 54% of its debt portfolio comprises USD floating rate borrowings.	Interest rates fluctuations may affect the Group's financial results. The Group is currently shifting from a floating to a fixed interest rate amid expectations of higher financing costs.

A detailed description of risks is presented on pages 159–163

Photo: At the Alluvials mine

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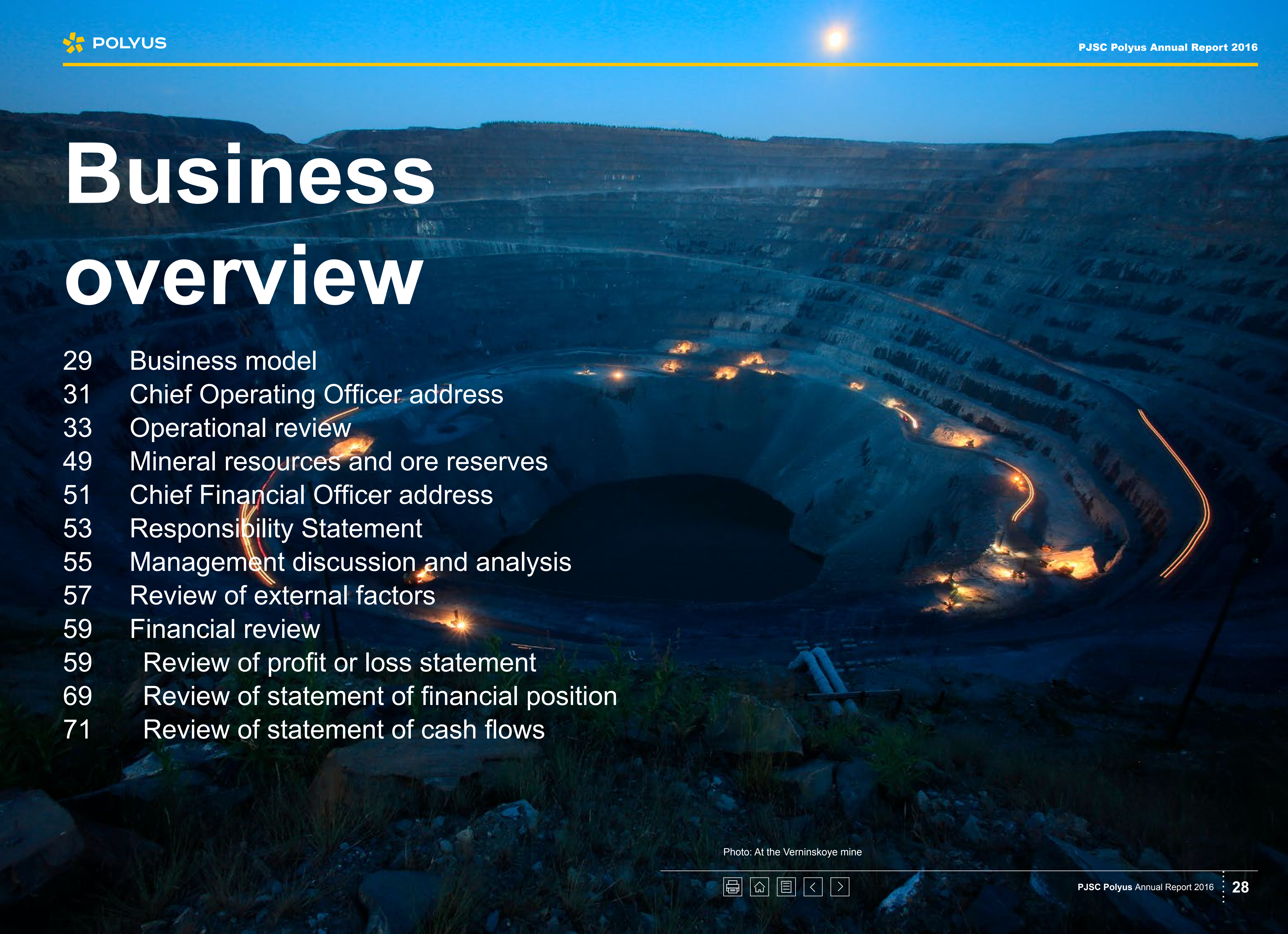

Photo: At the Verninskoye mine

Business model

The Group's operating and business activities extend across the full gold-mining production process – from exploration through to processing, production, and sales. Our six principal areas of activity are:

1 EXPLORATION AND EVALUATION

The Group has an experienced in-house exploration team with significant geological knowledge and capabilities, and which is continuously focused on identifying the most promising deposits. Polyus concentrates on large assets with high-grade ores that can deliver maximum profitability, with efficiency at least on a par with best-in-class global peers. Polyus conducts exploration activities in our core regions of operation.

2 DEVELOPMENT

The Group has a strong track record of organic growth and project execution, from the initial exploration stage to mining and flowsheet design and development, as demonstrated at Blagodatnoye and Verninskoye. The Group believes it is well-placed to convert its reserve base into gold production, given its proven track record of organic growth, asset optimisation, and advanced project management expertise.

In 2014, the Group began a comprehensive review of its assets, with a view to monetising its substantial resource base, identifying additional low-risk growth opportunities, and optimising the development pipeline. In March 2015, the Group developed its Strategic Asset Review Programme to develop low-risk, low-cost brownfield projects.

The programme identified a number of medium-scale initiatives at core assets at the Krasnoyarsk, Irkutsk, and Yakutia business units, with the potential to deliver up to 350-400 thousand ounces per annum of incremental gold production. In addition, 420-470 thousand ounces per annum is expected from the planned launch of operations at Natalka, where construction is nearing completion and commissioning is expected at the end of 2017.

3 MINING AND PROCESSING

Polyus has a team of highly qualified and experienced mining specialists with market-leading operational and technological knowledge and capabilities. The Group is focused on proactively improving operational efficiency through process automation, implementing the Group's Total Optimisation Programme measures, and transitioning to the Polyus Production System. Alongside this, our approach is influenced by our commitment to sustainability, including rehabilitation of the environment at the end of an asset's life.

4 PRODUCTION

We continue to reach new highs: this year saw the ninth consecutive year of production growth. The Group's outstanding progress has been again underpinned by its strict focus on operational excellence and tight cost controls, which drives efficiencies across all assets. At the same time, we remain fully committed to protecting the health and safety of our employees.

5 SALES OF GOLD

Our mines produce doré and slime gold, 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 of 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.

6 DELIVERING VALUE TO ALL STAKEHOLDERS

Delivering sustainable value to all our stakeholders while at the same time being totally committed to the highest ecological and health and safety standards is our top priority. We work closely with government authorities, communities, employees, contractors, customers, and suppliers to ensure that Polyus respects the interests of all respective parties. The requirements and expectations of today's society are constantly changing to challenge us further, and we continue to listen carefully to our stakeholders, with a view to creating sustainable value.

We manage our capital as efficiently as possible in compliance with our strategy to create value, with a focus on generating sustainable free cash flows and returns. The output and impact of our business activities can be measured directly against the employed capital used.

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Chief Operating Officer address

Vladimir Polin
Senior Vice-President, Operations of PJSC Polyus

Highlights

2016 was another year of considerable operational progress for Polyus, as we continued to build on the strong performance achieved in 2015. We increased our gold output by 12% versus the previous year, delivering 1.97 million ounces in 2016, beating our production guidance, which we lifted twice during the year. This marked 2016 as the third consecutive year when Polyus outperformed.

This significant growth was chiefly driven by an increase in volumes of ore processed (7% year-on-year, to 26.4 million tonnes), following capacity expansion projects at our key mines: Olimpiada, Blagodatnoye, Verninskoye, and Kuranakh. We also achieved further improvements in recovery rates at Olimpiada and Verninskoye.

Also, we increased volumes of ore mined 35 % over the past year, to 29.7 million tonnes, following lengthy and extensive stripping works, which were completed in the first quarter of 2016 as part of a pit cutback at Olimpiada.

2016 marked a significant year in the Group's development, as we entered the execution phase for our key development projects, which will support the continued organic growth of existing operations.

As part of our Strategic Asset Review Programme we completed the reconfiguration of the Titimukhta Mill in September 2016. This is the first of a portfolio of development projects set out following the Asset Review, and the mill is now processing higher-grade Olimpiada ores.

The development of our flagship Natalka mine remains a strategic priority for the Group, and we made good progress on the project this year. Having revised the model for the project's mining and processing operations, we look forward to commissioning Natalka by the end of 2017.

Health and safety

While we recognise that operational risks exist in any mining activity, the health, safety, and well-being of our employees is number one priority. Our clear focus remains on eliminating fatalities and injuries from our business. We believe our strong commitment will yield benefits for our employees as well as for business performance.

Development projects

One of our key achievements this year resulted from our focus on improving the quality of overall output – we considerably enhanced doré gold output at all our active mines. This was achieved mainly through initiatives aimed at increasing the average gold grade, as well as operational efficiency improvements. Specifically, we made significant progress on debottlenecking at Olimpiada, Blagodatnoye, Verninskoye, and Kuranakh, and to date this is delivering an additional processing capacity of 2.0 million tonnes per annum across our assets.

Olimpiada

At Olimpiada, these efforts allowed us to increase doré gold output by 26% over the 2015 level, achieving a record 956 thousand ounces. The reconfiguration of Mill No. 1 was completed in September, and the mill is now processing higher-grade Olimpiada ores. Further operational enhancements also drove an improvement in the recovery rate at Olimpiada, which increased to 81%, compared with 79.6% in 2015.

Blagodatnoye

At Blagodatnoye, growing processing volumes and higher grades increased doré output 8% versus 2015, to 455 thousand ounces. We completed the first stage of the project to increase throughput capacity at the Blagodatnoye Mill to 8.0 million tonnes per annum on an annualised basis, and this has already positively impacted processed volumes at the mine, which were up 3% year-on-year, to 7.8 million tonnes.

Verninskoye

We are pleased to report that Verninskoye continues to perform particularly strongly, and in the fourth quarter of 2016 outperformed its designed recovery rate for the seventh consecutive quarter. Increased recovery rates and processed volumes improved doré output by 12% at the mine, where we successfully raised the mine's average grade by 6% over the year.

We made good progress during the year on improving operational efficiency at the mine, and this supported progress on our project to further expand throughput capacity at the Verninskoye Mill to 3.0 million tonnes per annum. The first stage of this project was completed, delivering an increase in capacity to 2.5 million tonnes per annum on an annualised basis. Efficiency improvement initiatives at the mine included the introduction of a more efficient cone crusher and higher capacity pulp pumps, which enhanced throughput capacity and reduced maintenance downtime.

Alluvials

At Alluvials, we continued to focus on introducing equipment that would improve recovery grades, and over the year improved the average grade by 9%.

Kuranakh

At Kuranakh we achieved throughput capacity expansion of the Karanakh Mill to 4.5 million tonnes per annum on an annualised basis, as part of our development project targeting expansion to 5.0 million tonnes per annum in 2017. At the same time, processing efficiency improvement initiatives ensured an 8% year-on-year increase in ore treatment volumes.

Natalka

In 2016, we relaunched Natalka, with a revised and improved model for its mining and processing operations. Processing at the 100 thousand tonnes pilot plant continued in 2016, producing 5.0 thousand ounces of dore gold. Construction works are expected to continue and expand during 2017, with the works at the grinding and gravity circuits expected to be finalised by the fourth quarter of 2017. The Group expects to commission the Natalka project by the end of 2017, followed by a 12-month ramp-up period to reach a run-rate of approximately 420–470 thousand ounces of annual gold production.

Outlook

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

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

Operational review

Consolidated operating results

Gold production koz	2016	2015	Year-on-year
Olimpiada[1]	**816.9**	741.1	10%
Blagodatnoye	**456.5**	424.6	8%
Titimukhta[1]	**40.2**	102.3	-61%
Poputninskoye	**7.4**	2.4	3.1x
Verninskoye	**186.5**	161.1	16%
Alluvials	**168.5**	168.3	0%
Kuranakh	**159.7**	144.8	10%
Natalka	**5.7**	–	n/a
Refined gold, koz	**1,841.4**	1,744.4	6%
Gold in flotation concentrate, koz	**126.4**	18.9	6.7x
Gold payable in concentrate, koz	**82.2**	12.3	6.7x
Total gold output, koz	**1,967.8**	1,763.4	12%

Mining works and ore processing	2016	2015	Year-on-year
Rock moved, kt	**144,780**	162,305	-11%
Stripping ratio, t/t	**3.9**	6.4	-39%
Ore mined, kt	**29,682**	22,012	35%
Ore processed, kt	**26,445**	24,824	7%
Recovery rate,%	**83.9%**	83.7%	0.2 ppts
Total doré and slime gold output, koz	**1,966.4**	1,767.4	11%

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

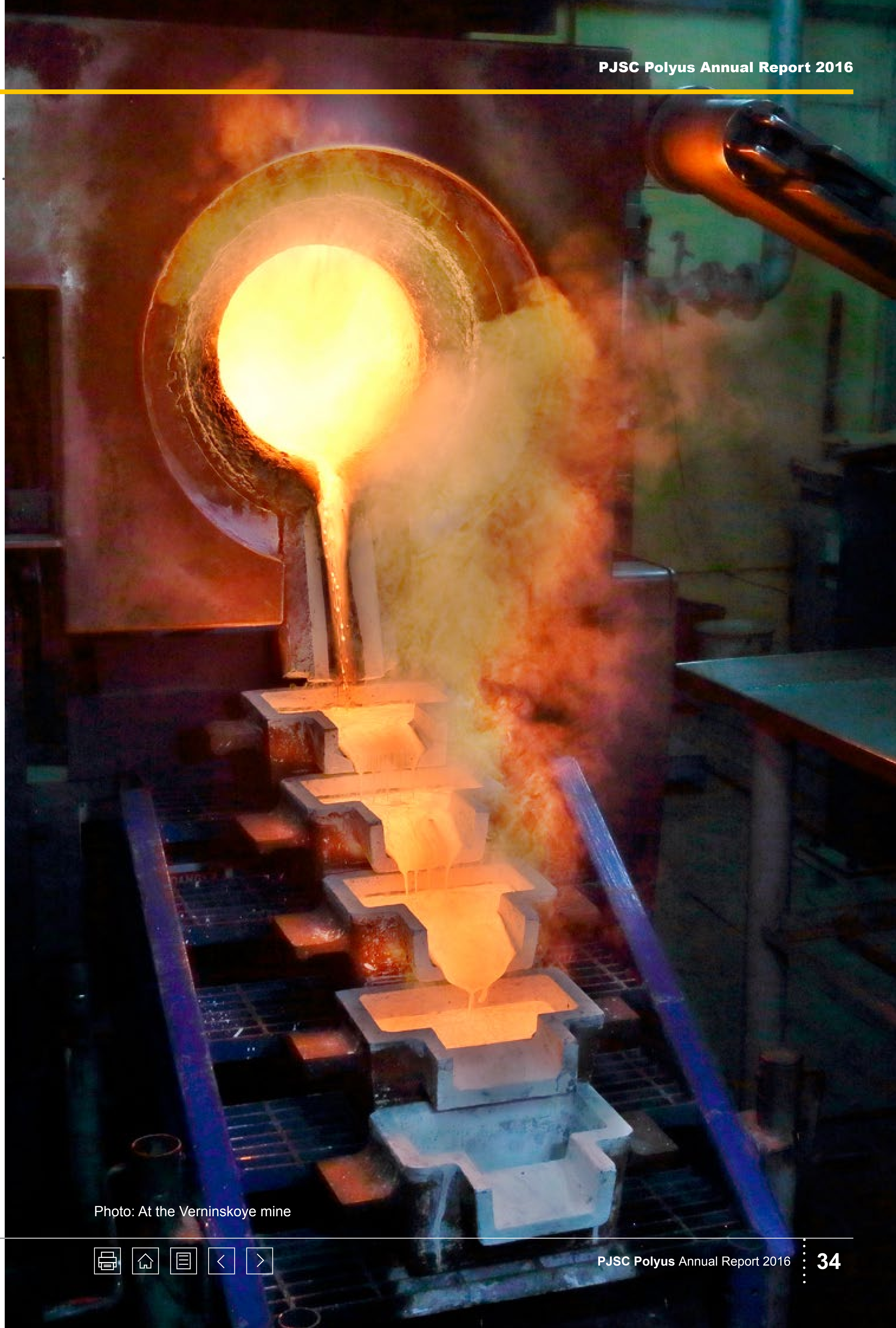


Photo: At the Verninskoye mine

Olimpiada

Overview

Location	Krasnoyarsk Region
Commissioned	1996
Mining/processing type	Open pit, flotation-bioleach
Processing capacity	3 plants with a total capacity of 11.7 million tonnes per annum

	2016	2015	Year-on-year
Rock moved, kt	**51,917**	60,317	-14%
incl. stripping, kt	**42,134**	57,541	-27%
Stripping ratio, t/t	**4.3**	20.7	-79%
Ore mined, kt	**9,782**	2,777	3.5x
Average grade in ore mined, g/t	**3.37**	2.67	26%
Ore processed, kt	**11,336**	9,506	19%
incl. purchased ore from Veduga mine, kt	**551**	50	10.9x
Average grade in ore processed, g/t	**3.31**	3.18	4%
Recovery,%	**81.0%**	80.1%	0.9 ppts
Doré gold (incl. gold in concentrate), koz	**956.3**	758.4	26%
Refined gold output, koz	**816.9**	741.1	10%
Gold contained in concentrate, koz	**126.4**	18.9	6.7x
Total gold output, koz	**943.4**	760.0	24%

The Olimpiada mine is Polyus' flagship operation and Russia's largest gold mine. It is located approximately 500 km north of the major city of Krasnoyarsk in the Krasnoyarsk Region of Western Siberia. The mine is located in Eruda in the Severo-Yeniseysk administrative district, Krasnoyarsk Territory. The district centre of Severo-Yeniseysk is located 60 km by road north of Eruda. The Olimpiada deposit was discovered in the 1970s, although alluvial gold mining in the region dates back much further. Exploration is reported to have commenced at Olimpiada in the 1970s.

Olimpiada ore is now processed in plants No. 1, 2 and 3, with a combined nominal capacity of 11.7 million tonnes per annum. Titimukhta ore was being processed in Mill No. 1 until the processing of Titimukhta ore was suspended in April 2016.

Gold at Olimpiada occurs in a complex form, with arsenopyrite, pyrrhotite, stibnite, and pyrite, and coupled with the carbonaceous nature of much of the ore, results in Olimpiada ore being highly refractory. Mining operations are currently based on conventional open-pit methods. The mine comprises the Vostochny and Zapadny pits. Rock is removed by excavation and hauling after blasting.

Mine production uses drill and blast, with a standard truck-and-shovel operation, hauling ore to stockpiles for blending (high antimony ore is currently stockpiled). Processing utilises gravity and flotation concentration methods, with subsequent bio-oxidation of the flotation concentrate and sorption leaching of the bioleach product using the carbon-in-leach (CIL) process.

In 2016, doré gold output increased 26% on the past year, achieving a record 956 thousand ounces, driven by higher processed volumes, improved recoveries, and an increase in gold contained in concentrate production. Total gold output (refined and concentrate) stood at 943 thousand ounces, up 24% on the previous year. Following a lengthy period of extensive stripping works as part of a pit cutback completed in 1Q 2016, the stripping ratio was reduced by 79% versus 2015, to 4.3, while volumes of ore mined rose significantly, 3.5 times year-on-year to 9.8 million tonnes in 2016. Moreover, in August 2016, mining activity was re-commissioned at the previously mothballed Zapadny pit. This helped offset the impact of the pit wall failure at Olimpiada on 23 May, which led to a temporary suspension of mining operations at the Vostochny pit from 23 May to 1 June.

Processed ore volumes improved further during 2016, up 19% on the 2015 level to 11.3 million tonnes, despite reduced hourly throughput at Mill No. 2, and reflected the results of the reconfiguration of Mill No. 1, which was completed in September 2016, and began processing Olimpiada ores. Furthermore, the physical properties of Olimpiada ore supported an increase in throughput capacity at Mill No. 1, from 2.4 million tonnes per annum to 3.0 million tonnes per annum on an annualised basis. The recovery rate rose to 81% in 2016, driven by efficiencies at the presorption cyanidation stage, lower losses in sorption tailings, and improved efficiencies at the flotation and gravitation circuits at mills 2-3. Average grades in ore processed increased to 3.3 g/t, up 4% on 2015.

In 2016, gold in concentrate volumes significantly grew, reflecting an increase in ore processing volumes during the respective period, whereas BIO capacities remain unchanged. The Group is implementing a project to expand BIO capacities at Olimpiada, which is expected to be completed by and have sufficient capacity to process gold in concentrate into doré gold.

Blagodatnoye

Overview

Location	Krasnoyarsk Region
Commissioned	2010
Mining/processing type	Open pit, gravity, flotation cyanide leaching
Processing capacity	1 mill with a total capacity of 8.0 million tonnes per annum

	2016	2015	Year-on-year
Total rock moved, kt	**49,021**	45,654	7%
including stripping, kt	**37,506**	38,026	-1%
Stripping ratio, t/t	**3.3**	5.0	-36%
Ore mined, kt	**11,515**	7,628	51%
Average grade in ore mined, g/t	**2.01**	1.97	2%
Ore processed, kt	**7,753**	7,512	3%
Average grade in ore processed, g/t	**2.07**	1.99	4%
Recovery,%	**88.0%**	87.9%	0.1 ppts
Doré gold, koz	**455.0**	421.0	8%
Refined gold output, koz	**456.5**	424.6	8%

The Blagodatnoye deposit is located 25 km north of the Olimpiada mine.

Blagodatnoye 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 process mill was commissioned in 2010 with a nominal capacity of 6.0 million tonnes per annum, with gravity concentration, flotation, and CIL sections.

In 2016, doré gold output increased 8% over the prior year to 455 thousand ounces, due to the growth of processing volumes and higher grades in ore processed. Refined gold output amounted to 457 thousand ounces, up 8% versus 2015.

Volumes of ore mined increased 51 % year-on-year, to 11.5 million tonnes, following an increase in mining activity, with volumes of rock moved reaching 49 million tonnes, which partially reflects the utilisation of the mining fleet from the Vostochny pit (Olimpiada mine). Moreover, the stripping ratio declined to 3.3 in compliance with the mining plan. Grades in ore mined remained stable throughout the year.

Ore processed volumes were up 3% versus the previous year, to 7.8 million tonnes, reflecting ongoing initiatives to further expand throughput capacity at the Blagodatnoye Mill to 8.0 million tonnes per annum. The Group completed the first stage of this project, with throughput capacity reaching 8.0 million tonnes per annum on an annualised basis. In 2017 the Group expects these levels to stabilise, and recoveries to increase. In 2016 recoveries remained high, at 88.0%, rising 0.1 ppts from 2015.

Titimukhta

Overview

Location	Krasnoyarsk Region
Commissioned	2009
Mining/processing type	Open pit, RIP, cyanide leaching
Processing capacity	-

	2016	2015	Year-on-year
Total rock moved, kt	**1,054**	14,002	-92%
including stripping, kt	**642**	10,776	-94%
Stripping ratio, t/t	**1.6**	3.3	-53%
Ore mined, kt	**412**	3,225	-87%
Average grade in ore mined, g/t	**1.61**	1.58	2%
Ore processed, kt	**500**	1,515	-67%
Average grade in ore processed, g/t	**2.26**	2.43	-7%
Recovery,%	**85.2%**	87.1%	-1.9 ppts
Doré gold, koz	**32.5**	103.1	-68%
Refined gold output, koz	**40.2**	102.3	-61%

The Titimukhta mine is located approximately 9 km north-west of Olimpiada. The Titimukhta deposit was originally discovered in 1989. Polyus acquired the project in 2003 and proceeded with resource definition work between 2004 and 2007.

Titimukhta is an open-pit gold mine. Production commenced in 2009.

Following the completion of the Mill No. 1 reconfiguration project in September 2016, mining and processing activities at Titimukhta have ceased in favour of treating Olimpiada ores in 3Q 2016.

Verninskoye

Overview

Location	Irkutsk Region
Commissioned	2011
Mining/processing type	Open pit, gravity, flotation and cyanide leaching
Processing capacity	1 mill with a capacity of 2.5 million tonnes per annum

	2016	2015	Year-on-year
Total rock moved, kt	**16,300**	16,270	0%
including stripping, kt	**12,945**	12,317	5%
Stripping ratio, t/t	**3.9**	3.1	24%
Ore mined, kt	**3,355**	3,954	-15%
Average grade in ore mined, g/t	**2.20**	2.09	6%
Ore processed, kt	**2,501**	2,284	10%
Average grade in ore processed, g/t	**2.65**	2.63	1%
Recovery,%	**87.3%**	86.1%	1.2 ppts
Doré gold, koz	**185.9**	166.1	12%
Refined gold output, koz	**186.5**	161.1	16%

The Verninskoye gold deposit is located in the northern part of the Bodaybo District Administrative District in the Irkutsk Region. The development of the mine commenced in 2006 and it was commissioned in December 2011. Ore is processed through gravity concentration, flotation, and CIL.

Gold occurs in auriferous quartz-sulphide veins and is associated with disseminated sulphide minerals (pyrite and arsenopyrite) within the sedimentary rocks. Minor pyrrhotite, chalcopyrite, sphalerite, and galena have been recorded. Sheeted and stockwork quartz-carbonate vein mineralisation and disseminated mineralisation occur both sub-parallel to and cross-cutting stratigraphy, which seems to include local quartz and sericite alteration overprinting primary sedimentary features.

In 2016, doré gold output increased 12% over the prior year to 186 thousand ounces, on the back of increased ore processed volumes and recovery rates. Refined gold output amounted to 187 thousand ounces, an increase of 16% versus 2015. The stripping ratio increased 24% over the previous period to 3.9, due to the planned reduction of low-grade ore mining and a corresponding growth in stripping works. In turn, the volumes of ore mined fell 15% versus 2015, to 3.4 million tonnes, at the expense of low-grade ores, leading to a 6% year-on-year increase in the average grade in ore mined.

Processed ore volumes increased 10% over 2015, to 2.5 million tonnes. The mill's improved performance was due to the enhanced hourly throughput of grinding equipment following the mill's cone crusher being replaced with a more efficient model, the commissioning of higher-capacity pulp pumps, and reduced downtime during the maintenance period. Grades in ore processed remained stable. Recoveries reached 87.3%, following improvements at the flotation circuit due to the optimisation of reagents and enhancements at the sorption and cyanidation circuits.

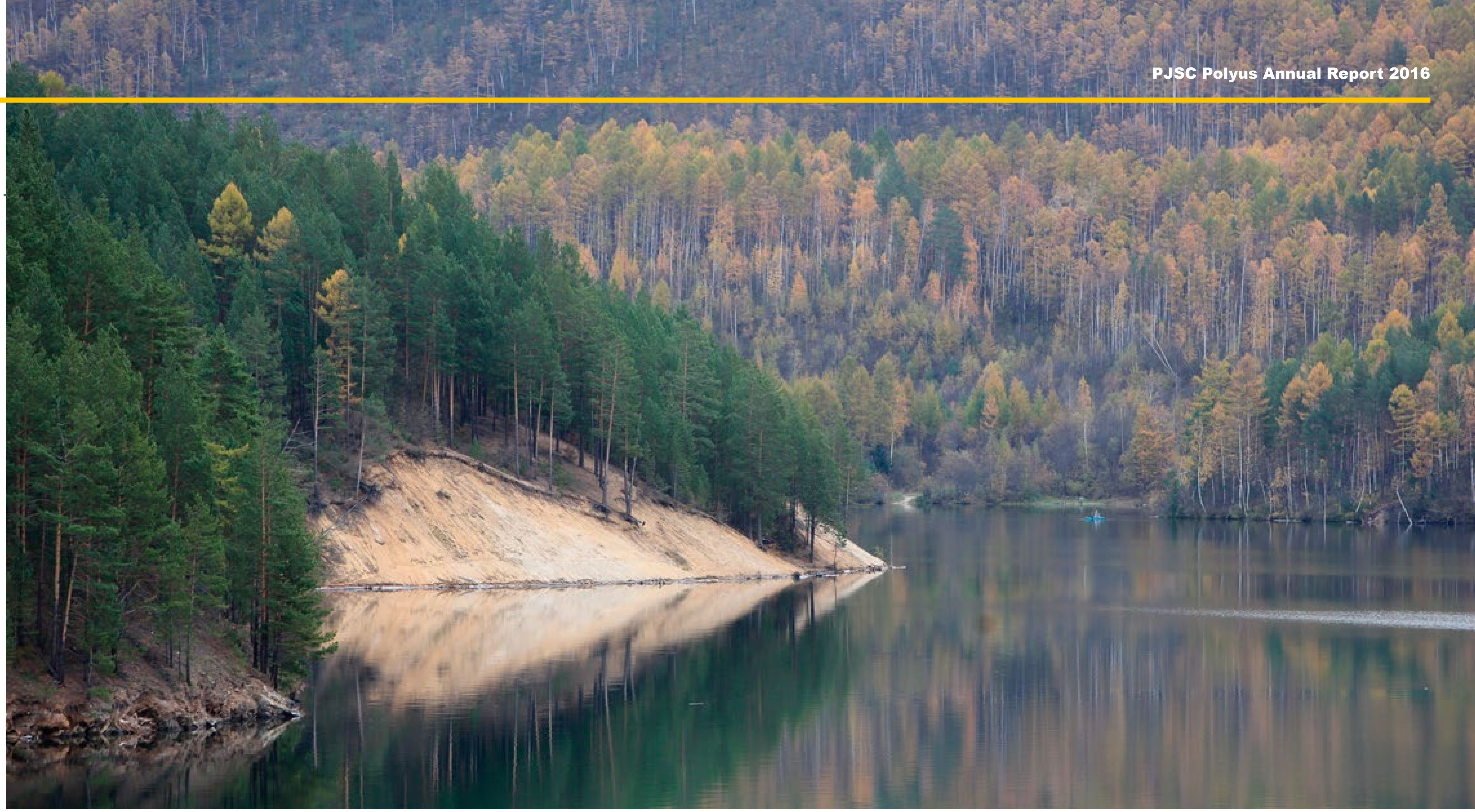
The above mentioned operational improvements resulted from the Group's development project to further expand throughput capacity at the Verninskoye Mill to 3.0 million tonnes per annum. The first stage of the project was completed by the end of 2016, with throughput capacity reaching 2.5 million tonnes per annum on an annualised basis. The target designed throughput capacity is expected to be achieved over several stages during 2017–2018.

Alluvials

Overview

Location	Irkutsk Region
Mining/processing type	Sand washing
Processing capacity	9.8 million m³ per annum

	2016	2015	Year-on-year
Sand washed, 000 m³	**8,611**	9,370	-8%
Average grade, g/m³	**0.61**	0.56	9%
Gold in slime, koz	**168.3**	168.3	0%
Refined gold output, koz	**168.5**	168.3	0%



In 2016, Alluvial deposits produced 168 thousand ounces of gold in slime, which was flat year-on-year. Refined gold output totalled 169 thousand ounces (in line with the 2015 level).

An increased number of hydraulic sluicing sites, which have higher average grades than dredging sites, drove an uptick in Alluvials average grades by 9% versus the prior period, to 0.61 g/m³. This drove volumes of sand washed down by 8% year-on-year, to 8.6 million m³.

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Kuranakh

Overview

Location	Republic of Sakha (Yakutia)
Commissioned	1965
Mining/processing type	Open pit, RIP cyanide leaching
Processing capacity	1 mill with a capacity of 4.5 million tonnes per annum

	2016	2015	Year-on-year
Total rock moved, kt	**25,530**	24,771	3%
including stripping, kt	**21,273**	20,775	2%
Stripping ratio, t/t	**5.0**	5.2	-4%
Ore mined, kt	**4,257**	3,996	7%
Average grade in ore mined, g/t	**1.29**	1.31	-2%
Ore processed, kt	**4,223**	3,909	8%
Average grade in ore processed, g/t	**1.30**	1.31	0%
Recovery,%	**88.2%**	88.2%	–
Doré gold, koz	**157.9**	146.2	8%
Refined gold output, koz	**159.7**	144.8	10%

The Kuranakh mine site is located in the Aldansky District of the Sakha Republic in Russia, approximately 400 km south-southwest of the capital city of Yakutsk. The Kuranakh mine was commissioned in 1965. The Kuranakh gold deposits consist of 11 deposits and 24 stockpiles, situated between 6 km and 25 km from the processing plant. Mineralisation is similar in character throughout all the deposits at Kuranakh. Ores are of the quartz-pyrite type.

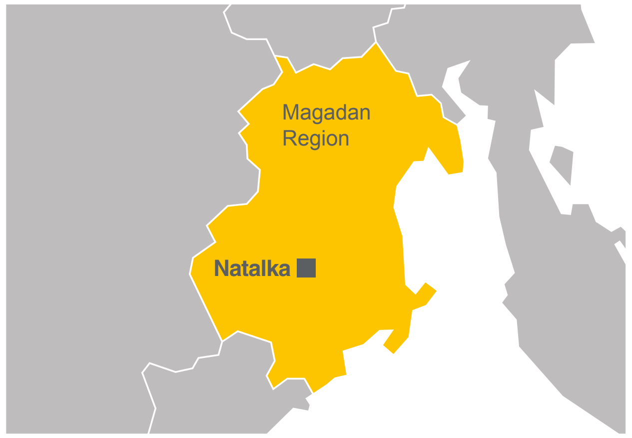
Mining at the Kuranakh ore deposits is based on open-cut, drilling, and blasting operations. The processing mill uses resin-in-pulp (RIP) sorption technology, with subsequent electrolysis and smelting.

In 2016, doré gold output increased by 8% year-on-year, to 158 thousand ounces, due to higher volumes of ore processed. Refined gold output amounted to 160 thousand ounces, up 10% from the prior year. Volumes of ore mined increased 7% versus 2015, to 4.3 million tonnes, in order to provide feed for the expanded processing capacities. Ore processing efficiency improvement initiatives at the Kuranakh Mill led to an 8% year-on-year increase in ore treatment volumes, to 4.2 million tonnes. This resulted from the enhanced performance of the thickening circuit and improved ore blending. Recoveries remained in line with the 2015 level, at 88.2%.

At the end of 2016, the Group completed the first stage of a development project to further expand throughput capacity at the Kuranakh Mill to 5.0 million tonnes per annum, and reached 4.5 million tonnes per annum on an annualised basis. The Group expects to achieve the mill's target designed throughput capacity in 2017.

The heap leaching of low-grade ore gives Polyus the potential to significantly increase gold production. The Kuranakh ores are essentially completely oxidised, and most of the gold is readily available for leaching. Thus, Polyus is currently executing a heap leach project at Kuranakh, with a capacity of 1.5 million tonnes per annum, to process over 50 million tonnes of low-grade ore with an average grade of ~0.7 g/t. The project is expected to be finished by the end of 2017.

Natalka



Overview

Location	Magadan Region
Commissioned	2017 (expected)
Mining/processing type	Open pit, three-stage gravitation, cyanide leaching and carbon-in-leach gold recovery technology
Processing capacity	1 mill with a capacity of 10.1 million tonnes per annum

	2016	2015	Year-on-year
Total rock moved, kt	**421**	1,102	-62%
including stripping, kt	**158**	868	-82%
Stripping ratio, t/t	**0.6**	3.8	-84%
Ore mined, kt	**255**	227	12%
Average grade in ore mined, g/t	**1.20**	0.66	-82%
Ore processed, kt	**45**	38	18%
Average grade in ore processed, g/t	**1.81**	1.74	4%
Recovery,%	**72.3%**	71.1%	1.2 ppts
Doré gold, koz	**5.0**	–	n/a
Refined gold output, koz	**5.7**	–	n/a

Natalka is located near the town of Omchak in the Tenkinsky district of the Magadan Region of Northeast Russia. Natalka is developed as a large scale, open-pit operation using conventional drill-and-blast and truck-and-shovel mining methods.

The Natalka mineralisation is hosted in carbonaceous sediments, principally, black shale. The main mineralisation zone is developed within the volcanogenic-sedimentary sequence. The gold demonstrates a complex distribution. The grade of gold in the mineralisation is correlated with the intensity of veining and brecciation, the quartz content, and the sulphide content. Gold grades gradually diminish from the core of the deposit towards its flanks.

In December 2010, the Board of Directors of Polyus Gold International Limited approved the execution of the Natalka project and the launch of the construction of a mining complex. In Q1 2013 active full-scale mining commenced, which showed a substantial deviation in the gold content from the mineral resource block model. Micromine developed a new block model, which demonstrated high consistency with the actual mining and verification drilling.

Polyus also conducted further testing and optimisation of the mill's configuration, with the assistance of Hatch Ltd. As a result of flowsheet optimisation, performed over 2014–2016, the flotation circuit was excluded from the Natalka flowsheet. The three-stage gravity scheme, with a planned recovery rate of 79% and lower OPEX, was approved.

The Natalka process gold concentration and cyanidation plant is designed to process 10.1 million tonnes per annum of ore, containing 1.9 g/t gold. The plant's main process areas comprise primary crushing, coarse ore storage, SAG and ball milling circuits, three stages of gravity separation, intensive cyanidation, a CIL circuit, a conventional carbon treatment circuit, electrowinning, smelting, cyanide destruction/arsenic removal, and tailings.

In 2016, processing at the 100 kt pilot plant continued, producing 5.0 thousand ounces of doré gold.

The project was recommissioned in 2016. Construction of the primary crushing and main conveyor complex, including a 1 km underground tunnel, was completed. Installation of the crushed ore storage and reclaim facility is progressing well. Equipment for the grinding circuit has been installed and the construction of power facilities and auxiliary infrastructure is ongoing.

The Group anticipates the commissioning of Natalka by the end of 2017.

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Mineral resources and ore reserves

The next tables set forth the Group's interest in total proven and probable gold reserves and in the total measured, indicated, and inferred gold resources at each deposit.

The Group has carefully prepared and verified the mineral reserve and mineral resource figures and believes that its method of estimating mineral reserves has been verified by mining experience. These figures are estimates, however, and no assurance can be given that the indicated quantities of metal will be produced. Metal price fluctuations may render mineral reserves containing relatively lower grades of mineralisation uneconomic. Moreover, short-term operating factors relating to the mineral reserves, such as the need for the methodical development of ore bodies or the processing of new or different ore grades, could affect the Group's profitability in any particular accounting period.

A mineral resource is a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilised organic material, including base and precious metals, coal, and industrial minerals in or on the Earth's crust in such a form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated, and measured categories.

An inferred mineral resource is that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes.

An indicated mineral resource is that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

A measured mineral resource is that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling, and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes that are spaced closely enough to confirm both geological and grade continuity.

Mineral resources that are not mineral reserves have not demonstrated economic viability.

A mineral reserve is the economically mineable part of a measured or indicated mineral resource demonstrated at least by a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined. Mineral reserves are sub-divided in order of increasing confidence into probable mineral reserves and proven mineral reserves. A probable mineral reserve is the economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated at least by a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

A proven mineral reserve is the economically mineable part of a measured mineral resource demonstrated at least by a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

Gold ore reserves

	Proven			Probable			Total		
	Ore, million t	Grade, g/t	Gold, moz	Ore, million t	Grade, g/t	Gold, moz	Ore, million t	Grade, g/t	Gold, moz
Mines in operation									
Olimpiada	6.5	2.5	0.5	309.0	3.0	30.0	316.0	3.0	30.3
Blagodatnoye	42.0	0.9	1.1	182.0	1.5	8.9	223.0	1.4	10.0
Titimukhta	5.3	1.6	0.3	6.5	3.1	0.7	12.0	2.4	0.9
Verninskoye	11.0	1.3	0.5	86.0	1.7	4.8	96.0	1.7	5.3
Alluvials	0	0	0	105.0	0.3	1.1	105.0	0.3	1.1
Kuranakh	0	0	0	136.0	1.0	4.5	136.0	1.0	4.5
Mine under construction									
Natalka	146.0	1.6	7.3	147.0	1.8	8.5	293.0	1.7	16
Development and exploration projects									
Chertovo Koryto	0	0	0	62.0	1.5	3.1	62.0	1.5	3.1
Total	**210.0**	**1.4**	**9.7**	**1,033.0**	**1.8**	**61.0**	**1,243.0**	**1.8**	**71.0**

Gold mineral resources

	Measured			Indicated			Inferred			Total		
	Ore, million t	Grade, g/t	Gold, moz	Ore, million t	Grade, g/t	Gold, moz	Ore, million t	Grade, g/t	Gold moz	Ore, million t	Grade, g/t	Gold, moz
Mines in operation												
Olimpiada	6.5	2.5	0.5	340.0	3.1	34.0	127.0	2.9	12.0	474.0	3.0	45.9
Blagodatnoye	42.0	0.9	1.1	309.0	1.5	15.0	69.0	1.3	2.9	420.0	1.4	18.8
Titimukhta	5.3	1.6	0.3	7.2	3.3	0.8	0.5	1.5	0.0	13.0	2.5	1.1
Verninskoye	11.0	1.3	0.5	212.0	1.6	11.0	14.0	2.0	0.9	237.0	1.6	12.2
Alluvials	0	0	0	243.0	0.2	1.6	34.0	0.4	0.4	277.0	0.2	2.1
Kuranakh	0	0	0	148.0	1.1	5.4	100.0	1.2	3.8	248.0	1.2	9.2
Mine under construction												
Natalka	150.0	1.7	8.2	261.0	1.8	16.0	148.0	2.1	9.9	558.0	1.9	33.6
Development and exploration projects												
Sukhoi Log	0	0	0	0	0	0	887.0	2.0	58.0	887.0	2.0	58.0
Panimba	5.0	2.3	0.4	11.0	2.3	0.8	24.0	1.8	1.4	40.0	2.0	2.6
Poputninskoye	0	0	0	37.0	3.2	3.9	4.4	2.9	0.4	42.0	3.2	4.3
Zmeinoye	0	0	0	0.9	5.0	0.2	2.0	4.5	0.3	2.9	4.6	0.4
Chertovo Koryto	0	0	0	67.7	1.5	3.3	7.8	1.3	0.3	75.0	1.5	3.6
Bamskoye	0	0	0	15.0	1.8	0.9	5.1	1.6	0.3	20.0	1.8	1.1
Medvezhy	0	0	0	0	0	0	6.5	1.8	0.4	6.5	1.8	0.4
Total	**219.0**	**1.6**	**11.0**	**1,652**	**1.7**	**92.0**	**1,429**	**2.0**	**91.0**	**3,301**	**1.8**	**193.0**

Chief Financial Officer address

Mikhail Stiskin

Senior Vice-President, Finance and Strategy

Dear shareholders,

I am delighted to report that in 2016, with our focus on efficiency initiatives and our sustainable cost advantage resulting in low operating leverage compared with other gold producers globally, we achieved strong results on nearly every key financial metric.

On the back of a record-high sales volumes of 1,915 thousand ounces, coupled with an 8% year-on-year uptick in gold prices and supported by the implementation of the Strategic Price Protection Programme (SPPP), revenue grew 12% year-on-year to over $2.4 billion.

Our focus on operational excellence drove the Group's total cash costs down to $389/oz in 2016. Polyus retained its status as one of the lowest-cost gold producers globally, retaining its position in the first decile of the global cost curve for three consecutive years.

Cost-effective approaches, combined with growing revenue, enabled the Group to offset market headwinds and contributed substantially to our earnings performance. In 2016, Polyus' adjusted EBITDA amounted to $1,536 million, while our adjusted EBITDA margin expanded to 62%, securing the Group's position as one of the most profitable mining companies globally.

In 2016 the Group entered a Capex-intensive cycle, with both brownfield expansion projects and the Natalka development. The Group's capital expenditures rose by 72% in 2016, to $462 million, from $268 million in 2015. As highlighted previously, we expect Natalka to be commissioned by the end of 2017. In addition, following the completion of the first stages in 2016, we expect most of our brownfield development projects to be finalised in 2017–2018.

Strong free cash flow generation remains our key priority and we continue to deliver on this objective. In 2016, free cash flow[2] advanced by 135% year-on-year, to $826 million, reflecting our strong underlying performance accompanied by favourable market conditions. We continue to exercise stringent controls over working capital.

Following a sharp increase in the Group's debt on the back of the share buyback in the first half of 2016, Polyus is on a deleveraging path, with robust FCF generation during the year.

Moreover, we continued to optimise the Group's debt maturity profile, and successfully tapped the Eurobond market for a new $500 million issue, which matures in 2022. In the fourth quarter of 2016, loans of $500 million (maturing in 2017–2019) were repaid with the proceeds from the Eurobonds. Managing interest rate risk, the Group has opted to increase the share of fixed-rate debt in its portfolio, which in 2016 was achieved via new lending facilities and converting a number of loans from a floating to a fixed rate. In addition, Polyus once again turned to debt capital markets in February 2017, successfully issuing $800 million notes due 2023. The two above initiatives resulted in a sharp increase of public debt instruments within the Company's debt portfolio to 50%. Going forward, we strive to continue optimising our debt profile.

In 2016, Polyus increased its focus on maximising shareholder returns by adopting a new dividend policy, which intends to provide key stakeholders with visibility on the dividend returns and aims to balance the appropriate cash returns to equity holders with the requirement of maintaining a balanced and sound financial position.

On a separate note, to comply with best practices and to increase the transparency of our financial performance, in the third quarter of 2016, the Group began disclosing its financial results on a quarterly basis.

[2] Free cash flow is presented on an unlevered basis

Responsibility statement

The Directors of Public Joint Stock Company "Polyus" (the "Company") and its subsidiaries (the "Group") are responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2016, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

Directors are also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved by the Directors on 20 February 2017.

By order of the Board of Directors,

Pavel Grachev
Chief Executive Officer and Director

Photo: At the Kuranakh mine

Management discussion and analysis

Key highlights

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

[1] Gold production is comprised of 1,842 thousand ounces of refined gold and 126 thousand ounces of gold in flotation concentrate.
[2] The Strategic Price Protection Programme comprises a series of zero-cost Asian gold collars ("revenue stabiliser") and gold forward contracts.
[3] Adjusted Net Profit is defined by the Group as profit for the year adjusted for reversal of impairment, gain/(loss) on derivative financial instruments and investments, foreign exchange gain and deferred income tax related to derivatives.
[4] Adjusted EBITDA is defined by the Group as profit for the year adjusted for income tax expense, foreign exchange gain, gain/(loss) on derivative financial instruments and investments, interest income, finance cost, loss on property, plant and equipment disposal, Long term incentive plan, reversal of impairment and depreciation and amortisation. The Group has made these adjustments in calculating Adjusted EBITDA to provide a clearer view of the performance of its underlying business operations and to generate a metric that it believes will give greater comparability over time with peers in its industry. The Group believes that Adjusted EBITDA is a meaningful indicator of its profitability and performance. This measure should not be considered as an alternative to profit for the period and operating cash flows based on IFRS, and should not necessarily be construed as a comprehensive indicator of the Group's measure of profitability or liquidity.

Comments to highlights

1. Gold sales increased 8% year-on-year to 1,915 thousand ounces, driven by the execution of our growth projects and our focus on operational excellence.
2. Revenue amounted to $2,458 million, as compared to $2,188 million in 2015, due to an increase in sales volumes and a higher realised gold price.
3. The Group's TCC and AISC declined 8% year-on-year, to $389/oz, and 4% year-on-year, to $572/oz, respectively. Strong operational performance and efficiency improvement initiatives continued to support the Group's cost profile.
4. Adjusted EBITDA increased 20% year-on-year, to $1,536 million, driven by higher gold sales volumes and realised gold price as well as a further decline in TCC. The adjusted EBITDA margin expanded 4 ppts year-on-year, to 62%.
5. Profit for the period totalled $1,445 million (up 42% year-on-year), partially reflecting the impact of one-off non-cash items, including a foreign exchange gain and gain on derivatives. Adjusting for the above non-cash items, adjusted net profit stood largely flat year-on-year, at $952 million, which primarily reflects higher interest expense.
6. Net cash inflow from operations increased 7% year-on-year, to $1,178 million, driven by increased earnings generation of the Group's business.
7. Capex was $468 million, up 75% year-on-year, as Natalka and brownfield development projects entered an active phase of investment.
8. On 21 December 2016, the Group transferred $138 million to the Federal Subsoil Resources Management Agency in form of as prepayment for participating in the Sukhoi Log auction.
9. Cash and cash equivalents at the end of 2016 amounted to $1,740 million, as compared to $1,825 million at the end of 2015.
10. Net debt increased to $3,241 million as of the end of 2016, compared to $364 million as of the end of 2015, due to a substantial increase in borrowings, the proceeds from which were used for the share buyback offset by strong free cash flow generation during the year.
11. Net debt / adjusted EBITDA stood at 2.1x as of the end of 2016, declining from 2.3x as of the end of 3Q 2016, reflecting EBITDA expansion.

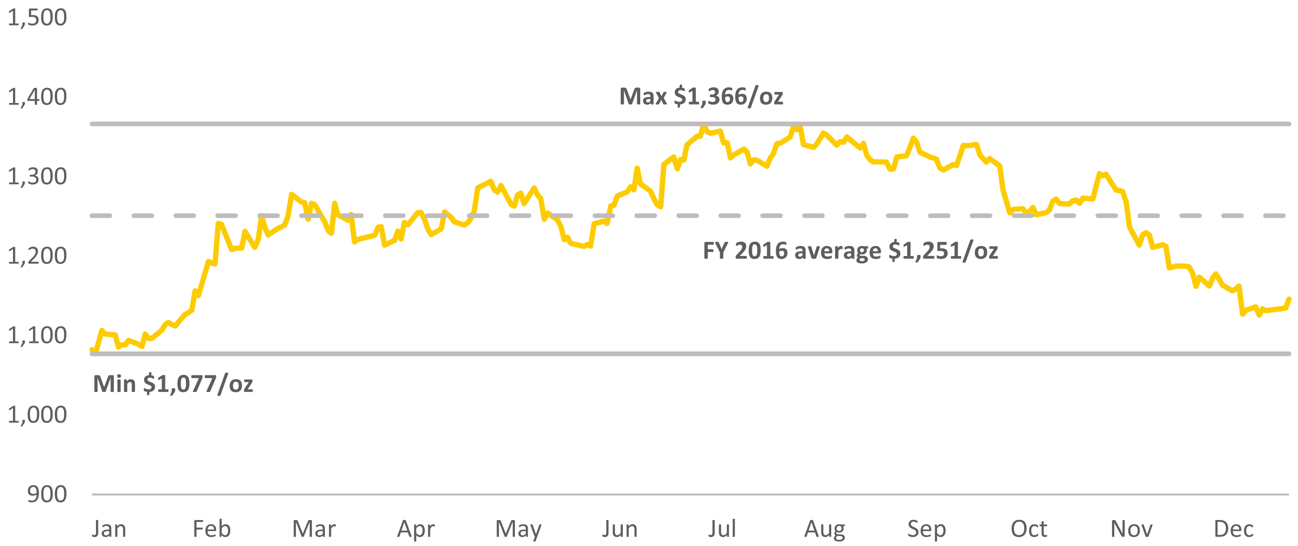
[5] Capital expenditure figures are presented on an accrual basis.
[6] Net debt is defined as short- and long-term debt, less cash and cash equivalents and short-term bank deposits. Short-term bank deposits with an original maturity of more than three months can be withdrawn on demand and therefore have the same liquidity as cash and cash equivalents. Net debt excludes derivative financial instrument assets/liabilities, site restoration and environmental obligations, deferred tax, deferred revenue and other non-current liabilities. Net debt should not be considered as an alternative to current and non-current loans and borrowings, and should not necessarily be construed as a comprehensive indicator of the Group's overall of liquidity.
[7] N.A. stands for "not applicable".
[8] Net debt / adjusted EBITDA stood at 2.5x as of the end of 1H 2016; net debt / adjusted EBITDA stood at 2.3x as of the end of 3Q 2016.
[9] For a definition and calculation of TCC per ounce sold, see the section Total cash costs.
[10] For a definition and calculation of AISC per ounce sold, see the section All-in-sustaining costs.

Review of external factors

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

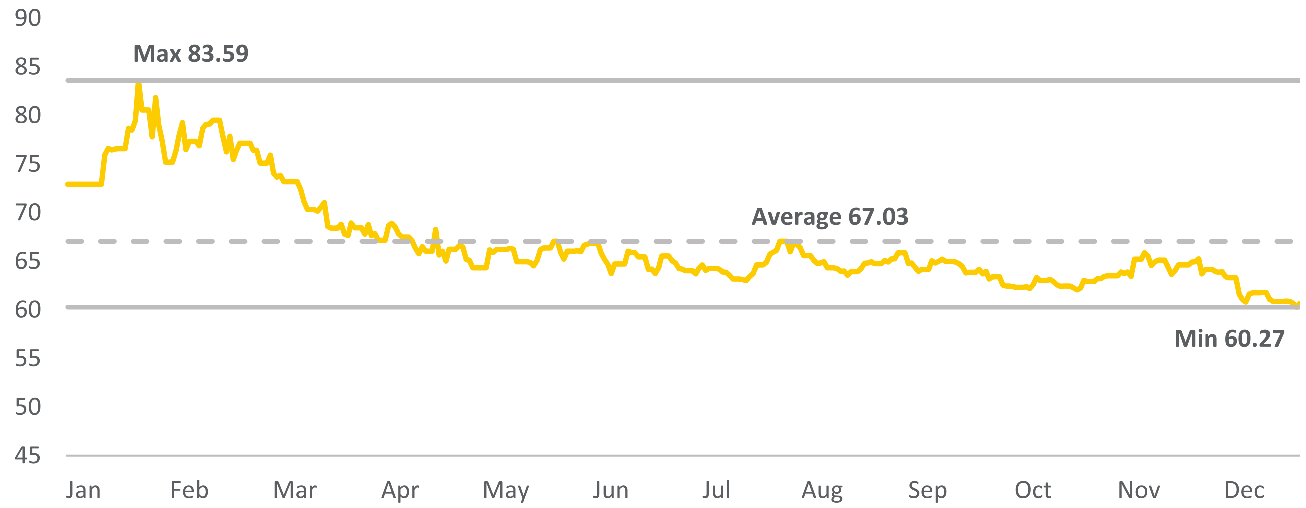
Gold price dynamics
The market price of gold is a significant factor that influences the Group's profitability and operating cash flow generation. In 2016, the average London Bullion Market Association (LBMA) gold price was $1,251/oz, 8% above the 2015 average of $1,160/oz.

LBMA gold price dynamics in 2016, $/oz



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

RUB/USD dynamics, 2016



Source: The Central Bank of the Russian Federation

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

Financial review

Review of profit or loss statement

Revenue Analysis

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

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

Revenue breakdown by mine, 2015

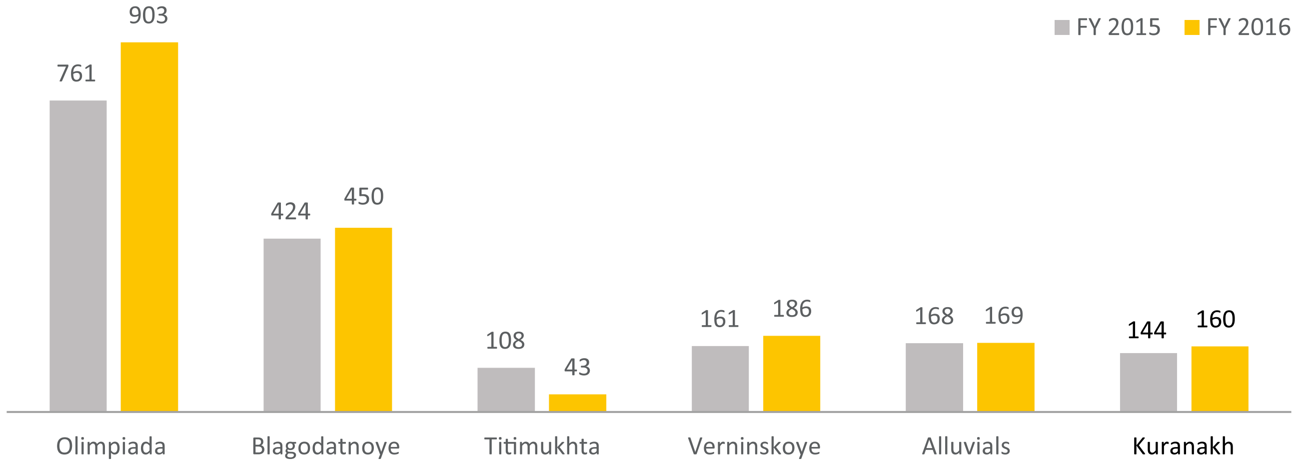
$ mln	Olimpiada	Blagodatnoye	Titimukhta	Verninskoye	Alluvials	Kuranakh	Other
Gold sales	952	525	134	189	191	165	3
Other sales	–	–	–	3	5	5	16
Total sales	**952**	**525**	**134**	**192**	**196**	**170**	**19**

Revenue breakdown by mine, 2016

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

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

Gold sold by mine, koz[12]



Cash Costs Analysis

Cost of sales breakdown

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

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

Cash operating costs – breakdown by item

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

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

Financial review continued

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

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

MET payments (18% of cash operating costs) declined 4% year-on-year, which partially reflects successfully obtained tax reductions at Verninskoye since mid-2016.

Fuel costs declined 3% year-on-year, as a modest increase in transportation costs at the Krasnoyarsk Business Unit was fully offset by the rouble devaluation.

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

Other costs declined 3% year-on-year to $58 million.

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

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

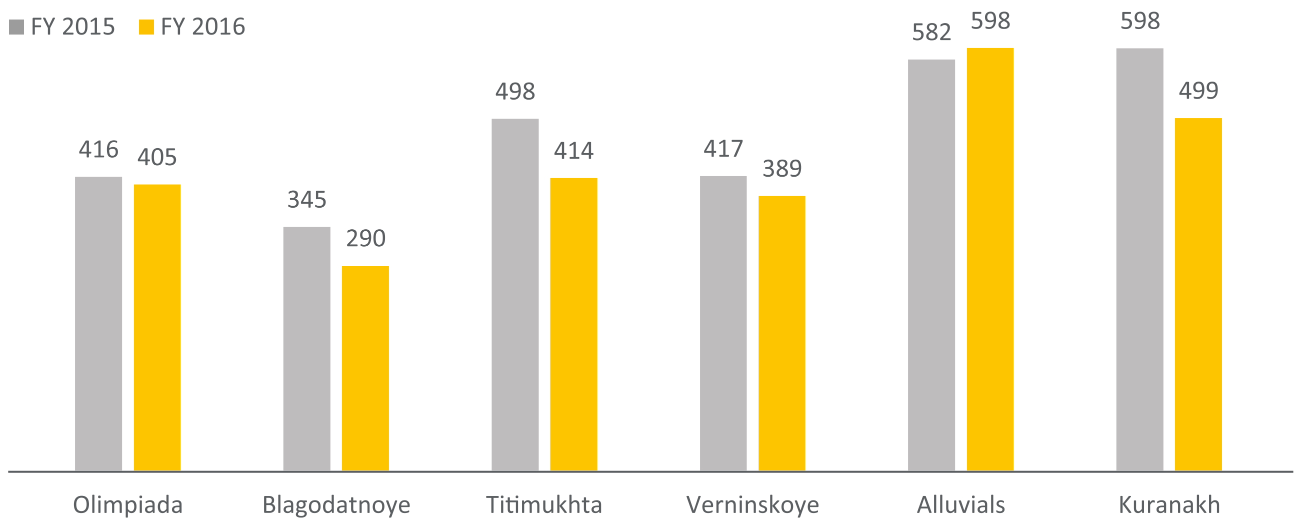
Total cash costs (TCC)

TCC calculation

$ mln	2016	2015	Y-o-Y
Cost of gold sales	**891**	876	2%
– property, plant and equipment depreciation	**(154)**	(126)	22%
– provision for annual vacation payment	**–**	(1)	(100%)
– employee benefit obligations cost	**(1)**	(4)	(75%)
– change in allowance for obsolescence of inventory	**(3)**	—	N.A.
+ non-monetary changes in inventories	**12**	4	200%
TCC	**745**	**749**	**(1%)**
Gold sold (koz)	**1,915**	1,768	8%
TCC per ounce sold ($/oz)	**389**	**424**	**(8%)**

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

TCC performance by mine, $/oz



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

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

Financial review continued

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

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

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

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

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

Selling, general, and administrative expenses

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

SG&A breakdown by item

$ mln	2016	2015	Y-o-Y
Salaries	**105**	100	5%
Taxes other than mining and income taxes	**12**	12	–
Professional services	**10**	12	(17%)
Amortisation and depreciation	**5**	3	67%
Other	**19**	16	19%
Total	**151**	**143**	**6%**

All-in sustaining costs (AISC)

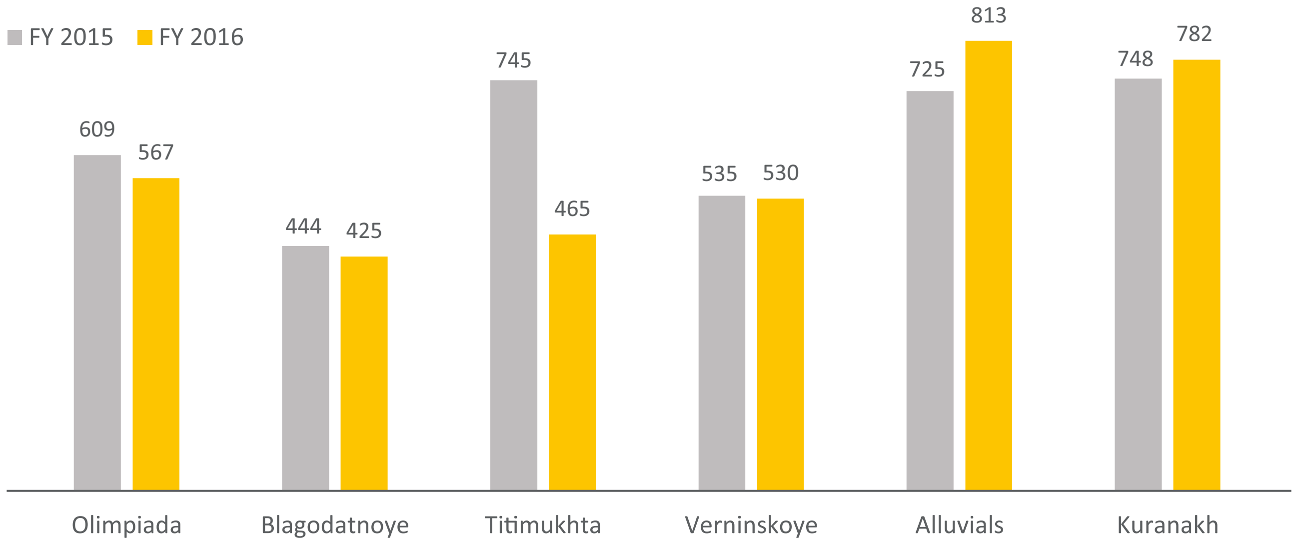
Similarly to the TCC/oz, the Group's AISC/oz demonstrated a 4% year-on-year decline to $572/oz in 2016. Lower TCC and reduced stripping expenses were the key drivers behind the positive performance.

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

All-in sustaining costs calculation

$ mln	2016	2015	Y-o-Y
Total TCC	**745**	**749**	**(1%)**
+ selling, general and administrative expenses	**151**	143	6%
- amortisation and depreciation	**(5)**	(3)	67%
+ research expenses and other sustaining expenses	**1**	1	–
+ stripping activity asset additions	**55**	104	(47%)
+ sustaining capital expenditure	**141**	51	176%
+ unwinding of discounts on decommissioning liabilities	**3**	4	(25%)
adding back expenses excluded from cost of gold sales			
+ provision for annual vacation payment	–	1	(100%)
+ employee benefit obligations cost	**1**	4	(75%)
+ change in allowance for obsolescence of inventory	**3**	–	N.A.
Total all-in sustaining costs	**1,095**	**1,054**	**4%**
Gold sold (koz)	**1,915**	1,768	8%
All-in-sustaining cost ($/oz)	**572**	**596**	**(4%)**

All-in sustaining costs by mine, $/oz



Financial review continued

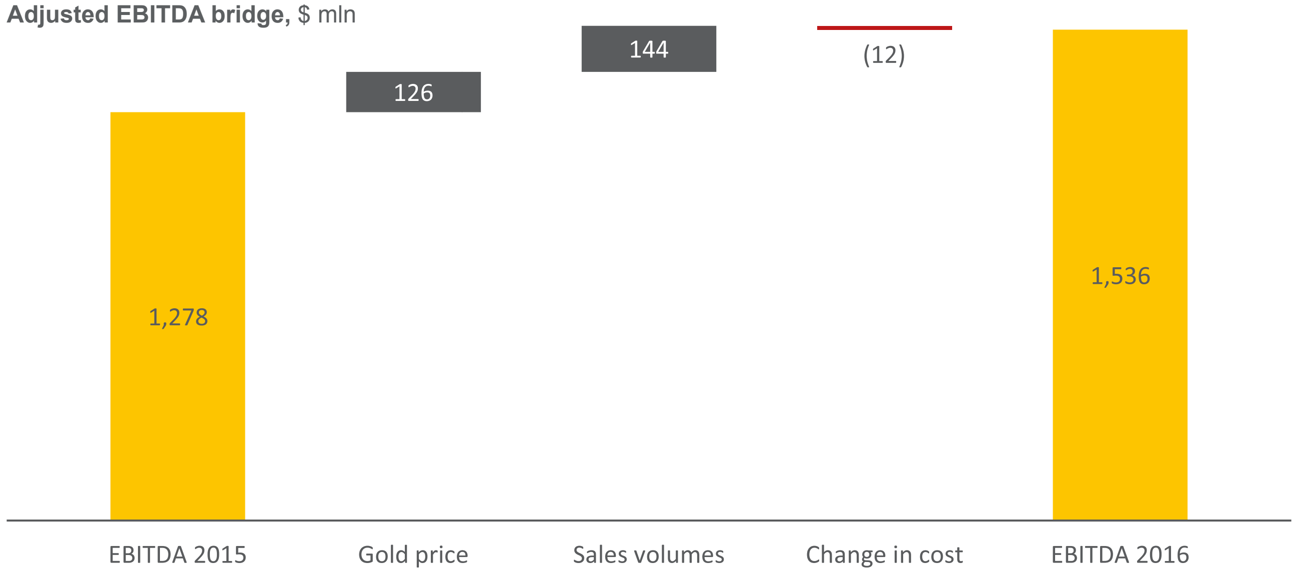
Adjusted EBITDA

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

Adjusted EBITDA calculation

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

Adjusted EBITDA bridge, $ mln



All of the Group's operational assets contributed to EBITDA growth. Olimpiada and Blagodatnoye remained the main contributors to the Group's earnings. EBITDA growth reflects a combination of the supportive macro environment, the Company's focus on further implementation of operational efficiency improvements and cost control initiatives as well as an increase in production driven by higher ore processing volumes at almost all the Group's assets.

FY 2016 adjusted EBITDA breakdown by mine, $ mln

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

Finance cost analysis

$ mln	2016	2015	Y-o-Y
Interest on borrowings	**281**	132	113%
Gain on exchange of interest payments under cross currency swap	**(34)**	(39)	(13%)
Gain on exchange of interest payments under interest rate swaps	**(10)**	(13)	(23%)
Unwinding of discounts on decommissioning liabilities	**3**	4	(25%)
Other	**2**	2	–
Sub-total finance cost	**242**	**86**	**181%**
Interest included in the cost of qualifying assets	**(97)**	(41)	137%
Total finance cost expensed	**145**	**45**	**N.A.**

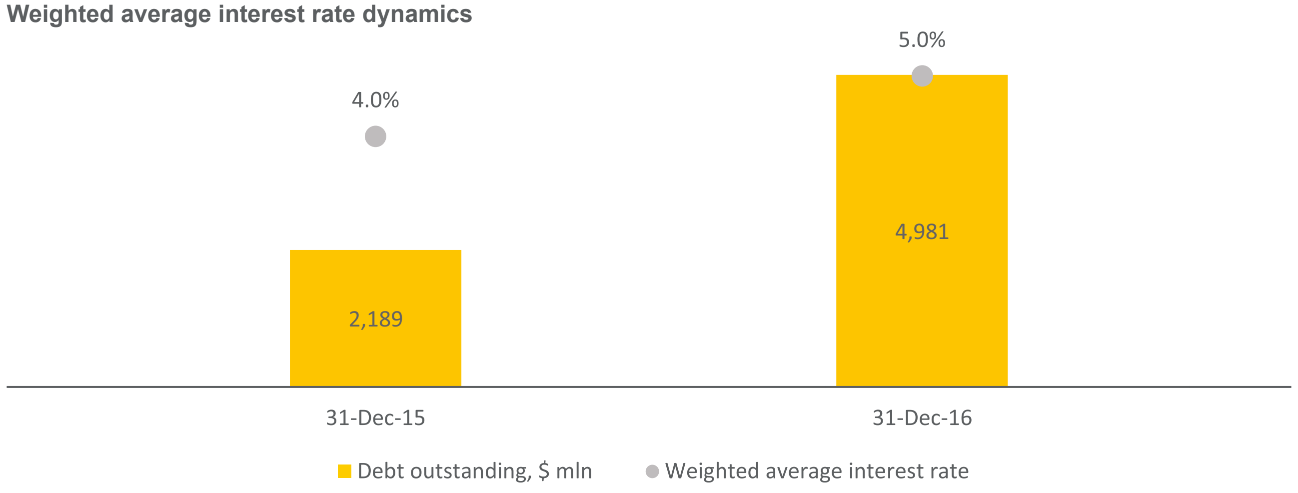
The Group's total finance costs in 2016 amounted to $145 million, compared to $45 million in 2015. The Group continued interest capitalisation for the Natalka development project, with the construction works ramping up further. Capitalised interest related to the Natalka project and the Razdolinskaya-Tayga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

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

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

Financial review continued

Weighted average interest rate dynamics



Foreign exchange gain and derivatives

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

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

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

Revenue stabiliser[16]

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

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

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

[16] For additional information on revenue stabiliser, see Note 13 of the consolidated financial statements.

Forward contracts[17]

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

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

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

Cross-currency and interest rate swaps[18]

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

Profit before tax and income taxes

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

Net profit

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

Adjusted net profit calculation

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

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

Financial review continued

Review of statement of financial position

DEBT

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

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

Debt breakdown by type

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

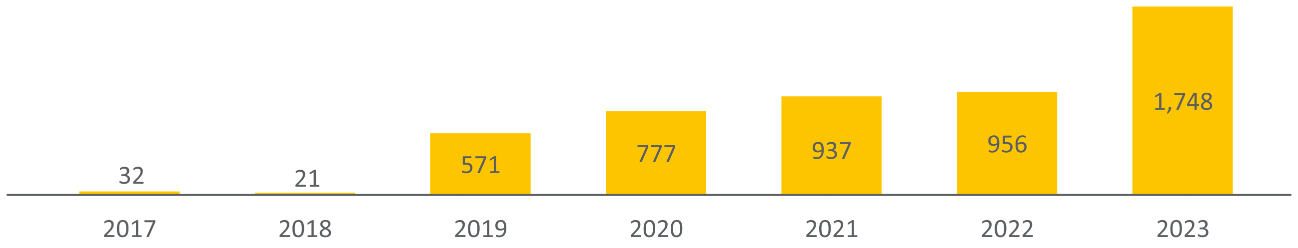
Currency-wise, the Group's debt portfolio remains dominated by US dollar-denominated instruments. Their share increased further to 82% as of 31 December 2016 (11 ppts growth versus 31 December 2015), as the Company entered into a seven-year USD denominated credit facility with Sberbank in January 2016,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

Debt breakdown by currency

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

The majority of maturities due after or during 2021 comprise the seven-year $2.5 billion credit facility from Sberbank and the $500 million Eurobond issue due in 2022. The RUB 36 billion credit facility from Sberbank is due in 2019, and the $750 million Eurobond issue is due in 2020. Existing cash balances cover all the principal debt repayments up to 2020.

Debt maturity schedule[19]**, $ mln**



Cash and cash equivalents and bank deposits

The Group's cash and cash equivalents and bank deposits were $1,740 million, down 5% versus 31 December 2015. The Group's cash position is primarily denominated in USD, as revenue is fully linked to the USD-quoted gold price, while the RUB exchange rate is subject to significant volatility.

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

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

Net debt

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

Net debt calculation

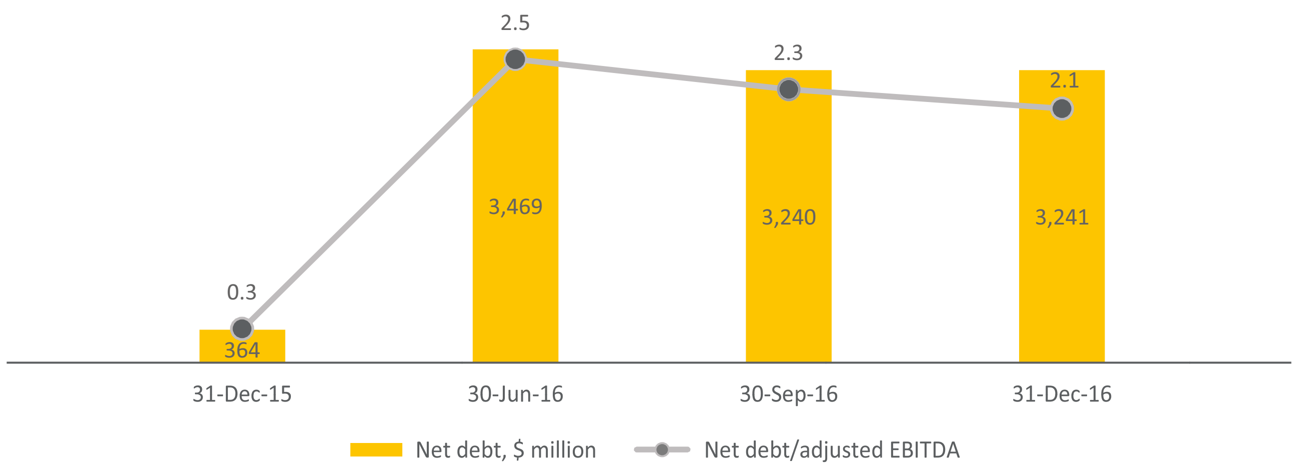
$ mln	2016	2015	Y-o-Y
Non-current borrowings	4,698	2,151	118%
+ Current borrowings	283	38	N.A.
- Cash and cash equivalents	(1,740)	(1,825)	(5%)
Net debt	**3,241**	**364**	**N.A.**

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

[19] The breakdown is based on actual maturities and excludes $60 million of non-cash IFRS adjustments.

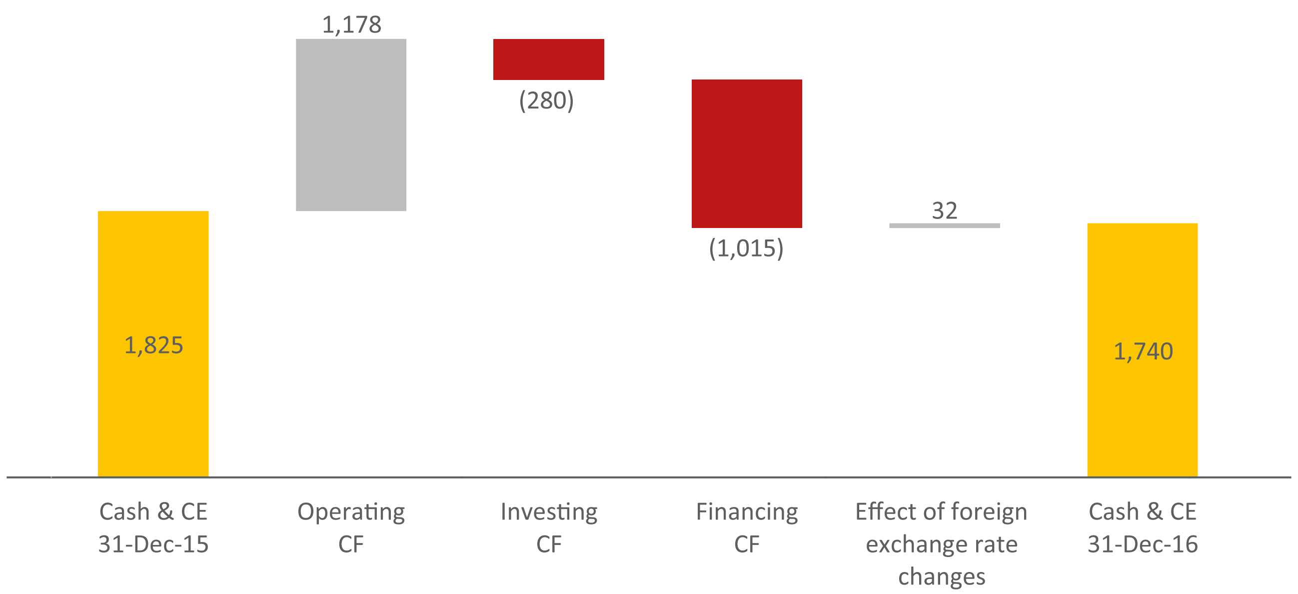
Financial review continued

Net debt and net debt/adjusted EBITDA (last 12 months)[20] ratio



Review of statement of cash flows

2016 cash flow bridge, $ mln



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

In 2016, net operating cash flow[21] increased 7% year-on-year, to $1,178 million driven by increased earnings generation of the Group's business. With a substantially higher capital spending in 2016, the Company posted cash outflow on investing activities at $280 million, as opposed to $676 million of cash outflow in 2015. The Company's refinancing activity, coupled with higher interest payments on the back of increased total debt, resulted in a cash outflow on financing activities of $1,015 million. All of the above drove the decline in cash and cash equivalents to $1,740 million as of the end of 2016.

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

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

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

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

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

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

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

[21] 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.

Financial review continued

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

Capex breakdown[22]

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

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

Financing cash flow

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

Recent corporate developments

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

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

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

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

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

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

On 21 February 2017, SL Gold officially obtained the Sukhoi Log license.

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

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

PGIL completed $800 million Notes due 2023 issuance
On 7 February 2017, PGIL issued $800 million notes due 7 February 2023, with a coupon of 5.25% per annum. The Notes are guaranteed by JSC Gold Mining Company Polyus, a 100% subsidiary of the Group. The Group intends to borrow the net proceeds from the issue of the Notes and use primarily for debt refinancing and other general corporate purposes of the Group.

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

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

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

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

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

Financial review continued

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

Board of Directors recommend dividends for 2016
The Board of Directors of the Company (the "Board") has considered and preliminarily approved the dividends that it intends to recommend for approval by the Company's annual general shareholders' meeting ("AGM"). In aggregate these dividends are the ruble equivalent of $354 million (at the USD/RUB exchange rate of 56.67), including:

- a regular dividend in respect of the financial year ended 31 December 2016 totalling $254 million, representing 30% of the Company's EBITDA for 2H 2016 in line with the dividend policy whereby dividends are paid on a semiannual basis; and
- a special dividend totaling $100 million in connection with the successful sale by the group of its stake in the Nezhdaninskoye deposit. The asset was in an exploration stage via a JV with Polymetal and non-cash producing.

The dividend payments were approved by the Company's shareholders at the Annual General Meeting held on 30 June 2017. The dividend record date was scheduled for 17 July 2017.

Standard & Poor's places PJSC Polyus rating on Credit Watch
On 9 June 2017, S&P Global Ratings Services ("S&PGR", or the "Agency") has placed its 'BB-' issuer credit Rating on the Company on Credit Watch with positive implications.

The Agency highlighted the Company's strong profitability, positive free operating cash flow generation, falling leverage and the expectation that Polyus will report supportive operating and financial results for 2017 and beyond. Polyus' solid market position internationally, long reserves life and low production costs supported the ratings, S&PGR said.

S&PGR's announcement also stated that Polyus' continuous track record of low cash operating costs ensured "the company will remain at the bottom of the global gold miners' cost curve."

Moody's revises Outlook on Polyus to Stable and assigns "Ba1" rating
On 14 June 2017, Moody's Investors Service ("Moody's") has revised its outlook on Polyus to Stable from Negative and assigned the Company the Ba1 corporate family Rating ("CFR"). The rating assigned to Polyus is in line with Russia's sovereign rating.

Moody's has also changed to Stable from Negative the Outlook on the Ba1 ratings of the $500 million Eurobonds 2022 and the $800 million Eurobonds 2023 issued by Polyus Finance Plc, a wholly-owned subsidiary of Polyus. This decision follows the transfer of all rights and obligations under all three outstanding Eurobond issues from PGIL to Polyus Finance Plc.

In assigning Polyus a Ba1 Rating with Stable Outlook, Moody's noted Polyus' global cost leadership and large high-grade reserve base as well as the Company's track record of cost-cutting and operational enhancements. In addition, Moody's recognised the Company's strong liquidity, falling leverage and long term debt maturity profile.

Polyus' healthy liquidity and a balanced financial policy supported an outlook revision, Moody's said.

Photo: Alluvial gold

Sustainability Report

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Photo: At the Olimpiada mine

Message from the Chief Executive Officer

Pavel Grachev
Chief Executive Officer

Dear Stakeholders,
I am pleased to present our Sustainability Report for the year 2016.

Sustainability is central to all our activities and is a key driver of our long-term success. Operating in an increasingly complex world means we must constantly innovate, including adopting robust safety measures, efficiency, and sustainability ideas and processes, while at the same time demonstrating leadership in corporate governance and transparency.

We, at Polyus, understand and acknowledge the operational risks associated with mining. The health, safety, and wellbeing of our employees are a core value and a top priority. Across our operations we are committed to eliminating fatalities and injuries.

During 2016, we laid strong foundations for the development of a world-class safety culture, including enhanced transparency of our health and safety data collection and reporting. We believe that if work cannot be performed safely it should be stopped. We want each employee to be interdependently safety conscious and responsible – not only for their own safety, but also for that of their colleagues and visitors.

Despite all our achievements in improving health and safety over the course of 2016, there were, tragically, two fatalities. We have thoroughly investigated the causes of these fatal accidents and taken appropriate actions to prevent similar situations from occurring in the future.

We understand the importance of reducing our impact on the environment and local communities, while still making use of best-in-class technology and practices to ensure the sustainability of our business. We are committed to being compliant with all applicable legal requirements and we closely monitor legislative developments and changes.

Our employees are our most valuable asset and we strive to be the employer of choice within the industry. In 2016, we continued working on the ‘areas for improvement’ identified through an employee engagement and satisfaction survey conducted at the end of 2015. The survey assessed the efficiency of business processes, internal communications, remuneration, and employees’ living conditions.

Emphasis has been placed on developing internal communications at various levels to ensure effective two-way communication between the Company and our employees and timely feedback. We also continue to invest in the professional development of our employees and talent acquisition.

Stakeholder engagement is essential to the sustainability of our business. We remain steadfast in our commitments to local communities and regional governments – this includes paying taxes, providing employment opportunities, and developing local infrastructure and facilities. We invest in long-term programmes that have a positive impact on host regions as well as on our employees – particularly in remote areas. Polyus strives to add value in both the corporate and public spheres through continuous improvement and innovation.

In 2016, we continued to implement the International Council on Metals & Mining (ICMM) Action Plan and to execute our sustainability standards and policies. This Sustainability Report illustrates the progress made by Polyus to fulfil the 2015–2016 ICMM Action Plan, which sets out the key actions required to ensure full compliance with ICMM sustainable development principles. Polyus management and employees participated in various joint ICMM initiatives aimed at sharing knowledge and experience in order to improve the mining industry’s social and environmental performance. In the course of this knowledge exchange, several Polyus specialists visited the operations of other ICMM members. Looking back at this past year and the changes Polyus has implemented to become a global leader in sustainability, I would like to express my gratitude to my colleagues for their commitment, and acknowledge the trust we work to win from all our stakeholders.

With kind regards,

Pavel Grachev
Chief Executive Officer

About this Report

The mission of Polyus and our subsidiaries[1] is to develop natural resources and human potential for the benefit of shareholders, employees, and the local community.

The 2016 Sustainability Report covers the Group's performance, the difficulties and challenges we faced and successfully managed during the reporting period, and our plans for the future. The Report aims to cover the Group's values, priorities, and results as Polyus operates according to the principles of sustainable development.

For the Group, managing and mitigating sustainability related risks enhances our commitment to responsible mining. Polyus has been a member of the ICMM since 2015, and this Report reflects the importance of responsible environmental and social data disclosure and compliance with ICMM sustainability principle 10: "Implement effective and transparent engagement, communication and independently verified reporting arrangements with our stakeholders".

The Group began publishing sustainability performance-related information in 2006. At first Polyus reported on health, safety, environment performance, and social responsibility biennially. Since 2012 the Group has prepared sustainability reports on an annual basis. Over this period, the Report's structure and content has altered to focus on the most material issues from the previous year.

The Group's previous report was published in 2016, and covered the year 2015. This is the Sustainability Report for 2016 (hereinafter, the Report), the Group's eighth sustainability report, and it covers sustainability performance for the period between 1 January 2016 and 31 December 2016.

The Group's reports, along with additional information on our sustainability performance, can be found on the Group's website: http://polyus.com/investors/results-and-reports/.

Guidelines and standards

The Report was prepared in accordance with the GRI G4 Comprehensive option and the requirements of the Mining and Metals Sector Supplement. The Report complies with the G4 Principles for report quality: balance, comparability, accuracy, timeliness, clarity, and enabling comparison with the Group's previous reports as well as the reports of leading international mining companies. The GRI Content Index makes reference to information sources covering standard disclosures (see the section GRI Content Index).

The Group also follows three principles for managing and reporting sustainability performance, as set out in the AA1000 Accountability Principles Standard (AA1000 APS 2008):

• inclusivity: identifying and engaging with stakeholders to gain a full understanding of issues

• materiality: determining which issues are pertinent to the Group and our stakeholders

• responsiveness: responding to material issues and being transparent about the Group's performance

The Group collects data on and calculates greenhouse gas (GHG) emissions according to the recommendations of the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard. The ICMM Environment and Climate Change work programme stipulates requirements related to measuring, reporting, and verifying net greenhouse gas emissions, and the Group makes every effort to meet these requirements.

[1] Hereinafter, the Group or Polyus

Report boundaries

The overall boundaries of the Report and individual performance indicators were defined in accordance with GRI G4 Guidelines. In 2016, the Annual General Meeting approved the new version of the Articles of Association of Polyus, which included building an umbrella brand as part of the Group's revised strategy. The corporate name was changed from Polyus Gold to Polyus, and the names of the Group's subsidiaries were changed accordingly: JSC Polyus was renamed JSC Polyus Krasnoyarsk, JSC Pervenets was renamed JSC Polyus Verninskoye, JSC Aldanzoloto GRK was renamed JSC Polyus Aldan, and JSC RiM became JSC Polyus Magadan.

The Group is the largest gold producer in Russia, and one of the top-10 gold miners in the world by ounces produced. It operates in Eastern Siberia and the Far East, which are Russia's most prolific gold mining regions. The principal operations of Polyus consist of five operating mines, alluvial operations, and a number of advanced development projects. This Report covers performance information related to all the wholly owned subsidiaries and joint ventures of the Group[2], namely:

Name of subsidiary	Mention in the Report
Operational BUs[3]:	
JSC Polyus Krasnoyarsk	Krasnoyarsk BU
JSC Lenzoloto	Irkutsk alluvial BU
JSC Polyus Verninskoye	Irkutsk ore BU
JSC Polyus Aldan	Yakutia Kuranakh BU
JSC Polyus Magadan	Magadan BU
Professional services[4]:	
LLC Polyus Stroy	Construction service
PSF Polyus Schit 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

The term "the Group" in this Report refers to the above group of business units (hereinafter, BUs) and professional services.

Report content

When defining the Report's content, the Group was guided by the GRI Reporting Framework. The Company's Report preparation procedure is consistent with GRI principles :

• stakeholder inclusiveness
• sustainability context
• materiality
• completeness

[2] G4-17
[3] In 2016, JSC SVMC (Exploration BU) was excluded from the Report boundaries.
[4] Charity and sponsorship data are not aggregated in professional services.
[5] G4-18

About this Report continued

The reported information is comparable with previous reports and provides the basis for a comprehensive assessment of sustainability performance. The Group identifies our achievements as well as the difficulties and challenges encountered during the reporting year in order to fulfil the principles of responsible and objective reporting.

In 2016, the Group continued to apply a formal procedure for performing a materiality assessment of information to be included in the Report (see the section Sustainability approach). The Group carefully assesses operational, financial, social, and environmental results and focuses on the material issues that will have the most bearing on the Group's performance and engagement with stakeholders. In the reporting year, particular emphasis was placed on managing the following key topics that were identified as material:

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

A full list of the material aspects covered in this Report is given in the section Materiality assessment.

Data measurement techniques
The Sustainability performance information for the Report is collected through the Group's corporate data collection system. The Report contains formalised data, which were primarily consolidated by applicable BU specialists after an initial onsite data review. Information on material sustainability issues is consolidated and verified at a corporate level annually.

The Group's BUs and sites acquire information on health and safety, employees, and social issues through our internal reporting system. Labour performance indicators are calculated based on the headcount as at 31 December 2016, and comprise information on the managing company for the Russian assets (MC Polyus LLC, located in Moscow). Environmental data are initially collected through federal state statistical monitoring forms, which are supplemented by internal reporting forms. Charity and sponsorship data are aggregated through corporate reporting system implemented in 2016 (except for professional services). The forms are regularly aggregated on an ad-hoc, daily, monthly, quarterly, or yearly basis, depending on the Group's requirements.

The Group reviews its data collection procedure annually to continuously improve the Report's content and information quality. In 2016, the Group continued to develop the integrated Health, Safety and Environment (hereinafter, HSE) data recording and analysis system, including accident reporting and root-cause analysis, in order to achieve accuracy and efficiency in sustainability performance reporting.

GRI indicators have been presented on the basis of accepted international metrics and calculated as laid down in GRI G4 Guidelines or in accordance with the Group's internal requirements. Financial performance indicators reported in the Sustainability Report were converted into US dollars according to the yearly weighted average exchange rate for 2016.

In terms of the Group's employment structure, male employees are mostly involved in production, due to labour law requirements prohibiting female employment in certain professions and the specific conditions prevailing in the mining industry. The share of female employees working in service units (administrative services, medical centres, canteens, and others), stands at 16%. Due to this imbalance, it would be unrepresentative to show certain statistical data required under GRI Guidelines (e.g. health and safety statistics) by gender, and such information is not collected by the corporate reporting system.

Restatements and significant changes[6]
In 2016, no restatements or significant changes were made to the methods used to measure data except for listed below. However, JSC SVMC (Exploration BU) was excluded from the Report boundaries in 2016. The number of environmental non-monetary sanctions presented in the previous report was reviewed and the correct number was provided in the Report (see the section on Environmental stewardship). Calculation methodology for the number of employees trained changed in 2016, to exclude employees who have passed more than one training course. Data for previous years were not restated.

Assurance
The Group engaged Deloitte LLP to review and comment on the Sustainability Report, to facilitate improvements to the entire sustainability reporting process. In addition, the Group aims to increase the accuracy, quality, and completeness of reported information in order to meet stakeholder requirements and to increase the efficiency of internal processes.

In 2016, the Report was subject to a limited assurance process under International Standard for Assurance Engagements (3000) Revised. More detailed information on the boundaries and the subject of assurance can be found in the Independent assurance statement and GRI Content Index sections.

Contact information
The Group carefully scrutinises feedback from stakeholders on the completeness, objectivity, and materiality of information disclosed in sustainability reports, which helps improve our management of sustainability performance and non-financial reporting processes. We welcome your suggestions concerning this Sustainability Report and our performance, so as to help us improve and lead our industry forward. Please send your questions and suggestions to:

Daria Grigoreva
Head of Sustainable Development
Address: 15/1 Tverskoy Boulevard Moscow
E-mail: GrigorevaDK@polyus.com

[6] G4-22

Sustainability approach

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

Polyus recognises that sustainable development supports the long-term success of the Group, which is only achievable by striking a balance between our three main areas of focus: economic, environmental, and social.

As a mining company, we understand that we have a substantial impact on the environment, as well as various groups of stakeholders. In order to minimise negative impacts and to maximise positive ones, the Group continuously strives to improve our sustainability performance and to ensure that sustainability is at the heart of our day-to-day operations.

When managing sustainability performance, Polyus is guided by the principles presented below, which cover the Group's three areas of focus.

Table 1. General sustainability management principles (as set forth in the general provisions of the Sustainability management system standard)

Economics and finance	Environment	Social
• Maintaining financial stability in the short, medium, and long term • Guaranteeing employment and creating new jobs in regions of operation • Doing business in accordance with business integrity principles • Paying taxes and other fees to governments at regional and federal levels • Sustainable supply chain management	• Doing business in compliance with legal requirements and applying international environmental protection best practices • Continually improving the environmental management system • Assessing environmental impacts and preventing, minimising, and/or compensating identified impacts	• Observing human rights • Developing a safety culture and safe working conditions • Training and developing a team of professionals • Implementing sponsorship and charity projects in regions of operation • Maintaining an open dialogue with stakeholders; incorporating their views in the decision-making process

Polyus has also defined five 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.

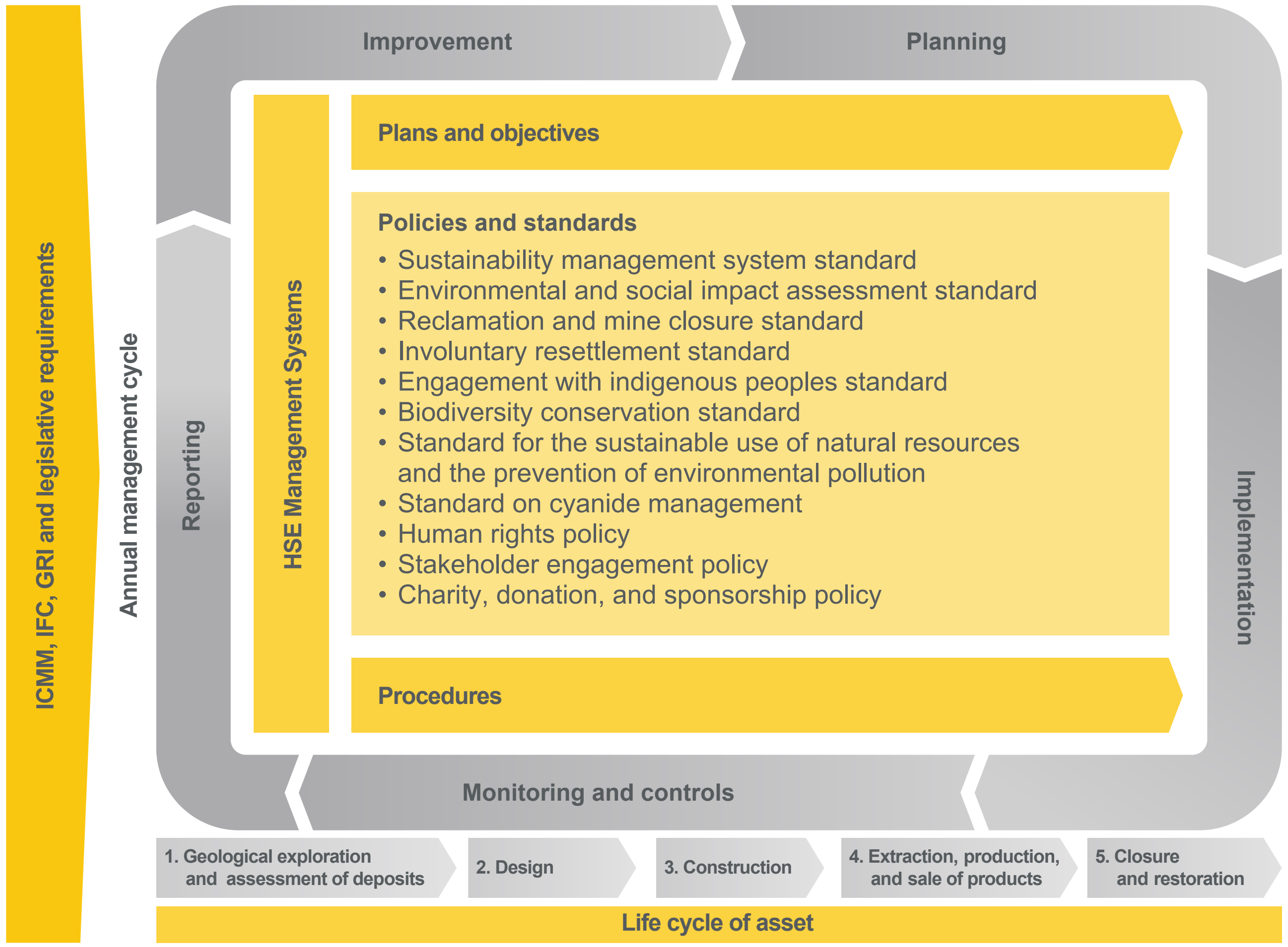
Sustainability management system

Polyus believes that environmental and social responsibility and rigorous adherence to sustainability principles are integral to the success of our business. In order to ensure a comprehensive and multifaceted approach to sustainability management, the Group is continuously improving and further developing the Polyus Sustainability Management System (SMS).

The SMS was developed taking into account Performance Standards 1-8 of the International Finance Corporation (IFC), the Sustainability Principles and Position Statements of the International Council on Mining and Metals (ICMM), and other applicable national and international standards and guidelines.

The SMS forms part of the Group's target operating model and is regulated by a set of internal standards and policies, which together provide the necessary sustainability governance framework for the Group's performance. These documents cover the most salient areas of sustainability management and ensure that sustainability principles are integrated into key business processes, as well as the Group's risk management system.

Figure 1. Polyus Sustainability Management System



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Sustainability approach continued

The primary document regulating the operation of the SMS is the **Sustainability management system standard**. The standard determines the Polyus approach to sustainability management and covers the life cycle of the Group's mining activities and related infrastructure. Other standards and policies formalise the Group's performance within particular areas, such as stakeholder engagement, mine closure, and environmental protection.

In order to ensure the effective and continuous management of sustainability related issues, the SMS covers all key stages of the annual management cycle – from planning and goal setting to commissioning and managing improvements.

Sustainability management in the Group is performed in accordance with the following sequence of steps:

- For the annual cycle there is the annual planning and implementation of measures as part of established strategic benchmarks and objectives set for a three-year period.
- Performance results are disclosed in the annual Sustainability Report.
- The annual Sustainability Report undergoes an independent audit.
- Improvements to the Sustainability management system are implemented based on an analysis of the Group's performance results for the year.

ICMM membership
In 2015, Polyus became the first Eastern European member of the International Council on Mining and Metals (ICMM). The Group's admission to the organisation attested to the fact that we are operating in accordance with the highest international standards and best practices of sustainable development. In addition, the membership supports Senior management's intention to further develop the Group in accordance with sustainability principles.

ICMM is an international organisation founded in 2001. Its goal is to improve the social and environmental performance of the mining and metals industry. ICMM brings together 23 leading companies from the mining and metals sector, as well as 34 regional and commodities associations.

Accession to the ICMM helped focus sustainability practice development in the Group. By joining ICMM, Polyus pledged to comply with 10 ICMM sustainability principles and position statements[7], which, among other things, require information transparency and accountability to peer companies and related stakeholder groups.

Table 2. ICMM sustainability principles

№	Principle	Reference, section in the Report
01	Implement and maintain ethical business practices and sound systems of corporate governance.	Sustainability governance
02	Integrate sustainable development considerations within the corporate decision-making process.	Sustainability governance
03	Uphold fundamental human rights and respect cultures, customs, and values in dealings with employees and others who are affected by our activities.	Employees
04	Implement risk management strategies based on valid data and sound science.	Sustainability governance
05	Seek a continual improvement in our health and safety performance.	Health and Safety
06	Seek a continual improvement in our environmental performance.	Environmental stewardship
07	Contribute to the conservation of biodiversity and integrated approaches to land use planning.	Environmental stewardship
08	Facilitate and encourage responsible product design, use, re-use, recycling, and disposal of our products.	Environmental stewardship
09	Contribute to the social, economic, and institutional development of communities in which we operate.	Communities
10	Implement effective and transparent engagement, communication, and independently verified reporting arrangements with our stakeholders.	Sustainability approach

[7] ICMM Position statements https://www.icmm.com/en-gb/members/member-commitments/position-statements

Based on the results of a comprehensive review of the Group's sustainability practice in 2015, Polyus developed and approved the Action Plan. This sets out the key actions needed to close detected gaps, address cases of partial alignment, and bring about a broad alignment with each element of the ICMM Sustainable Development Framework.

The Group is committed to accomplishing the measures listed in the Action Plan. In order to enhance the SMS, and as part of implementing the Action Plan, one of the most significant achievements in 2016 was completing the development and review of a set of internal standards and policies covering various areas of sustainability management.

In addition, at the end of 2016, the Group began implementing some of its developed policy documents. With the support of an independent consultant, Polyus further developed its training course materials to cover the issues addressed by the standards and policies.

Based on these materials, at the end of 2016, Polyus held training sessions for the Group's environmental specialists on the sustainable use of natural resources and the prevention of environmental pollution.

The Action Plan was reviewed in the middle of 2016 to reflect organisational changes and feasible implementation deadlines. The standards were divided into two groups: one subject for implementation in 2016, and the other in 2017. The former included: the Sustainability management system standard, the Involuntary resettlement standard, the Engagement with indigenous peoples standard, the Standard for the sustainable use of natural resources and the prevention of environmental pollution, the Human rights policy, the Stakeholder engagement policy, and the Charity, donation and sponsorship policy.

These documents will continue to be implemented in 2017, with the Group's remaining standards scheduled to be successfully implemented in the following financial year, namely: the Environmental and social impact assessment standard, the Reclamation and mine closure standard, the Biodiversity conservation standard, and the Standard on cyanide management. Also, in the next reporting period the Group plans to further promote activities aimed at informing, educating, and engaging employees in the SMS improvement process.

In 2017, the Group will undergo an audit by the ICMM Independent Expert Panel. The aim of the audit is to demonstrate that Polyus fulfils its obligations under the Action Plan responsibly and in accordance with the set schedule.

Further benefits of the Group's ICMM membership include access to industry best practices in sustainable development and enabling the Group to share its knowledge and experience with other members.

Capitalising on this advantage in 2016, the Group hosted an introduction to ICMM and a Critical Control Management workshop in Krasnoyarsk. As part of the workshop, leading industry expert John Atherton (ICMM Director of Health, Safety, and Product Stewardship) shared risk management best practices in the metals and mining sector with other workshop participants.

As part of the experience exchange process with other ICMM members and global industry leaders, the Group plans to hold the following events in 2017:

- In Moscow, in February, a seminar for the Group's employees entitled "Water Resources Management", featuring Ross Hamilton, ICMM Director of Environmental Stewardship and Social Progress.
- In Sochi, in April, a presentation of health and safety developments by industry leaders to Russian experts, as part of a panel session at the III All-Russian Week of health and safety.

In order to foster and promote the development of environmentally responsible practices in the mining and metals industry in Russia, Polyus invites representatives from other Russian companies to events organised by the Group.

Sustainability approach continued

Stakeholder engagement policy

The Group believes transparent and mutually beneficial relations between the Group and our stakeholders create the foundations for the successful, long-term development of the business; therefore, we strive to consistently engage with stakeholders at all stages of an asset's life cycle.

The Group defines key stakeholders as those whose interests, decision-making, or health and safety may be impacted by, or have a potential influence over, the activities of Polyus. Key stakeholder groups consist of shareholders, governments and regulators, employees and contractors, local and indigenous communities, suppliers, NGOs, and the media.

Within the Group there is an extended framework regulating the stakeholder engagement process. The main document in this area of sustainability management is the **Stakeholder engagement policy**, which forms the basis of the Group's approach to stakeholder engagement. Under the policy, the Group identifies stakeholders and assesses them for each particular project. Polyus can hence determine social and cultural specifics as well as the immediate interests and needs of each individual group of stakeholders in order to develop appropriate/effective engagement strategies. Polyus keeps stakeholders abreast of the Group's activities, addresses their aspirations and expectations, provides feedback, and maintains mutually beneficial relations by applying these strategies[8].

In the Group there are also a number of internal documents which regulate specific aspects of stakeholder engagement:

- The Corporate governance code
- The Corporate ethics code
- The Human rights policy
- The Engagement with indigenous peoples standard
- The Charity, donation, and sponsorship policy

In our interaction with stakeholders Polyus applies a wide range of engagement mechanisms, which vary in terms of project type and stakeholder groups, and depend on particular circumstances and other conditions. The engagement tools provided by Polyus include engagement questionnaires, trainings and workshops, and having direct communication channels in place with stakeholders. Since 2015, the Group has published the corporate newspaper Territory of Polyus, which is the basic communication tool for interacting with internal stakeholders. In addition to the newspaper, a quarterly health and safety publication, Safety Herald, is issued. And in order to identify and prevent illegal actions, the Group has set up a security hotline.

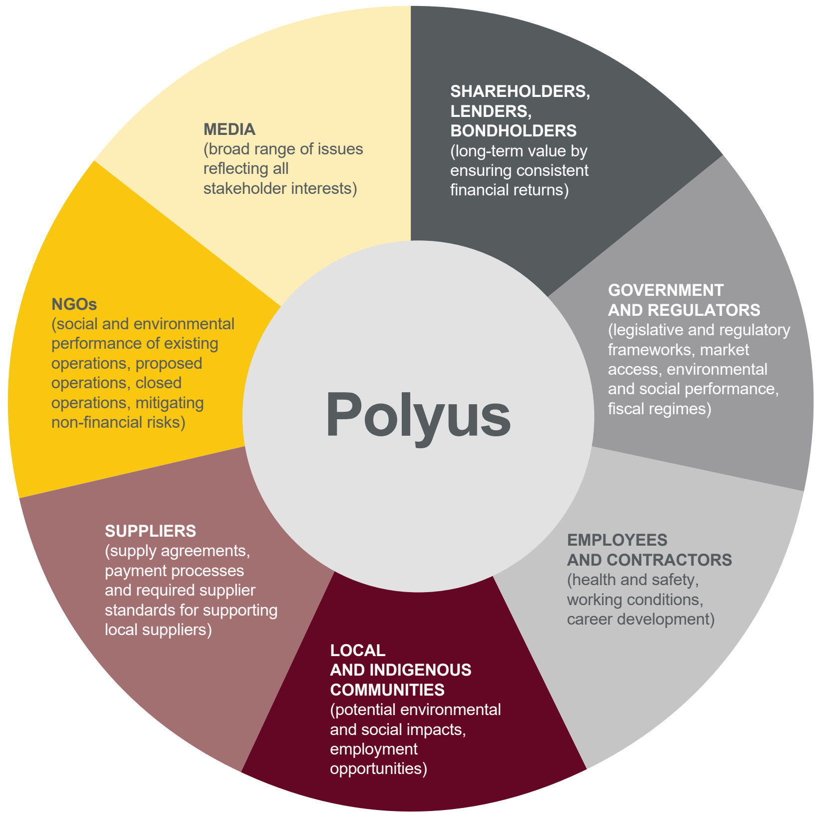
A breakthrough achieved in the reporting year was the development of a grievance registering mechanism following the implementation of the Stakeholder engagement policy, under which all groups of stakeholders – both internal and external – can submit complaints and suggestions. As part of the grievance mechanism, an electronic mailbox can be used (info@polyus.com) and confidential boxes were installed in BUs. It is expected that the grievance mechanism will become fully operational in 2017.

Another important step taken by the Group in 2016 in terms of information disclosure enhancement was to significantly increase the number of publications about PJSC Polyus in federal and regional media. According to the monitoring system SCAN-Interfax, 3,783 publications made mention of Polyus.

[8] G4-25

In 2016, significant progress was also made to develop engagement tools that facilitate interaction with stakeholders via internet communication channels. In the reporting year, Polyus launched a new official bilingual website: www.polyus.com. The website has received the grand prix of the "Golden site – 2016"[9], the most important and oldest award for Russian internet projects. Furthermore, the website won in the nomination "The best site of industrial or fuel and energy companies" and was described by the organisers as having a fully responsive design. In the reporting year the Group also increased its presence in various social networks (Facebook and Vkontakte) through posting corporate news and interesting facts about gold mining, which further contributed to enhancing the Group's transparency and visibility.

Figure 2. Key stakeholders, their interests, and engagement mechanisms[10]



MEDIA
- press releases, briefings
- presentations and interviews

NGOs
- regular interaction with relevant national/ international organisations

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

LOCAL AND INDIGENOUS COMMUNITIES
- organising participation in the Group's activities
- newsletters and targeted communications
- public hearings and meetings

EMPLOYEES AND CONTRACTORS
- direct communication with employees through immediate supervisors and management
- operation-based newsletters and general communications
- corporate newspaper and internal web-portal

GOVERNMENT AND REGULATORS
- supporting and developing social infrastructure, (agreements on social-economic partnerships)
- charity and sponsorship initiatives (sports and cultural events)

SHAREHOLDERS, LENDERS, BONDHOLDERS
- 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

[9] http://2016.goldensite.ru/work/1413/3613/
[10] G4-24, G4-26, G4-27

Sustainability approach continued

Supply chain management

The Group regularly procures a wide range of goods and services, which include heavy equipment, process chemicals, fuel and lubricating oils, explosives, motors, labour, and a number of services. In terms of the procurement process, Polyus collaborates with numerous suppliers representing various industries and branches, both domestically and internationally.

When choosing suppliers, the Group gives preference to local ones, as we believe that responsible economic development can and should improve the lives of stakeholders in the regions where we operate. However, the fact that Polyus BUs are located in remote and difficult-to-access areas, with poorly developed production facilities, creates significant restrictions and does not always allow the Group to fully comply with local procurement principles.

In addition, in our procurement activities Polyus strives to adhere to the principle of responsible sourcing. The Group expects our supply chain partners to meet local and federal regulations and frameworks, and to uphold the principles of environmental and social responsibility, ethical business conduct, and respect for human rights. The Group endeavours to do business only with those suppliers that share these principles.

The Group believes that it is only through engaging regularly with our supply chain partners that we can create mutual and lasting value. To this end, in the reporting period the Group organised a conference for our suppliers and contractors, where the participants discussed issues related to building a competent procurement system and formulating a comprehensive supplier assessment procedure. For Polyus, as the facilitator of the conference, the main goal was to create a platform for holding a transparent and ongoing dialogue with current and potential supply chain partners. The event generated a great response and the Group's management intends to hold it regularly.

Logistics is another crucial supply chain component within the Group. The business activity of Polyus requires the use and transportation of significant amounts of hazardous substances, such as cyanide, and in the reporting year approximately 6% of suppliers were involved in transporting hazardous substances. Therefore, the Group pays close attention to the issue of hazardous substances transportation, and chooses only reliable and licensed transportation providers.

Figure 3. Distribution of suppliers by region

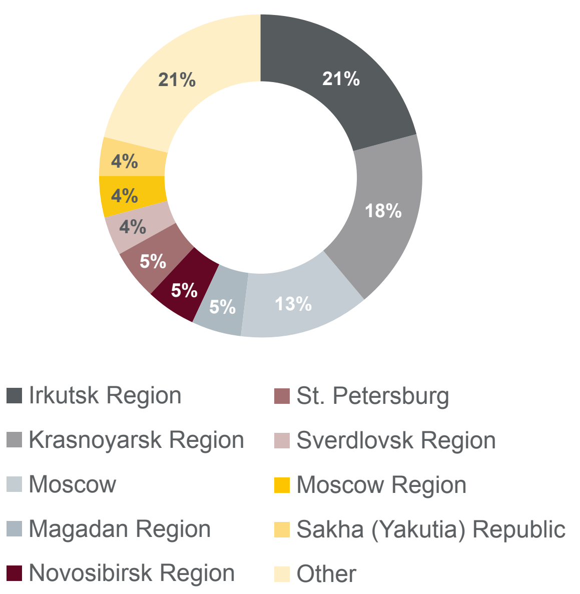
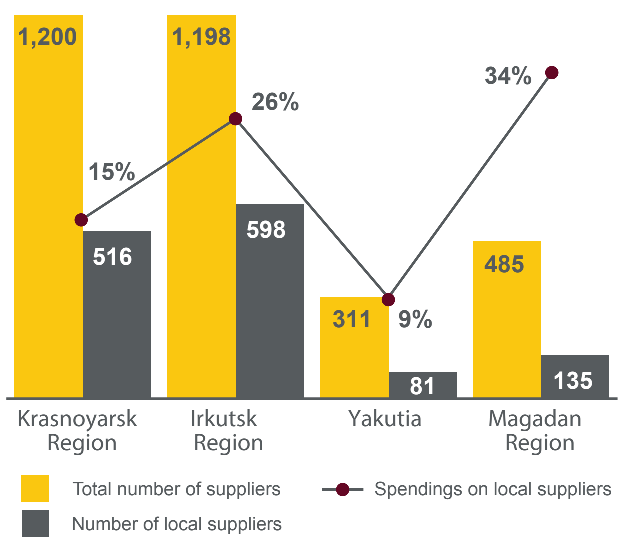


Figure 4. Local procurement by region



Commitments to external initiatives

The Group recognises that a number of environmental and social issues faced by the business community, and the Group in particular, can be solved more efficiently through open collaboration and joint action from all involved parties. Hence the Group actively works with a wide range of industrial associations and national and international advocacy organisations, including[11]:

- The International Council on Mining and Metals (the Group became a member in 2015)
- Gornoye delo (a national association that promotes the mining industry)
- 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)

As a member of the above organisations, Polyus strives to support the principles and initiatives that the organisations subscribe to or endorse. In this regard, the Group's ICMM membership has a particular influence on our activities, and as an ICMM member, Polyus promotes its values and supports the sustainability initiatives it espouses which are relevant for the Group.[12]

In the reporting year, through ICMM members' position statements, the Group committed to the responsible management of tailings storage facilities (TSF) and increased its focus on the key elements of governance necessary for maintaining the integrity of TSF and minimising the risk of catastrophic failures.[13]

Also, in 2016, the Group supported and actively participated in the development of a new ICMM position statement on water stewardship. It committed to applying transparent water management and working to achieve responsible and sustainable water use.[14] These commitments, included in the two position statements above, are expected to be realised by November 2018.

As an ICMM member, the Group supported the global agreement on climate change signed at the 2015 United Nations Climate Change Conference (COP 21 in Paris), and stated its willingness to contribute to ICMM initiatives aimed at addressing climate change.

Alongside the values espoused by the ICMM, Polyus strives to adopt best-in-class existing sustainability management practices promoted by other well-established international organisations. In this regard, the IFC Performance Standards, which Polyus applies through its Sustainability Management System, set forth key guidelines.

[11] G4-16
[12] G4-15
[13] Preventing catastrophic failure of tailings storage facilities https://www.icmm.com/tailings-ps
[14] Position statement on water stewardship https://www.icmm.com/water-ps

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Materiality assessment

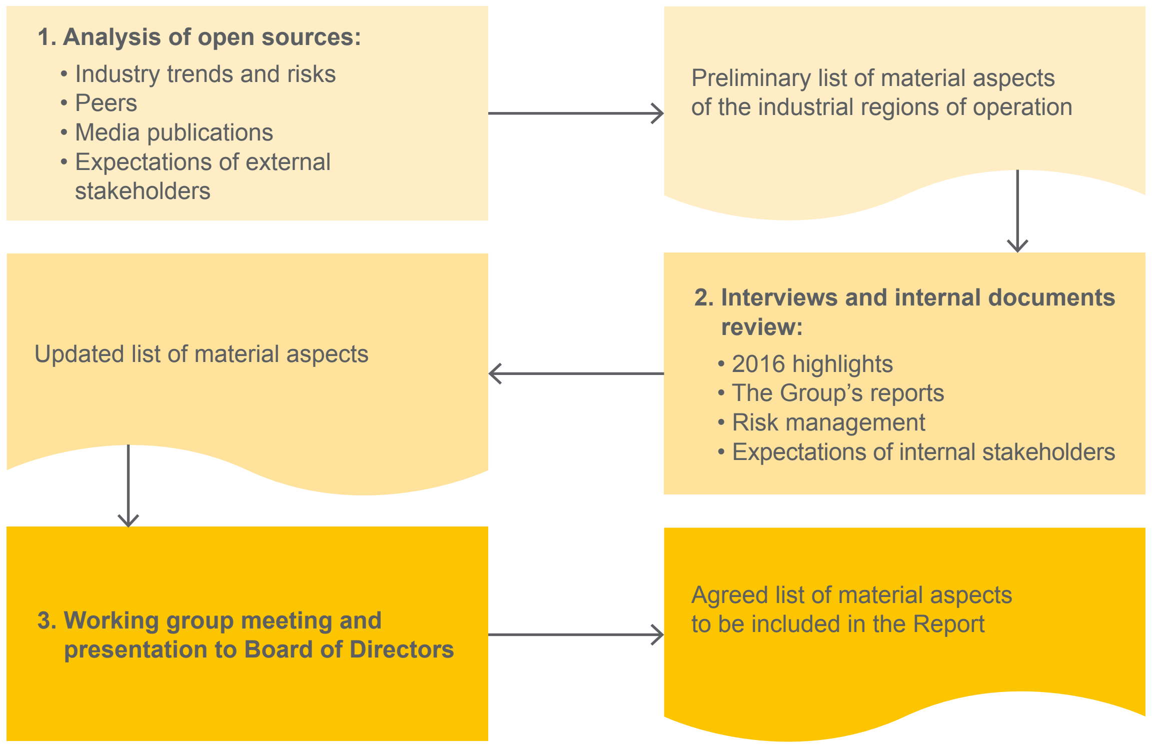
Each year the Group strives to improve the quality of our reports, taking into account the values and interests of all stakeholder groups. Therefore, Polyus considers the whole value chain when identifying material issues and topics, and revises them on a yearly basis.

The main material issues were identified with a view to ascertaining 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

When identifying material issues for inclusion in the Report, Polyus followed the three-step process outlined below:

Figure 5. Materiality assessment process



The pool of material topics[15] is divided into six focus areas and conforms to the aspects set out in GRI G4 and the Metals and Mining Sector Supplement (MMSS), and were largely unchanged on the previous year.[16]

[15] G4-19
[16] G4-23

Table 3. Material issues

Focus area	Risk	Page in the Report	Material topic	Within the Group[17]	Outside the Group[18]	GRI G4 and MMSS aspect
Economic performance	• Poor quality of products and services • Supply chain delays	7, 24 158 91	Economic performance Anti-corruption Supply chain management	✓ ✓ ✓	✓ ✓ ✓	Economic performance Anti-corruption Procurement practices
Health and safety	• Fatalities, health, and safety incidents • Inadequate emergency medical responses	103	Preventing injuries and fatalities Occupational health Safety culture	✓	✓	Occupational health and safety
Employees	• Lack of qualified specialists • Deterioration in the quality of professional training for the mining industry		Recruiting and retaining personnel Employee development and talent pool	✓ ✓	✓	Employment Market presence Training and education
Environment	• Cyanide mismanagement • Requirement to mitigate the effects of GHG emissions • Changes in environmental controls and regulations • Negative health and environmental impacts to the community as a result of environmental accidents • Inadequate water balance • Inaccurate estimates of closure costs; insufficient resources for closure	117	Minimising environmental impacts	✓	✓	Energy Water Emissions Effluent and Waste Compliance Environmental protection expenditures Environmental grievance mechanisms Closure planning
Communities	• Lack of awareness in local communities about the Group's activities and possible discontent	129	Social investments	✓	✓	Indirect economic impacts Local communities
Stakeholder engagement	• Loss of support from local authorities and communities	89	Developing mutually beneficial collaborations with stakeholders Human rights grievance mechanism Long-term development and industry specific organisation membership	✓ ✓ ✓	✓ ✓	Stakeholder relationships and reputation Human rights grievance mechanism ICMM membership and Action Plan

[17] G4-20
[18] G4-21

Independent assurance statement

Independent assurance statement by Deloitte LLP (‘Deloitte’) to PJSC Polyus Board of Directors on the 2016 Sustainability Report for the year ended 31 December 2016

Scope of assurance

We have been engaged by the PJSC Polyus to perform an assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) (“the Standard”) to provide public limited assurance on selected non-financial performance data and on alignment of its policies and procedures to Subject Matters 1 to 5 of the International Council of Mining and Metals’ (ICMM) sustainable development framework presented in PJSC Polyus 2016 Sustainability Report (‘the Report’) for the year ended 31 December 2016.

Assurance procedures and roles

Our key assurance procedures

We carried out limited assurance on (1) the selected key performance indicators specified below and (2) the alignment of PJSC Polyus policies and procedures to the ICMM sustainable development framework. To achieve assurance the ISAE 3000 (Revised) requires that we review the processes, systems and competencies used to compile the areas on which we provide our 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 Report’s assertions regarding sustainability performance in 2016; and
- reviewed the content of the Report against the findings of the aforementioned procedures and, as necessary, provided recommendations for improvement.

We believe that our evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Roles and responsibilities

- The Directors are responsible for the preparation of the sustainability information and statements contained within the PJSC Polyus Sustainability Report 2016. They are responsible for determining PJSC Polyus 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 PJSC Polyus application of and compliance with 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 ISAE 3000 (Revised) 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. The firm applies the International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The evidence gathering procedures for a limited assurance engagement are more limited than for a reasonable assurance engagement which is akin to a financial audit, and therefore less assurance is obtained than for a reasonable assurance engagement

- 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 PJSC Polyus for our work, for this Report, or for the conclusions we have formed.

(1) Selected non-financial performance data for public limited assurance

TABLE: LIMITED ASSURANCE PERFORMANCE INFORMATION
We have been engaged by the Board of Directors of PJSC Polyus to perform limited assurance procedures on the following key performance data of the 2016 reporting year:

Composition of governance bodies and breakdown of employees per employee category	• Number of employees by business unit, region, function, gender and age group • Percentage of employees by business unit, region, function, gender and age group, (%)
Employee turnover	• Total number of new employee hires • Employee turnover (%)
Career development	• Number of employees trained • Employees trained as percentage of total headcount (%)
Fatalities	• Work-related fatalities • Fatality frequency rate (Group), per 200,000 hours worked
Injury rates	• LTI frequency rate, by BU employees (per 200,000 hours worked) • Injury rate per 200,000 hours worked (including Fatalities, Lost time injuries, Medical treatment injury)
Energy/electricity use and climate change	• Purchase of primary energy resources, (tonnes) • Consumption of primary energy sources (tonnes) • Amount of electricity produced and sold (million kWh) • Amount of heating produced and sold (thousand Gcal) • Amount of electricity purchased (thousand KWh) • Amount of heating purchased (thousand Gcal)
Greenhouse gas (GHG) emissions	• Total GHG Emissions, million tonnes • Direct GHG emissions (CO_2e), million tonnes • Indirect GHG emissions (CO_2e), million tonnes
Significant air emissions	• Carbon oxide emissions, (CO) (tonnes) • Sulphur dioxide emissions (SO_2) (tonnes) • Amount of Nitrogen oxides emissions like NO_2 (tonnes) • Solid dust emissions (PM2.5 and PM10) (tonnes)
Waste	• Total waste generated (thousand tonnes)
Water	• Total water withdrawal (thousand cubic meters) • Total water withdrawal by source (thousand cubic metres) • Total volume of water discharged (thousand cubic metres)
Regulatory compliance	• Total monetary value of environmental fines ($’000) • Number of non-monetary sanctions for non-compliance with environmental laws and regulations
Sponsorship and charity	• Total monetary value of charity and sponsorship ($’000)

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Independent assurance statement continued

(2) Public limited assurance on ICMM Sustainable Development Framework
The alignment of PJSC Polyus policies, procedures and disclosures with the International Council on Mining and Metals ("ICMM") Sustainability Development Framework Subject Matter 1-5, specifically in relation to:

- the International Council on Mining and Metals ("ICMM") Ten Sustainable Development Principles and Position Statements as stated in the section entitled "ICMM membership" on pages 87-88 of the Annual Report 2016 (ICMM Subject Matter 1)
- the approach that it has adopted to identify and prioritise its material sustainable development risks and opportunities as stated in the section entitled "Materiality assessment" on pages 93 – 94 of the Annual Report 2016 (ICMM Subject Matter 2)
- the existence and status of implementation of systems and approaches used to manage and report the selected material SD risks and uncertainties as presented in the section entitled "Principal risks and uncertainties" on pages 159-163 of the Annual Report 2016 and related key performance indicators presented in the table above (ICMM Subject Matter 3 and 4 respectively)
- its self-declaration in preparing its Annual Report 2016 in accordance with the Global Reporting Initiative (GRI) G4 Comprehensive Option as stated on page 81 of the Annual Report 2016 (ICMM Subject Matter 5)

Our conclusions

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 'Roles and responsibilities' section above are materially misstated
- nothing has come to our attention that causes us to believe that the Polyus's description of its policies, procedures and disclosures and their alignment with the ICMM Subject Matter 1-5 as documented above are materially misstated.

Deloitte LLP

Deloitte LLP

London

August 2017

Photo: At the Verninskoye mine

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Sustainability governance

Maintaining transparent and effective governance forms a fundamental part of upholding our responsibilities and maintaining strong relations with our stakeholders.

Polyus has a strong corporate governance system in place, established in accordance with Russian law requirements and international best practices. The management of sustainability related issues is integrated into the current corporate governance structure, and is performed at all management levels: at the level of PJSC Polyus (hereinafter, the Holding company), MC Polyus LLC (the Managing company), and JSC Polyus (the Operating company).

Multilevel governance in the company
At Holding company level the bodies involved in sustainability management are the Board of Directors and its executive committees. The Board plays a key role in integrating sustainability values into the Group's decision-making processes and determines strategic sustainable development priorities.

The Executive Committees assist the Board in strategic sustainability management in corresponding functional lines of business, and encourage the development of best practice within the Group. In 2016, the Board established new Audit, Nomination & Remuneration, Strategy, and Operations committees, in line with high corporate governance standards. The committees are headed by independent directors.

At Managing company level, responsibility for sustainability management rests with the General Director, whose functions include the allocation of sustainability related responsibilities among functional divisions.

The Sustainability Working Group is another body at Managing company level that plays a key role in the functioning of the sustainability management system. The working group meets on a monthly basis and is made up of representatives from the Managing company's main functional divisions. Working group members may also include representatives from BUs, if required. Such an arrangement ensures that members of Senior management are directly involved in EHS management in the Group.

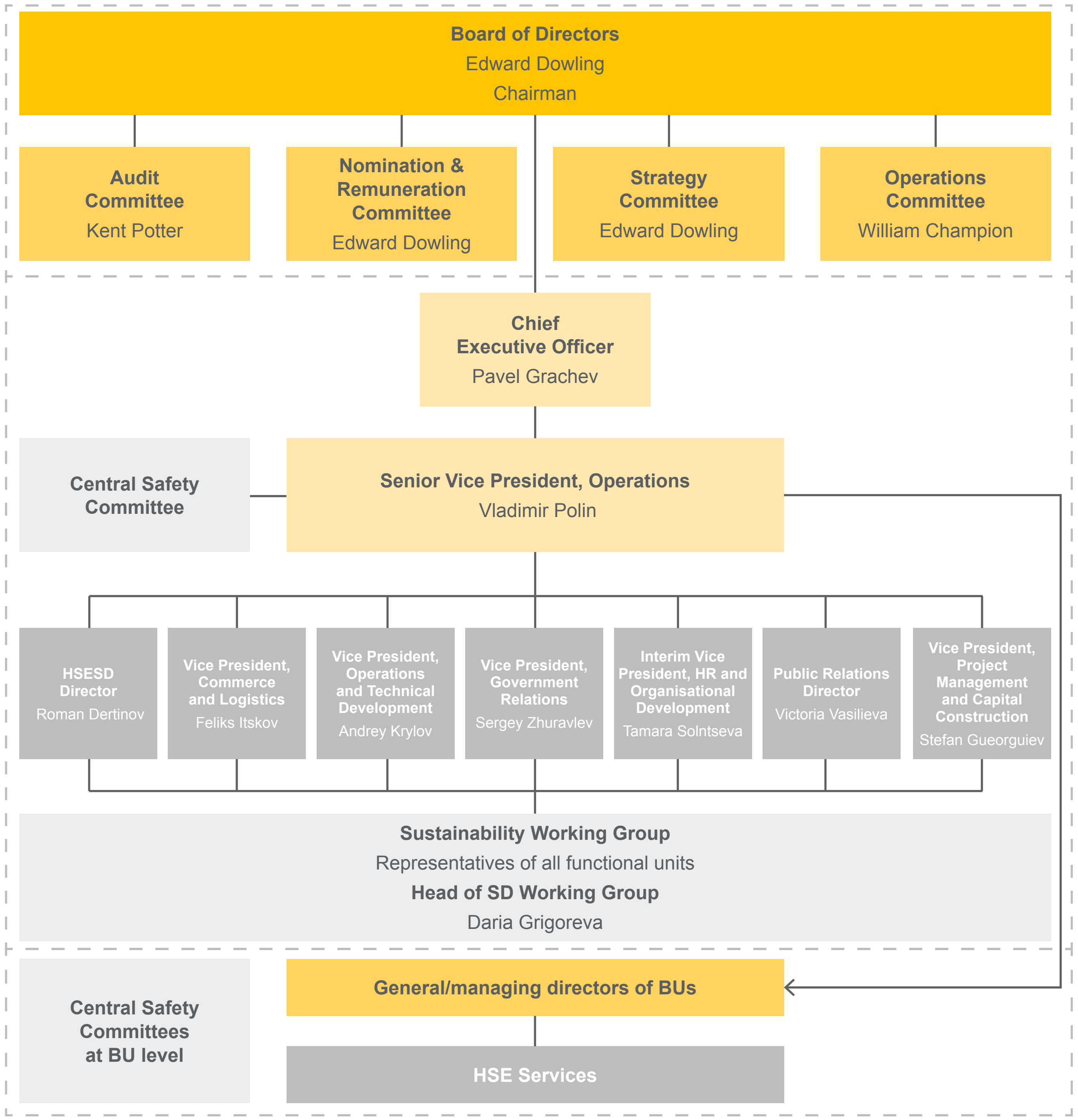
The working group's functions comprise:

- determining sustainability benchmarks and objectives
- developing corporate standards on sustainability issues and monitoring their implementation
- ensuring that the Company's activities comply with sustainability principles
- participating in preparing the sustainability report, including in relation to determining the material aspects of the Company's activities based on GRI Guidelines

The performance of the working group is coordinated by the Head of the Working Group and is overseen by Roman Dertinov, HSE&SD Director.

In addition, the Central Safety Committee operates at Managing company level. Its role is to improve the health and safety culture within the Group. The committee performs regular work to implement an integrated HSE management system, and is made up of the Group's management and the heads of BUs. Vladimir Polin, Senior Vice President for Operations, acts as its chairman. Safety Committees are also established at BU level.

Figure 6. The Group's current sustainability governance structure



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Sustainability governance continued

Various Managing company departments are also involved in the sustainability management of the Group, and are responsible for implementing specific targets within corresponding functional lines of business.

The HSE&SD department remains in charge of the day-to-day management of the Group's HSE performance. The department has a number of work streams headed by respective managerial positions – see figure 7.

During the reporting period, a new managerial position was created in the HSE&SD department: Head of Sustainable Development. This replaced the former position of Adviser on Sustainable Development, and assumed its main functions. Thus the Head of Sustainable Development oversees the Group's sustainability activities, including sustainability reporting, and coordinates communications with the ICMM as a principal liaison.

At Operating company level, the general/managing directors of BUs are responsible for sustainability management. There are HSE services at each BU, which include ecologists and health and safety specialists.

As part of the HSE management system development strategy for 2016–2018, the Group initiated the direct reporting of HSE services in BUs to BU general/managing directors and the MC HSE & SD Director.

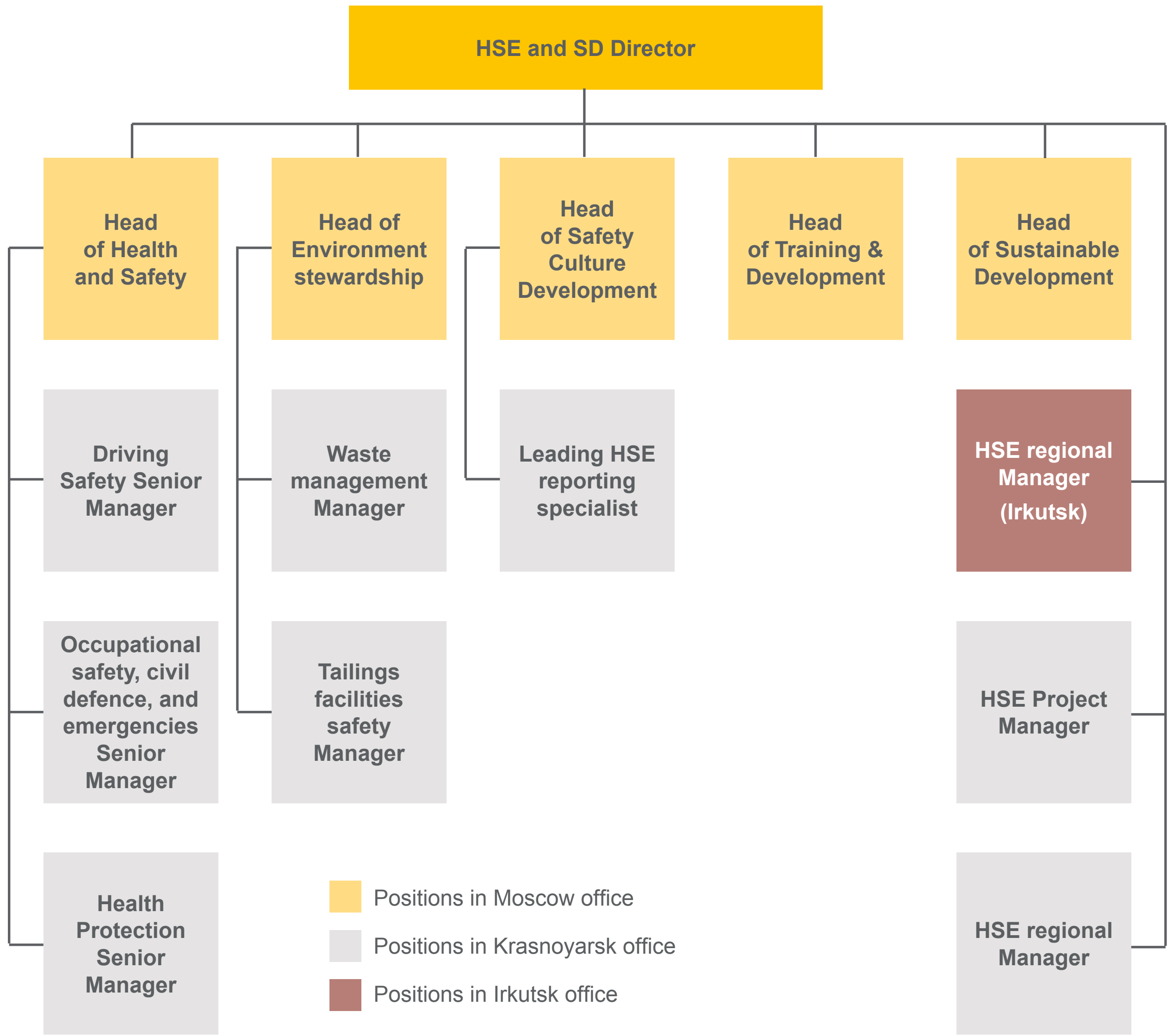
Sustainability risk management
A fundamental condition of effective sustainability governance is the continuous management of environmental, social, and economic risks. The Group manages sustainability risks as part of the corporate risk management system.

Sustainability risks are identified and assessed at the level of BUs, professional services, and projects. A list of material risks, information on which is sent to the Managing company, is created based on the assessment results.

With due account for the materiality of risks, risk management is performed at the level of the Managing company and/or BUs, professional services, and projects.

Information on material sustainability risks is used to establish or adjust sustainability objectives within agreed benchmarks, and to determine significant topics that can be included in the sustainability report.

Figure 7. HSE&SD department



Health and safety

Plans:	
• Zero fatalities	Ongoing
• A 10% reduction in the TRIFR (total recordable frequency rate)	2018
• Enhance the safety culture level through increasing awareness of HSE issues among personnel	2018
• Develop a unified integrated HSE management system at all BUs and professional services	2018
• The Cyanide management standard implementation in the BUs	2018
• Develop emergency medical support facilities all BUs	2018
• Implement an automated HSE information collection and analysis system in the Group (including information on near misses and incidents/accidents and their root cause analysis)	2018
• Full compliance with a full range of HSE corporate standards at all BUs and professional services	2018
• A 10% reduction in the Automotive accident rate (AARk) vs. 2016 (Strategy 20/20)	2020
• Achieve a mature safety culture by 2020 (2.5 on the Bradley Scale)	2020

Integrated HSE management system

Being fully committed to providing a safe working environment and loss prevention, Polyus continued to enforce and strengthen the HSE management approach across the Group. We endeavour to centralise the management of HSE processes and to ensure compliance with HSE requirements.

To implement a unified approach an integrated HSE management system was developed, based on ISO 14001 and OHSAS 18001 requirements and best international practices. It is planned to be fully implemented in 2018. To facilitate its gradual adoption, the Group developed related integrated HSE Management System implementation plans for BUs.

Before the integrated HSE management system is fully implemented, the Group continues its efforts to maintain and expand ISO 14001 and OHSAS 18001 compliance. By the end of the reporting year[19], all Group BUs were ISO 14001 and OHSAS 18001 certified (Magadan BU, Polyus Energy and Polyus Project confirmed their compliance in 2016). The certification of the Group's unified system is planned for 2018.

In the reporting year, a unified vertical organisational structure was approved and implemented (for more information on the HSE management structure, see the section Sustainability governance), aimed at providing a high level of control over HSE issues at all management levels, and aligned with the best HSE international practices.

During the reporting period, the Group made a transition to using proactive HSE key performance indicators. Polyus views the development level of the safety culture as being a major HSE KPI for 2016–2018, because of the emphasis on the importance of leading indicators such as accident prevention, management system development, and enhancing leaders' involvement as opposed to lagging indicators (LTIFR). Adopting a proactive approach resulted in strengthening managerial engagement with HSE issues and increasing the transparency of the incident reporting system.

All Group BUs and professional services developed their own action plans, aimed at improving the HSE management system and its performance and achieving 2016 KPIs. By the end of the reporting period, over 90% of action plans had been successfully implemented.

[19] The construction service is to be certified in early 2017.

In 2016, Polyus carried out large-scale preparatory work for the final assessment of the HSE management system, which was performed by the British Standards Institution and conformed to the Bradley Scale assessment methodology. The assessment takes into account the maturity of the system's key elements, including management commitment, how integrated the structure is, and the responsibility level of line managers.

The assessment results indicated that the Group achieved a significant increase in the development of the safety culture, which reached 1.8 on the Bradly Scale by the end of the reporting period (against 1.2 at the beginning).

As part of the process of developing a transparent HSE data collection system, the Group is introducing contemporary information technologies to improve the efficiency of the HSE management system and respective communications. In 2016, HSE processes in need of automation were identified. Further steps in this area are planned for 2017.

Safety culture development

Polyus believes that the safety culture forms an essential part of the Group's overall efforts to prevent injuries and HSE losses[20] and to achieve our goal of zero fatalities. Both employees and contractors are responsible for maintaining safe working conditions when executing their assigned duties.

A large DuPont safety culture development project, with a focus on behaviour-based audits, risk assessment, root cause analysis, and an integrated safety management structure, was successfully implemented and moved to the independent development stage at all BUs and was a milestone event within the overall safety culture improvement process. The principal features of the project have been embedded in the Group's health and safety system, including adopting a set of health and safety training activities and corporate documents.

Unfortunately, despite the Group's efforts to prevent occupational accidents and improve health and safety performance rates, 2016 saw two work-related employee fatalities. An electrician sustained a fatal electric shock when switching a high-voltage cable at the Nizhniy Ugakhan quarry at the Irkutsk Alluvial BU, and another employee suffered a fatal fall when performing unsanctioned work at height at the Yakutia BU (Kuranakh). Both accidents related to a violation of safety rules by the persons involved in these tragic incidents.

As a targeted response to prevent similar accidents, the Group made efforts to implement appropriate control measures, and LockOut-TagOut (LOTO) and Training Equipment for Working at Height can be singled out as being the most significant projects in this respect. The preparation stage of the LOTO system implementation was completed in 2016, and the Group intends to perform the implementation on the pilot site in 2017. The LOTO system allows safety risks related to human error to be mitigated when operating industrial equipment, through the use of safety locks and placing warning signs on devices. The installation of training equipment for working at height is planned for 2017 at six Polyus BUs. This initiative is aimed at developing skills related to using personal protective equipment when working at height, independently, and in teams.

The Group encourages our employees to regularly develop and maintain the safety culture through the use of announcement boards and corporate publications and trainings, which are a particularly important component of the safety management process.

Polyus strives to enhance safety priority awareness by developing personnel competencies and skills. The health and safety training programme involves a series of training activities designed for different groups of personnel: management and engineering staff, manual staff, and all employees in general. The Group actively promotes the development of an in-house team of safety coaches, which by the end of the reporting year consisted of 96 employees.

In 2016, 100% of line managers and engineering staff completed training programmes as part of the DuPont Safety culture project implementation. These programmes included Behaviour safety audits, Root cause analysis, Risk management, and Contractors management.

[20] Involves equipment, time, money, or process loss

Health and safety continued

During the reporting year, the Group designed and launched a programme to develop the safety culture and to prevent injuries. The programme is aimed at giving manual workers the required knowledge and skills in occupational health and safety, and entails training from in-house coaches. The implementation of the programme is earmarked for 2017. In addition, more than 98% of employees passed mandatory occupational health and safety and industrial safety courses.

Finally, the OLIMPOKS[21] training and testing system was commissioned in all key BUs. The system encompasses a training course for all Polyus employees on minimum HSE standards.

As part of the safety culture development programme, the standard for HSE training and knowledge assessment procedure was drafted in 2016, and is planned to be implemented in 2017.

Polyus recognises that a substantial amount of our work is carried out by the Group's contractors. Their performance affects the quality of the work, as well as the safety of the working environment. Contractor safety control is subject to Contractors Safety Management Standard provisions, introduced in 2016. From 2017 the Group intends to ensure that:

- all contractor agreements include Contractors Safety Management Standard requirements
- the contractor selection process is based on the results of the contractor HSE compliance assessment
- individuals responsible for monitoring contractors' HSE compliance have been identified
- contractor audits and work meetings are performed regularly

Industrial safety and emergency response

As part of the implementation of the Group's Health and Safety policy principles, Polyus ensures full emergency preparedness through performing a number of appropriate measures that meet legal requirements in this area.

Thus, accident prevention and response plans have been developed at all the Group's hazardous industrial facilities. The Group frequently provides theoretical training and emergency response drills at all hazardous industrial facilities and rotational camps.

Polyus strives to maintain its private rescue service through procuring all necessary equipment and trainings for rescue team members. In addition, the Group works with specialised external contractors that can provide necessary professional support in the event of there being an accident.

The Group studies and analyses disasters and accidents from all over the world, with a view to preventing similar situations by subsequently reviewing emergency preparedness plans.

Further steps related to the Group's emergency preparedness activities will include:

- developing an emergency prevention, localisation, and response management system
- insuring hazardous industrial facilities; ensuring the timely renewal of necessary permits/licenses
- developing and implementing accident prevention and response plans
- conducting safety expert reviews of project documentation, technical equipment, and facilities
- online monitoring of pit wall stability using ground penetrating radars (GPR)
- investigating and examining potentially hazardous situations

[21] OLIMPOKS is a training and monitoring system designed to directly automate training and knowledge assessment processes in training organisations, companies' corporate internet networks, and through remote internet access.

Geo-technical incident at Vostochny pit at Olimpiada, Krasnoyarsk BU

On 23 May 2016, a pit wall failure occurred at mid-level on the south wall of the Vostochny pit, which resulted in up to 70,000 cubic metres of rock being displaced.

As a result of a dispatcher timely detecting a crack on the pit wall, all traffic in the pit was halted, resulting in no injuries being reported and there being no damage to mining equipment. However, due to the significant volume of displaced rock on the mine road, access to 153 miners in the pit was blocked. Following a successful rescue operation, involving an outsourced mine rescue crew and a paramilitary mine rescue squad, all the miners were successfully rescued and evacuated.

All gold processing plants at the Polyus Krasnoyarsk BU continued to operate as normal. Suspended ore deliveries from the Vostochny pit were offset by stockpiled ore accumulated earlier, in order to ensure continuing operations at the processing plant amid ongoing large-scale stripping works.

Once all recovery procedures were completed, the Group embarked on a series of tests to ascertain the cause of the incident. These confirmed that the rock deformation was isolated to the location of the pit wall failure and that there was no further danger of displacement. The pit wall failure occurred as a result of the effects of a drastic seasonal thermal differential in structural rocks of varying compositions and the levels of density and hardness in the deformation area at a specific junction.

On 1 June 2016, ore mining was resumed at the lower levels of the pit, with rock and highwall slope conditions being continuously monitored.

Following the finalisation of the investigation results, two ground penetration radars (GPR) were purchased at the Vostochny and Blagodatnoye sites. GPR detects small movement and acceleration of movement in the pit walls to provide better planning and control. The acquisition of GPR equipment at the Yakutia Kuranakh and Irkutsk Ore BUs is planned for 2017.

Driving safety

The Group observed an improvement in the driving safety culture, which was brought about by consistent steps being taken in this area. Polyus implemented a number of safety control measures related to driver awareness and travelling checks, and installed on-board vehicle monitoring systems. No persons were injured in road accidents in 2016 – this was achieved through the use of three-point seatbelts.

In 2016, the following activities were launched as part of developing a driving safety programme:

- A Traffic safety management standard was developed and approved; all Group's BUs and Professional Services adopted action plans to implement the standard.
- Automated monthly speed reports became available in the Logistics and Construction services; the preparation of automated monthly reports was planned in all Group's BUs / Professional Services for 2017.
- A campaign entitled Safe Driving is Driving with your Seatbelt Fastened was launched as part of a programme to raise driver safety awareness, while another initiative, the defensive driving programme, covered the training of 50 in-house coaches, the managers of BUs and the Managing company, and drivers.
- A draft of an interactive induction on passenger safety will become a component of the HSE Minimum programme, as part of implementing the OLIMPOKS training and testing system.
- Action plans on traffic safety in autumn and winter conditions were prepared and distributed among Polyus companies.

In 2016, the Automotive accident rate (AARk) was 0.69 – a 9% drop on 2015 (0.76).

Health and safety continued

Health protection

Health protection remains a key focus area for Polyus. The Group's health promotion activities can be divided into the following groups:

Group of activities	Key issues
Industrial medicine aimed at safeguarding employee health	• Preparing unified standards and procedures (for example, first-aid& CPR[22] trainings, alcohol and drugs inspections, and investigations into occupational diseases) • Performing preliminary, periodic, daily, pre-tour, and extra medical examinations • Providing medical care facilities • Static data maintenance and report preparation
Occupational hygiene and sanitation related to the assessment and management of working environment risks	• Participating in a special assessment of labour conditions and interacting with sanitary and industrial laboratories • Preparing and developing projects to analyse and mitigate working environment risks
Health culture aimed at improving employee well-being	• Sanitary educational work • Vaccination

The Group makes considerable efforts to enhance emergency preparedness across our companies. These include installing medical care facilities (such as helicopter pads and digital MedCheck systems), providing mannequins and first aid kits или first-aid-kits, training people in first aid, medical trainings, and working with new medical services contractors. These activities were part of BUs' plans to implement the Medical Support and Emergency medical care standard (introduced in 2016).

Polyus continues to successfully implement the digital daily MedChecks system project. For example, the acquisition and launching of 13 units for MedChecks at the Yakutia Kuranakh BU identified 34 cases of raised blood alcohol levels among employees, and due to health risks 28 employees were refused entry into work in 2016.

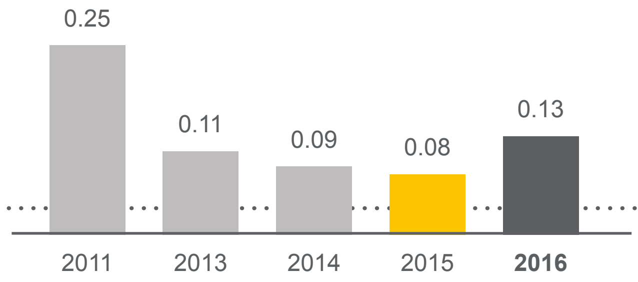
Performance results

In the reporting period, internal medical coaches held 26 First Aid&CPR trainings by demonstrating procedures on digital mannequins. 427 employees attended the seminars.

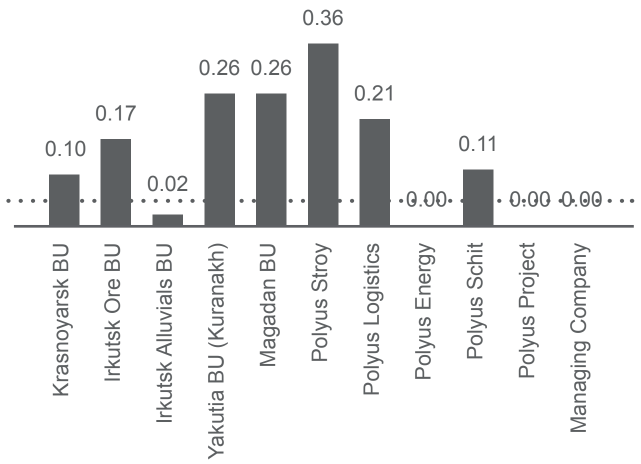
For the first time, over 2,800 employees (15% of the Group's staff) were vaccinated against flu. Also, more than 1,000 employees were vaccinated against tick-borne encephalitis.

Our fatality frequency rate, which is the number of fatalities per 200,000 hours worked, was 0.01 in 2016. We investigate and learn from these incidents to reduce the risk of harm to all of our employees and contractors.

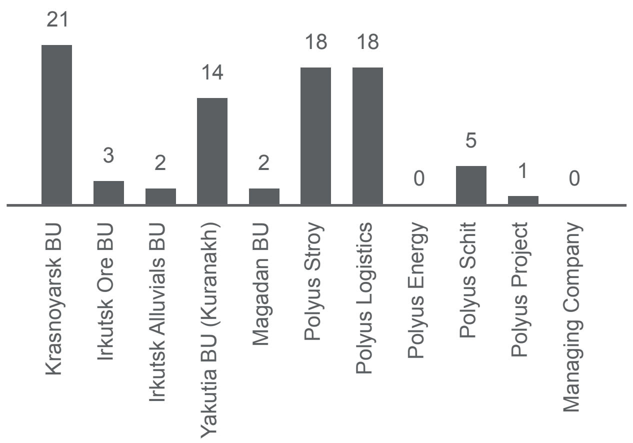
Lost time injury (LTI) frequency rate (employees), 2011–2016 (per 200,000 hours worked)



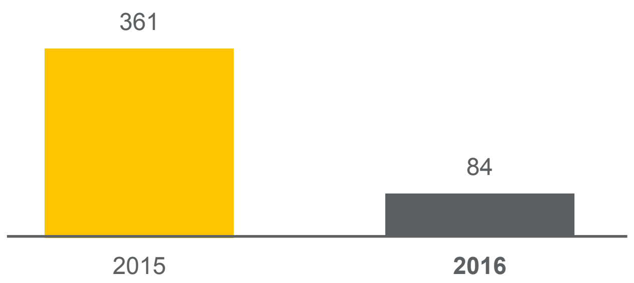
LTI frequency rate by BU (employees), 2016 (per 200,000 hours worked)



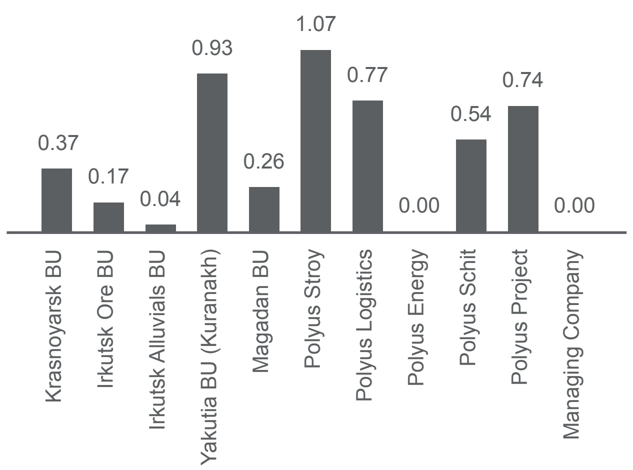
Total Registered Injuries (TRI) by BU (employees), 2016 (including fatalities, lost time injuries, lost time free medical treatment injuries)



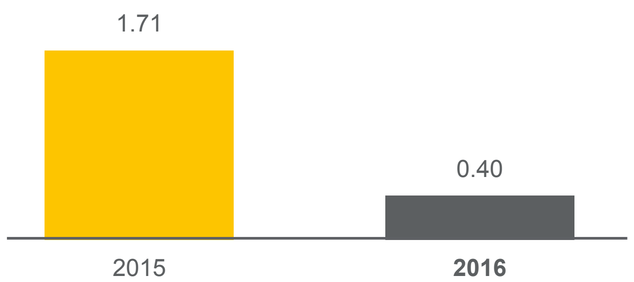
Total Registered Injuries (Group), 2015–2016



Total Registered Injuries Frequency Rate (TRIFR) by BU per 200,000 hours worked, 2016 (including fatalities, lost time injuries, lost time free medical treatment injuries)



Total Registered Injuries Frequency Rate (Group), per 200,000 hours worked, 2015–2016



[22] Cardiopulmonary resuscitation

Environmental stewardship

Dealing with environmental challenges remains an essential part of the Group's everyday operations and activities. Throughout all workflow processes the Group strives to control and minimise the impacts it has on the environment.

Plans	
• Evaluate all projects to assess environmental and social risks	2017
• Implement corporate standards on the waste quality assessment system, acid rock/mine drainage monitoring, and biodiversity conservation and environmental impact assessment	2017
• Determine target greenhouse-gas emission figures for the Group for 2017–2020	2018
• Implement 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 an asset's life cycle in compliance with IFC requirements	2018
• Develop an automated environmental data management system	2018

Management system overview

2016 was a year of rapid shifts in Russian environmental legislation. A thorough monitoring by external legal advisors of these changes was regularly conducted, and relevant information was passed to BUs to ensure that the Group met recently published legal requirements and updated internal processes so that they aligned with best international practices, standards, and guidelines. In order to gradually improve the efficiency of how we operate, the Group bolstered the Environmental department by creating two new positions: waste manager and tailings facility manager. In addition, and as a positive reflection of efforts made in previous years, the Group's consolidated Health, Safety and Environment department is now fully integrated within the Group's operational structures.

The Environmental Management System is part of the Group's Sustainability management system. Polyus is constantly looking for ways to enhance and develop the environmental management system and to improve our ability to timely respond to issues as they arise. As for the implementation of an integrated environmental management system, only one of the Group's Professional Services – Construction Service – is left to be ISO 14001:2015 certified (in early 2017). Other Group BUs and professional services had already been ISO 14001:2015 certified by the end of 2016.

In 2016, the Group approved the Corporate standard on the sustainable use of natural resources, pollution prevention, environmental accounting, and reporting. This outlines the Group's position on managing any impacts we may have on the environment. The standard covers the Group's key environmental issues, including water resources, greenhouse gas and other atmospheric emissions, waste management, and the management of hazardous substances. The standard is supplemented by reporting templates.

Environmental activities

The Group places particular emphasis on taking progressive steps to continually improve environmental performance. During the reporting period we took actions to finalise the licensing of overall waste management procedures and to update waste disposal contracts. The Group's commitments included participating in developing the best available technologies guidebook for the precious metals industry, as well as a guidebook for the gold mining industry (to be published in 2017). In order to better understand and assess the existing environmental risks matrix, the Group launched an environmental risks registration programme at Group BUs. Another task that is equally important to the Group is classifying our total environmental protection expenditures and investments. This includes a critical review of and further guidance on how to improve existing expenditure on the environmental protection management system.

Energy and greenhouse gas emissions

The Group understands the fundamental link between energy use, greenhouse gas emissions, and climate change. In our everyday activities we make use of the best available reduction measures to mitigate effects that may lead to climate change. A mid-term task of the Group is the comprehensive review of our year-by-year GHG emission levels and further GHG target-setting in line with internal GHG self-assessments and recently published regulatory recommendations.

Waste management

The Group takes every opportunity to identify risks and pitfalls related to waste management and to promote responsible waste management. In 2016, we succeeded in developing a waste water facilities inventory followed by onsite tailings inspections. Also, from April to September 2016, the Group conducted the White Gold voluntary campaign, which was aimed at reducing the use of paper across the Group's BUs. The results of the campaign identified a 16% decrease in paper usage – the equivalent of saving approximately 15 trees.

Biodiversity

No habitats of rare or endangered species were identified in the areas where the Group operates, even though some Polyus alluvial mining sites are located in remote areas that are rich in wildlife. The Group actively supports internal biodiversity conservation initiatives: in 2016 KBU staff continued with the aquatic resources restoration programme by releasing fish into the Yenisei river basin.

Environmental incidents

The Group thoroughly monitors all incoming grievances and messages on environmental incidents. No environmental grievances or significant environmental incidents were recorded in 2016.

Initiatives for 2017

The Group is taking steps to be in line with government environmental initiatives, and consequently has prepared a list of related activities for 2017, which has been officially named the Year of Environmental Protection in the Russian Federation.

The Krasnoyarsk BU plans to promote at least three initiatives: the technical upgrading of gas-cleaning facilities and its ventilation systems, the renovation of domestic and effluent water treatment facilities, and the construction of a landfill for solid domestic and industrial waste disposal.

The Yakutia Kuranakh BU will celebrate 2017 by enhancing the efficiency of its cyanide tailings neutralisation programme through improving the automation system of cyanide distribution. In addition, local communities are planned to be engaged through the launch of various communication and awareness-raising programmes (public environmental volunteering, environmental events, etc.)

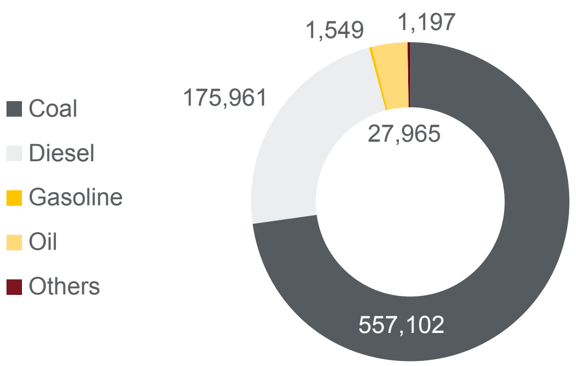
The Magadan BU will report to stakeholders the highlights of research into the restoration of aquatic resources and the assessment of land resources.

Finally, the Logistics service drives the construction of carwash facilities and the biological treatment of domestic and surface water flows – thus the Group creates awareness about excessive car use and our increasing impacts on the environment during all mining stages.

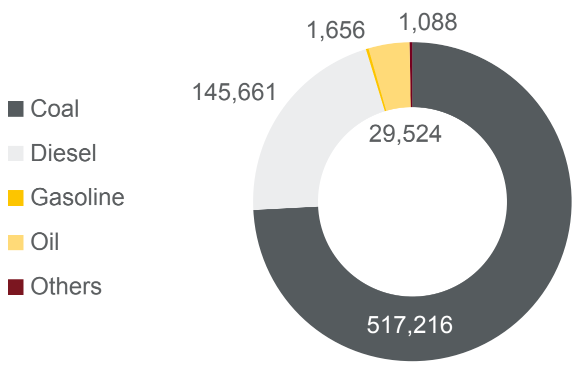
Environmental stewardship continued

Performance results

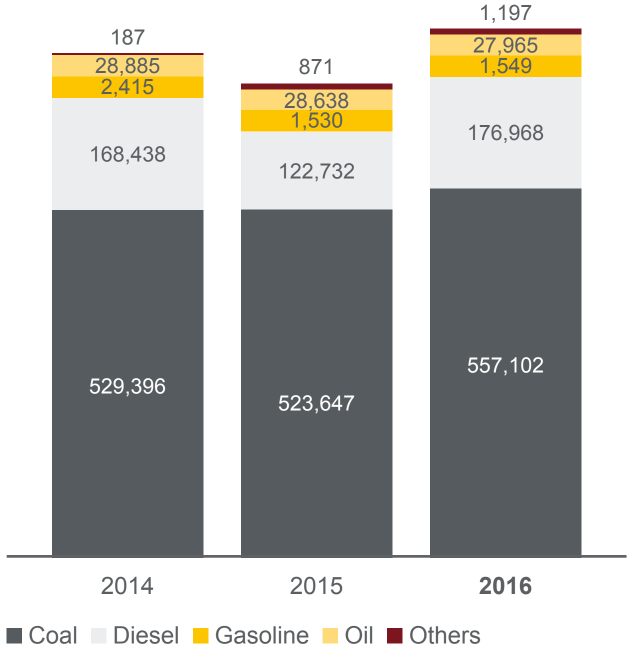
Purchase of primary energy sources, 2016, t



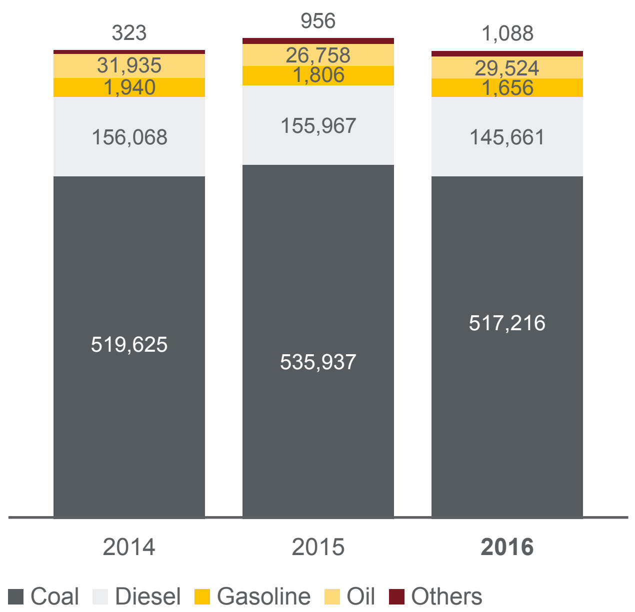
Consumption of primary energy sources, 2016, t



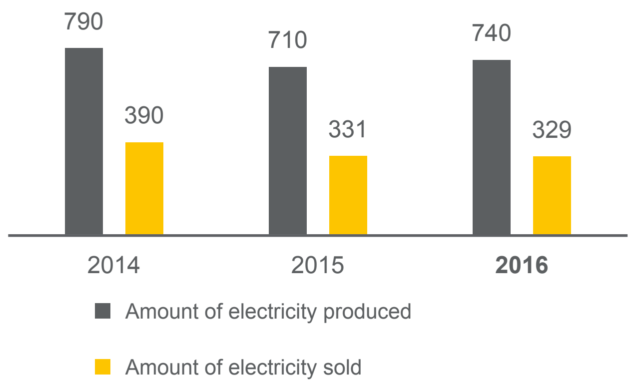
Purchase of primary energy sources, 2014–2016, t



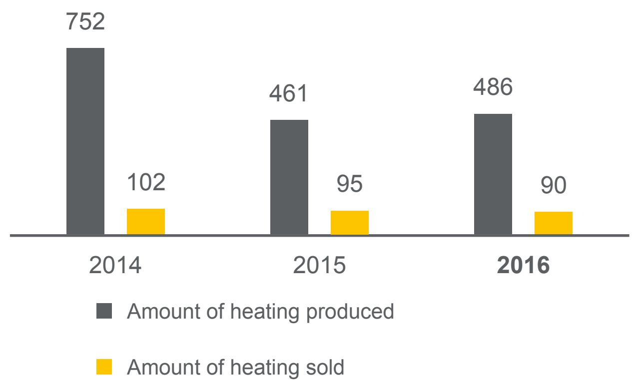
Consumption of primary energy sources, 2014–2016, t



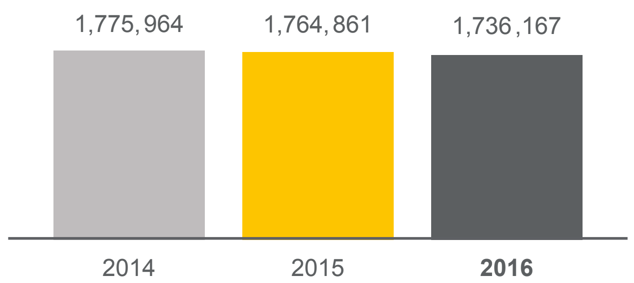
Amount of electricity produced and sold, 2014–2016, GWh



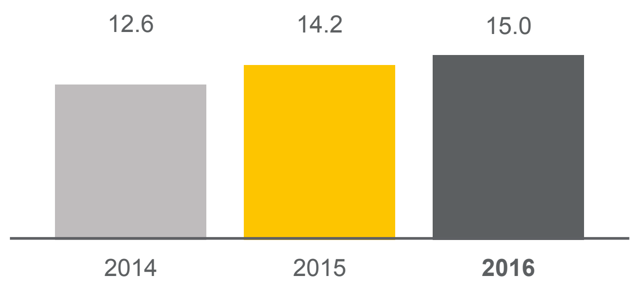
Amount of heating produced and sold, 2014–2016, thousand Gcal



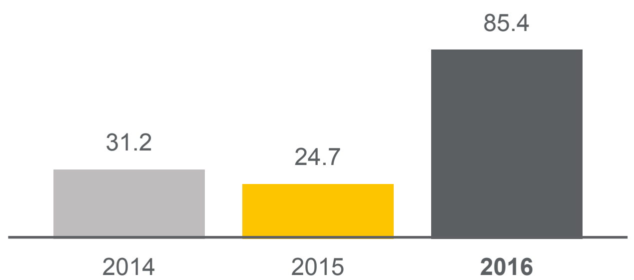
Amount of electricity purchased, 2014–2016, MWh



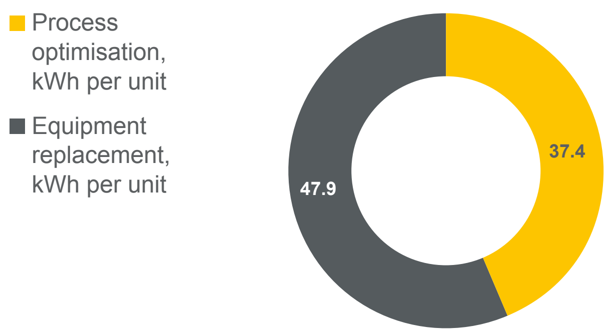
Amount of heating purchased, 2014–2016, thousand Gcal



Total energy saved due to conservation and efficiency improvements, 2014–2016, kWh per kg of gold produced

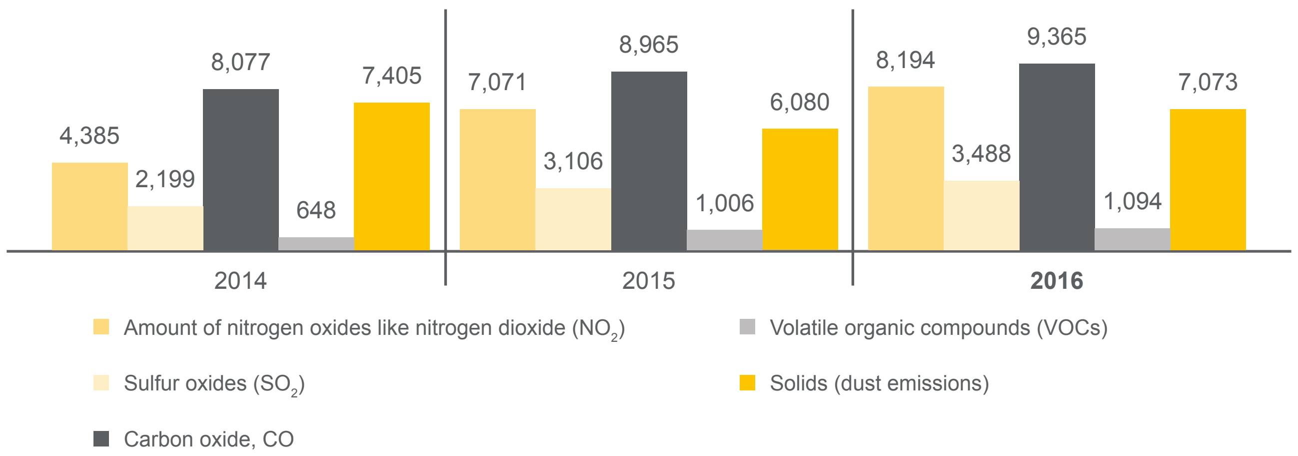


Energy saved under the conservation and energy efficiency programme,
2016, kWh per kg of gold produced

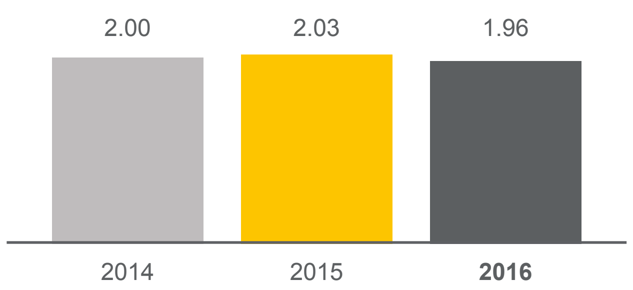


Environmental stewardship continued

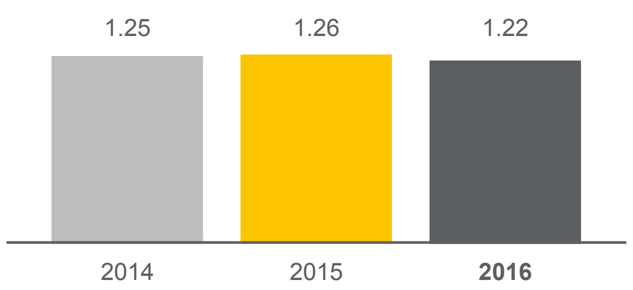
Significant air emissions, 2014–2016, t



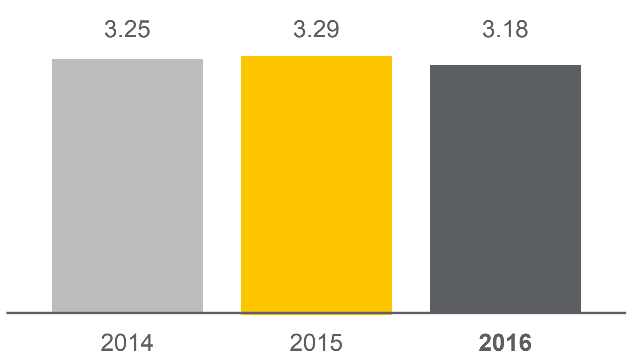
Direct GHG emissions (CO_2-e), 2014–2016, Mt (Scope 1)



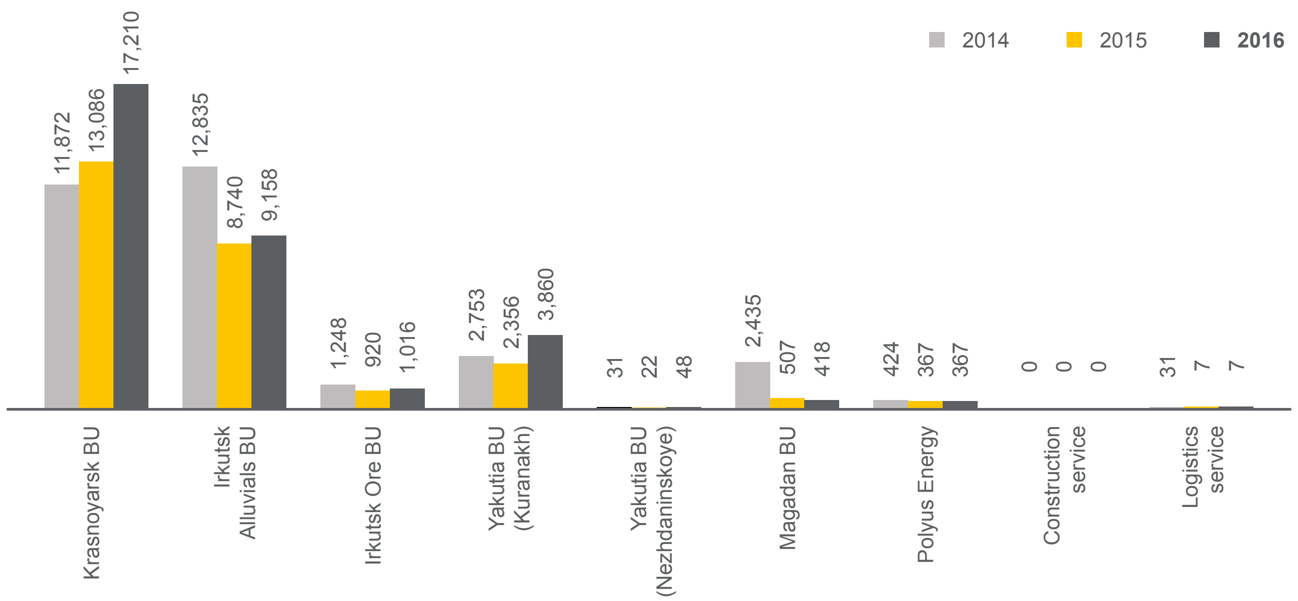
Indirect GHG emissions (CO_2-e), 2014–2016, Mt (Scope 2)



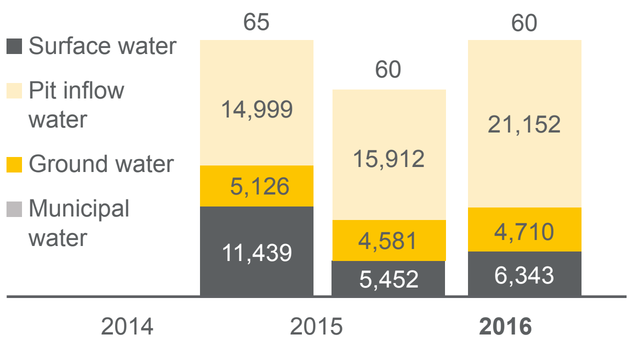
Total GHG emissions (CO_2-e), 2014–2016, Mt



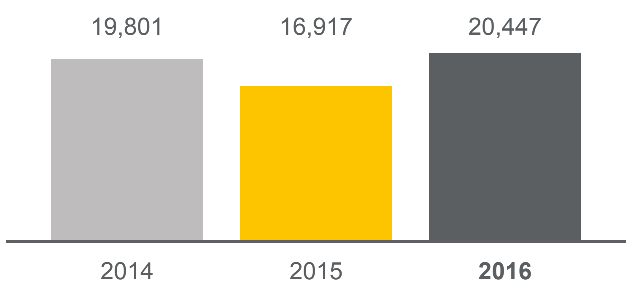
Total water withdrawal, 2014–2016, thousand m³



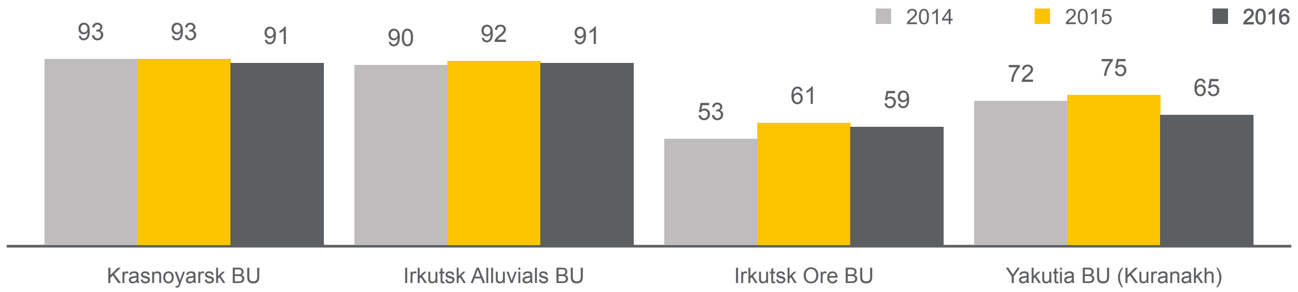
Total water withdrawal by source, 2014–2016, thousand m³



Total volume of water discharged, 2014–2016, thousand m³

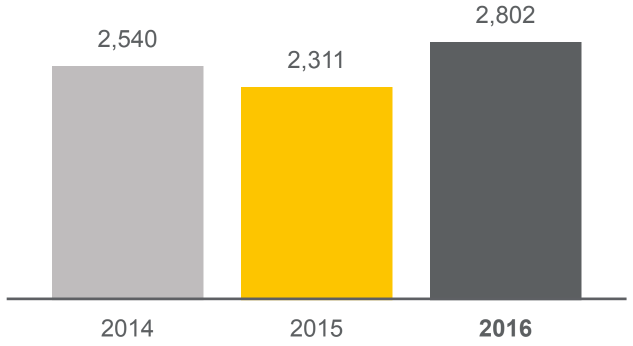


Percentage of water recycled/reused by BUs, 2014–2016,%

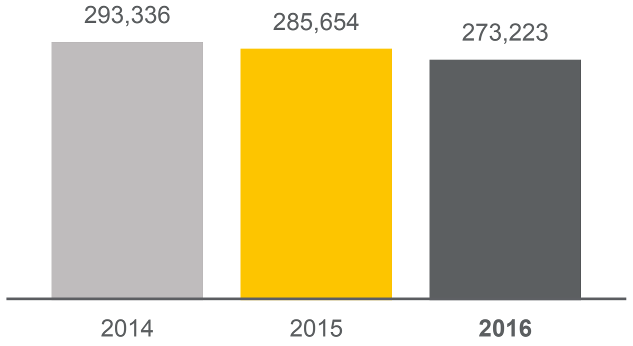


Environmental stewardship continued

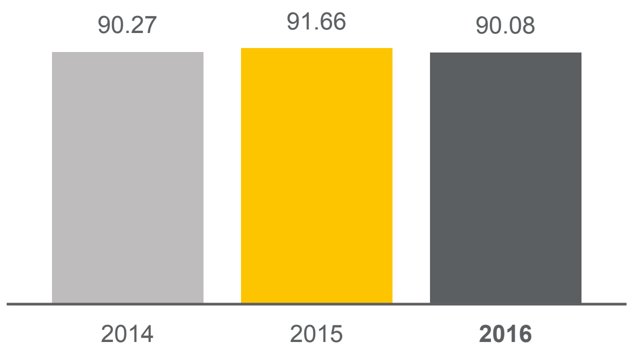
Total water effluents discharged, 2014–2016, t



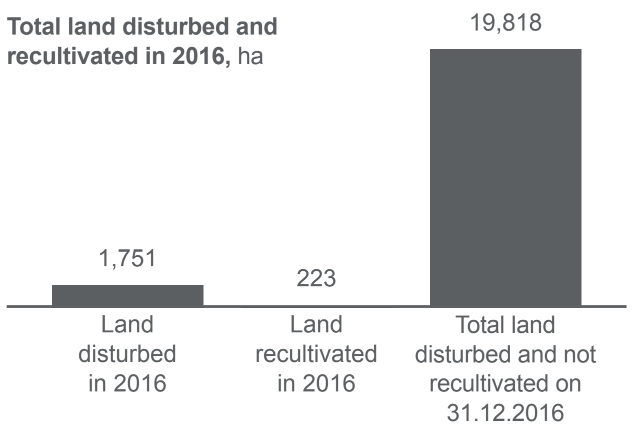
Total volume of water recycled/reused, 2014–2016, thousand m³



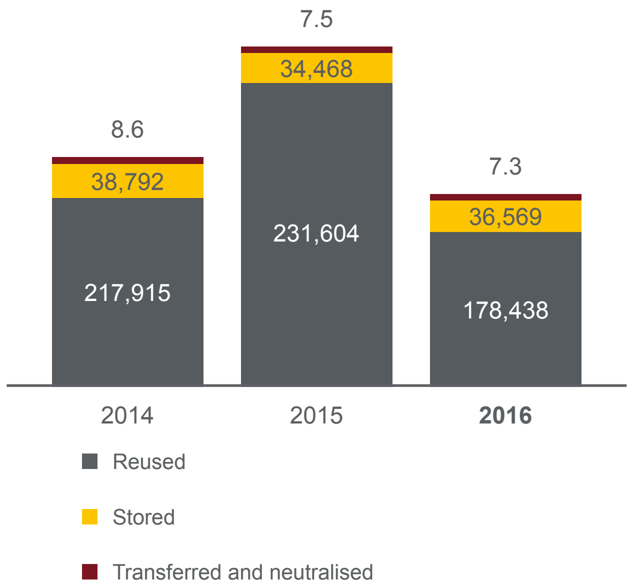
Percentage of water recycled/reused, 2014–2016,%



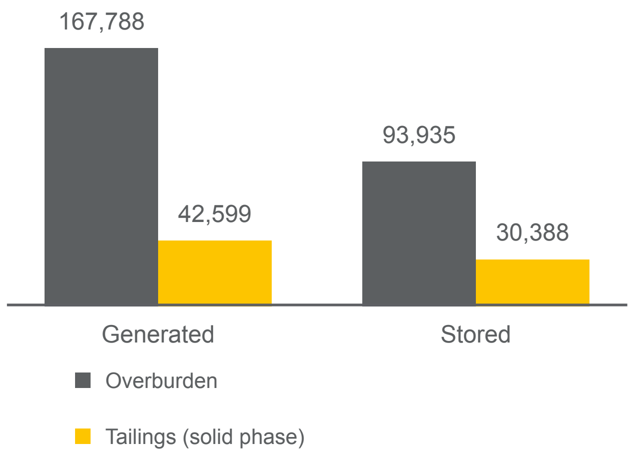
Total land disturbed and recultivated in 2016, ha



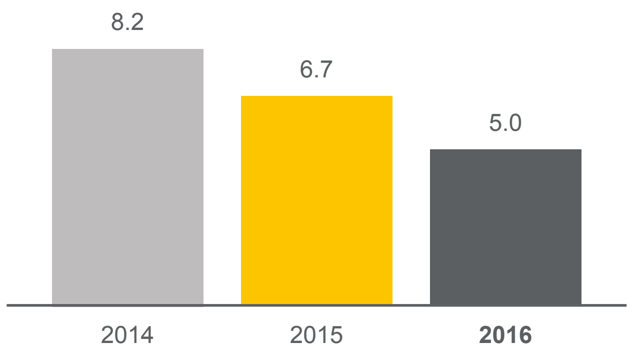
Total waste, 2014–2016, thousand t



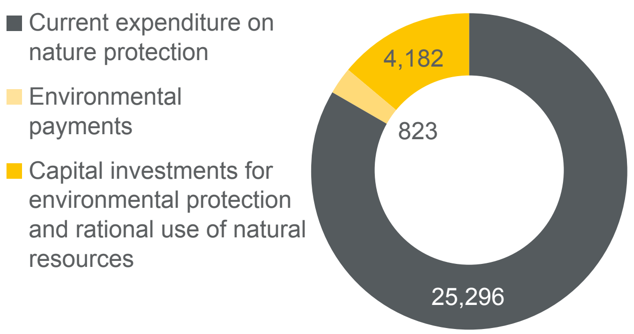
Waste generated, 2016, thousand t



Total monetary value of fines, 2014–2016, $ thousand[23]



Total environmental protection expenditures in 2016, $ thousand



[23] During the review of the reporting system it was identified that data on non-monetary sanctions for non-compliance with environmental laws and regulations published in 2013–2015 were presented inaccurately. During these periods, as well as in 2016, there were no cases of non-monetary sanctions for non-compliance with environmental laws and regulations.

Employees

Plans:	
• Linking employee remuneration with the grading system and KPIs at all BUs	2017
• Implementing individual performance assessments	2017
• Updating the Corporate ethics code	2017
• Redesigning the corporate intranet portal	2017
• Audit of BU training centres and learning materials to unify learning processes across the Group	2017
• Adopting a new Social and working conditions standard and implementing it across BUs	2018
• Automation of the personnel administration and the payroll system	2018
• Unifying talent pools across BUs	2018
• Elaborating regulations and recommendations for onsite employee meetings	2018

Approach

The gold industry is heavily dependent on access to natural resources, advanced technologies, equipment, and capital investment. However, only people make all these aspects come together and deliver results. Hence, Polyus considers our personnel to be our most valuable resource and a prerequisite for the Group's effective performance and sustainable development.

The main goal of the Polyus HR management system is to recruit and retain the best talent within their functional areas that will deliver added value to the Group. In order to do this, Polyus management is constantly developing our financial and non-financial motivation system, and endeavours to provide employees with comfortable working conditions, as well as career and professional development opportunities. In addition, we strive to create an environment which enhances employee efficiency.

Polyus is committed to ensuring personnel rights, adhering to the principles of equality and non-discrimination, and creating conditions that facilitate the professional and personal development of our employees. Polyus labour practices fully meet or exceed Russian legislative requirements. Also, Polyus undertakes to integrate sustainability principles and best global HR practices into our HR management system and regulatory documents. Thus, the Group's HR policy incorporates UN Guiding Principles on Business and Human Rights and ICMM principle 3, which states: "Uphold fundamental human rights and respect cultures, customs, and values in dealings with employees and others who are affected by our activities". In 2016, the Group implemented the Human right policy, which further consolidated our efforts in this area.

The Group underwent structural organisational changes in the reporting year (the Managing company was established), which influenced the HR management system. In 2016, Polyus performed a benchmarking analysis and reassessed the Group's operational model, thus creating the foundation for a target organisational structure. Hence, the organisational structure of the Group is still at the development stage. Currently, the Managing company acts as a corporate appraisal and monitoring centre, while BUs are in charge of HR operational activities at regional and asset levels.

2016 highlights

In 2016, the Group's average headcount was 18,144, and the structure of personnel remained stable. 84% of employees are men, and 16% are women. The employee turnover rate stood at 13.8%[24] .

Recruiting and retaining personnel

The Group's approach

Polyus strives to be an industry leader, not only in terms of production volumes, but also in terms of the makeup of our personnel. To find and keep the right people, the Group constantly develops our recruitment practices, the remuneration system, and general working conditions.

[24] Only voluntary leavers are counted and an average headcount is used to calculate the turnover. Irkutsk alluvial BU (Lenzoloto) data were excluded as the BU's workers are temps.

We mostly recruit employees independently, and strive to minimise personnel turnover, however, since at some BUs the bulk of work is done in seasonal shifts, each year an active recruitment process is undertaken. In 2016, 7,095 people were hired. When recruiting, Polyus gives preference to local candidates. Furthermore, a range of programmes are in place to support young specialists.

Remuneration

Polyus strives to make our system of remuneration competitive compared with industry leaders, consistently applied within the Group, and providing all the necessary incentives for the attainment of high performance. The Group's employee remuneration consists of a base salary or a wage and a bonus component.

The standard Polyus entry wage is in line with or ahead of the market average, as well as local minimum wages in our regions of operation. In 2016, the Group significantly raised employee salaries, by 7.9% on average, which was in line with the industry's average salary growth (7.7%) for the same period.

Polyus continues to implement a job grading system, aimed at standardising and unifying the remuneration system. The grading system establishes a set base level of salary that corresponds to an employee's grade. In the reporting year Polyus linked all Managing company's personnel remuneration to a grading system developed by Hay Group, a leader in this area. In 2017, Polyus is planning to link all BU remuneration to grades as well.

The bonus system's goal is to incentivise high performance among employees. It is linked to key performance indicators (KPIs, which reflect the Group's strategic functional and operational objectives). In Polyus there are corporate, functional, and individual KPIs. Corporate KPIs apply to all employees, while the latter two vary by function and department. High performance, measured by KPIs, is rewarded with bonuses with substantial weight in an employee's income. Currently, all managers in the Managing company are covered by the KPI system. Moreover, the process of KPIs administration is automated in the Managing company. At BUs, KPIs are currently being introduced to around 80% of management (up to the lowest hierarchy level of management). In 2017, the Group plans to continue the implementation of a single, unified KPI system in the Managing company and all BUs.

In 2017, Polyus will launch a new system for assessing individual performance, intended to evaluate the individual contribution of each employee to the Group's development. The assessment results will identify the best managers, specialists, and workers in each professional field, regardless of the region and BU in which they work, and provide respective incentives to them. Individual performance assessment divides into two main groups: the assessment of managers, specialists, and office personnel, and the assessment of manual workers. Individual performance assessments of managers, specialists, and office staff appraise employee effectiveness, autonomy level, professional competence level, and other qualities.

Individual performance assessments of manual workers are conducted based on seven criteria: work experience, gaining a work-related qualification (e.g. mastering a related profession), participation in a mentorship programme, participation in a supervisory system, productivity, injury-free operations, and labour safety compliance. Following an assessment of these criteria an individual assessment matrix is drawn up, which outlines the performance of the employee and provides the basis for which HR specialists can make conclusions on the suitability of an employee to a position, nominate a person to the talent pool, or enrol the employee on various types of training programmes. Supervisors also provide feedback to workers using the matrix. The assessment of Group employees at all BUs is scheduled for January-February 2017.

Social support (employee benefits)

Alongside salary and bonus, Polyus, as a socially responsible employer, provides (depending on the type of contract and BU) various social benefits to our employees, such as pensions, maternity or paternity leave, life and accidental death insurance, wellness programmes, and employee assistance programmes.

In 2016, the Group selected a new insurer and widened the coverage and content of voluntary health insurance across BUs. In 2017, it is planned to introduce accident insurance.

Employees continued

Working and social conditions
Providing decent working conditions and a basic social infrastructure for employees is one of the priorities for the Group. Comfortable social conditions are especially necessary, given that most of the Group's personnel work in locations where severe climatic conditions are prevalent. There are three main areas of improvement: living conditions, working conditions, and catering. In 2016, Polyus adopted a working conditions standard, which establishes the minimum requirements for the social and living conditions of workers. In 2016, the Managing company audited all BUs for compliance against this standard, which resulted in it being updated. A new standard is planned for adoption in 2017, and work to improve social and working conditions up to the standard's requirements is planned to be completed in 2018.

The Group devotes significant efforts to improving the quality and safety of employee transportation. In 2016, Polyus Logistics acquired five new buses for the rotational route Yeruda – Eniseysk – Yeruda. The buses are designed specifically for the severe climatic conditions of the Far North.

In addition, Polyus pays close attention to the quality of outsourced services and the reliability of suppliers. The Group is currently searching for new contractors for catering, cleaning, laundry services, and the maintenance of buildings, which would serve the entire Group.

Natalka project
The Natalka project is a priority in the Group's project pipeline (see the section Operational Review). The HR department is responsible for recruiting staff that will perform the initial work on the project. The number of personnel working at Natalka should double by May 2017. The HR department designed the remuneration system for the project.

Employee development

Professional development
Polyus offers a variety of professional programmes and trainings to advance the capabilities and qualification levels of employees. The Group's training and educational system comprises six main areas:

- Health and safety trainings
- Professional learning
- Targeted trainings
- Functional learning
- Polyus knowledge
- Trainings on request

Health and safety trainings are conducted systematically throughout the Group, with the involvement of DuPont, a well-known consulting agency in this area. DuPont also completed implementing a safety culture project in the reporting year, and 100% of line managers completed safety culture trainings. To find out more about safety training programmes, see the section Health and safety.

Professional learning is performed at training centres and facilities located at BU factories, where workers can master a core or a related profession. In 2017, the Group plans to audit training facilities and the learning materials of various BUs in order to develop a programme to unify the learning process across the Group.

Targeted trainings are organised when there is a need for personnel to adapt to new trends. Polyus has held large-scale trainings on health and safety and production efficiency.

Functional learning refers to the holding of conferences and special events organised for various Polyus functions. In 2016, there were procurement and supply and geological function meetings, as well as a special HSE department conference on emergency medical services.

Polyus knowledge is a new corporate project which was launched in the reporting year. It is aimed at creating a united corporate knowledge forum as well as a unified conceptual platform to help Polyus managers speak the same language. The programme will cover 150 top managers from the Managing company and BUs (half have already begun it). Polyus knowledge consists of seven modules: Project management, Operational and organisational efficiency, Effective communication, Leadership, Introduction to gold production, Finance, and Safety culture. Each module lasts two days. Teams are divided so that representatives of different functions and departments study and work together.

Polyus employees can request additional trainings on necessary skills or knowledge after receiving management approval. Next year the Group plans to streamline requested trainings and refer to regulations that determine the appropriateness of a particular training, depending on the function and position of an employee.

Talent pool
One of the main HR corporate functions is talent management. Polyus implements a talent pool programme, which serves three main purposes: it facilitates a process of continuous succession, it allows employees to adopt the corporate culture and required skills in advance, and it creates career development opportunities for talented and ambitious candidates.

Polyus revised its approach to creating a talent pool in the reporting year. We assessed three BUs (the Yakutia, Krasnoyarsk, and Irkutsk ore BUs) and seven functions against a model of corporate and management competences. Following the assessments, a talent pool development programme was created. After assessing the Managing company talent pool in 2017, the Group is planning to amend and implement this programme, also, a programme for managers with high development potential will be implemented. In addition, at some BUs there are local talent pools, such as at the Yakutsk, Krasnoyarsk, and Irkutsk ore BUs and the Construction Service. Currently, the Group is focused on developing unified approaches to talent management and aligning corporate and local talent pools under one standard.

The main aim of the managerial talent pool is to identify high potential employees. It also provides learning opportunities, such as basic managerial skills, leadership and communicational skills, health and safety trainings, and English language classes. The Group will support and train the best talent, who will be well-prepared to switch to new roles within the Group.

The main aim of the talent pool programme is to facilitate the promotion of line managers at production facilities. However, the structure will vary in mining and processing. Currently, the Group has a production talent pool only for the foremen of processing plants, but in 2017, it is planned to also create a talent pool for mining foremen.

Mentorship
To help newly hired workers, a mentorship scheme is in place at Polyus. Each experienced worker should act as a mentor and supervisor. Participation in the scheme is a criterion in workers' individual efficiency assessments. Thus, Polyus incentivises experienced workers to pass their knowledge on to new employees. The next step in developing the mentorship scheme will be to establish requirements for mentors.

Employees continued

Corporate culture and internal communications

Corporate culture

Alongside providing fair remuneration levels, decent working conditions, and various types of social support, Polyus attaches great importance to building a strong unified corporate culture and communicating it to employees. A corporate culture creates a corporate identity to be shared by each employee, spreads corporate values across the Group, provides additional non-material incentives for employees, and increases staff loyalty.

Maintaining high standards of corporate ethics underpins the Polyus corporate culture. In 2016, the Group decided to update the Corporate ethics code to serve as a guideline for employee behaviour, embedding their rights and responsibilities based on the Group's values. Polyus plans to approve and implement the code in 2017. During the code's development the Group will conduct research on corporate ethics, which will entail both benchmarking industry best practices and surveying Polyus employee focus groups.

Another tool to incentivise personnel to achieve high performance is the holding of professional competitions. This fosters competitiveness among the best specialists of the Group, and also examines the limits of operating machines. Thus, at the Krasnoyarsk BU the Best in Profession competition has been held now for two consecutive years. 63 participants competed in six professions:

- Excavator driver
- Electric and gas welder
- Electrician for equipment maintenance and repair
- Car driver
- Car mechanic
- Hydrometallurgy specialist

The participants that demonstrated the best performance were awarded various prizes. Professional competitions are also organised at the Group's other BUs.

The Corporate culture department is also in charge of holding sports and cultural events. The Managing company and BUs regularly organise celebrations of national holidays for employees (New Year, Women's Day, Defender of the Fatherland Day, Victory Day), as well as the main professional holidays (Metallurgists Day, Geologists Day, Builders Day, Motorists Day). A special celebration this year was dedicated to the 95th anniversary of the Irkutsk Alluvial BU (Lenzoloto).

The most high-profile corporate sports event is the Group's summer sports contest, which is held annually at the Krasnoyarsk BU. This assembles teams made up of employees from Polyus BUs, as well as students from educational institutions that work with Polyus, such as the Krasnoyarsk Industrial Metallurgical College, Institute of Non-ferrous Metals and Materials and Civil Engineering Institute of Siberian Federal University. The contest lasts for three days, during which participants compete in minifootball, volleyball, tug-of-war, and chess competitions. In the reporting year the fourth summer sports contest brought together more than 200 participants. The host team, the Krasnoyarsk BU, emerged the winner. Such competitions help nurture team spirit and promote healthy lifestyles among employees.

The Group strives to develop not only professional skills, but also personal potential. Thus, a photography contest is regularly held among the personnel. To emphasise the importance placed on family values in the Group, BUs hold an employee children's paintings contest entitled "Polyus through the eyes of children".

Internal communications

To communicate with personnel, the Group's management uses both onsite and remote communication channels. Currently, most BUs regularly hold quarterly onsite meetings of workers with their production directors; however, to make these more informative, the HR department is planning to draw up respective regulations, engage local HR specialists in the meetings, and consult production directors on the purpose behind a communication and the rules.

Remote or indirect internal communications are carried out via three main channels: information desks, the corporate newspaper *Territory of Polyus*, and the intranet portal. Information desks (or posters) inform employees about corporate or local agenda. BUs can also issue and distribute special brochures or information materials among workers on specific topics, such as health and safety or operational efficiency initiatives. The corporate newspaper is issued monthly, and highlights the key aspects and results of the Group's activities. In 2016, the Group decided to develop a new, user-friendly design for the intranet portal, whose launch is planned for next year. The intranet will include a corporate portal, regional portals, and personal accounts.

As part of the Human rights and Stakeholder engagement policies, Polyus will also equip all BUs with feedback boxes, through which all employees and any local citizen can communicate their concerns or submit complaints anonymously. PR functions distribute concerns and complaints among the respective departments responsible for a particular issue. For further details, see the section Stakeholder engagement.

Enhancing efficiency

The Group has two main ongoing projects to enhance Group and employee efficiency: Total Operational Efficiency (TOE) and the Manufacturing System. TOE invites employees to put forward ideas to optimise and streamline production. For example, in the reporting year 983 efficiency suggestions from 260 workers were made at the Irkutsk ore BU. The best ideas were awarded special prizes.

The Manufacturing System involves the creation of benchmark worksite areas, where the principles and techniques of a lean production culture, such as order in the workplace or kaizen principles, are implemented. These benchmark worksite areas are intended to translate successful experience across all industrial divisions of the Group and to lead by example. The Manufacturing System is based on the 5S principle:

- Sort – the clear allocation of items and getting rid of unnecessary items
- Set In Order – organise the storage of necessary items to allow them to be quickly and easily found
- Shine – regular cleaning
- Standardise – keeping order
- Sustain – habitual execution of established rules and procedures

Another Polyus initiative that has resulted in enhanced efficiency is the implementation of a paperless office programme: an electronic document management system is being tested at eight BUs. Main users have already been trained in the basics and begun testing the system. Other potential users of the paperless office are currently receiving training and being prepared to transfer documents in electronic form. A paperless office not only helps the environment, but also speeds up administration processes and leads to enhanced organisational efficiency.

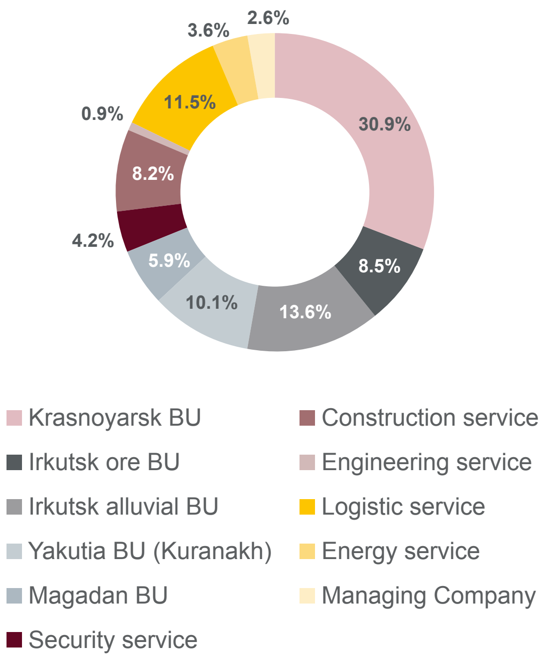
More information on the Polyus HR management system, the recruitment policy, career development, and other HR issues can be found:

- At the Group's website: http://www.rabota.polyusgold.com/
- In previous Polyus annual and sustainability reports (2011-2015) (http://polyus.com/en/investors/results-and-reports/)

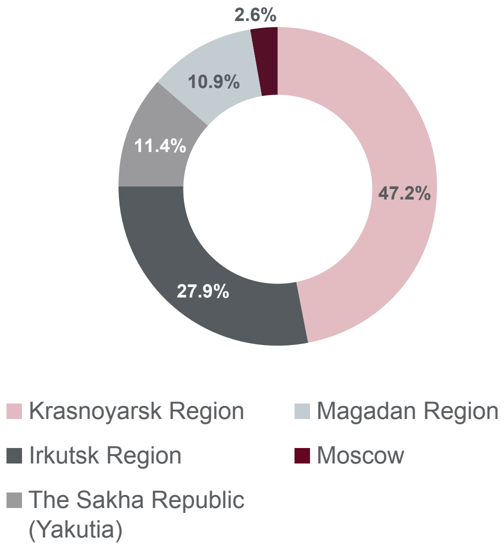
Employees continued

Performance results

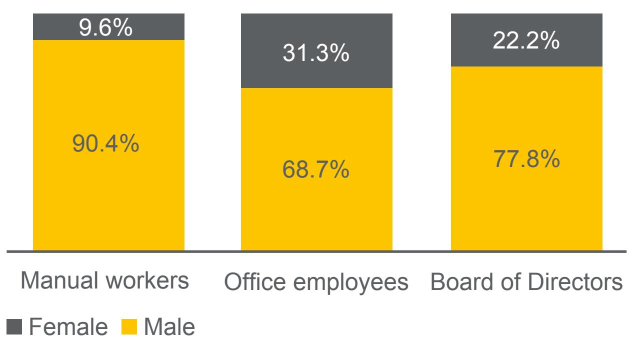
Employees by BU 2016, %



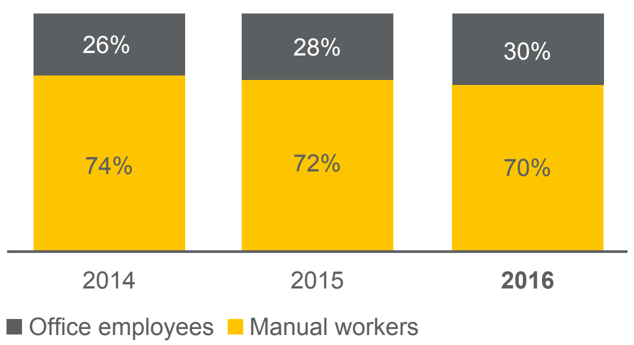
Employees by region 2016, %



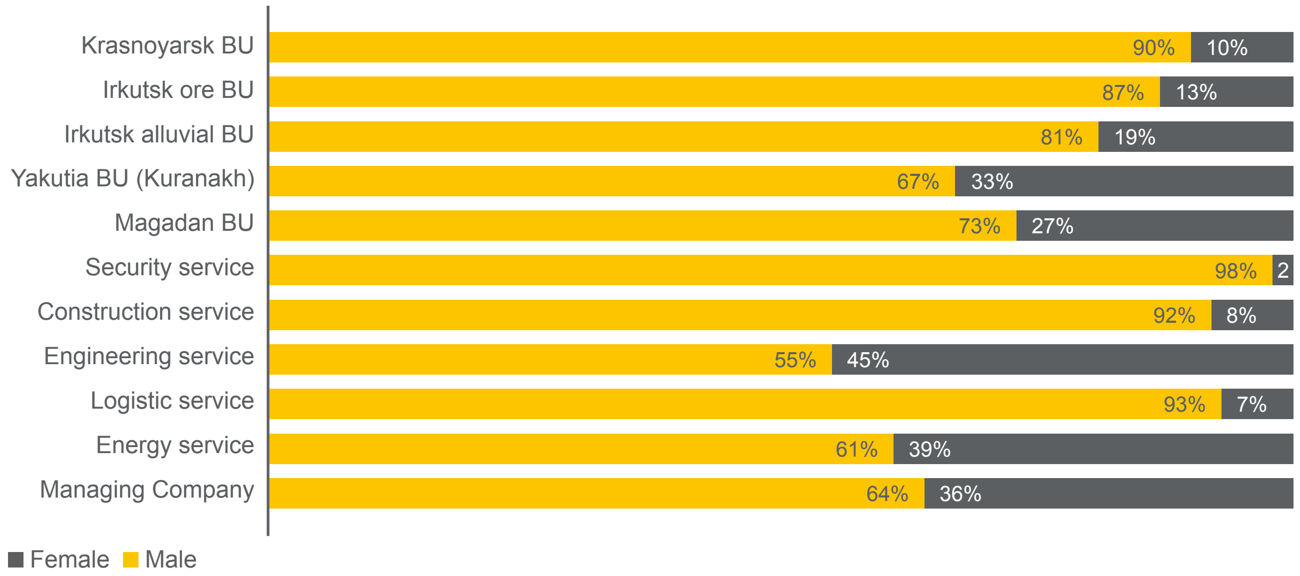
Employees by gender and function 2016, %



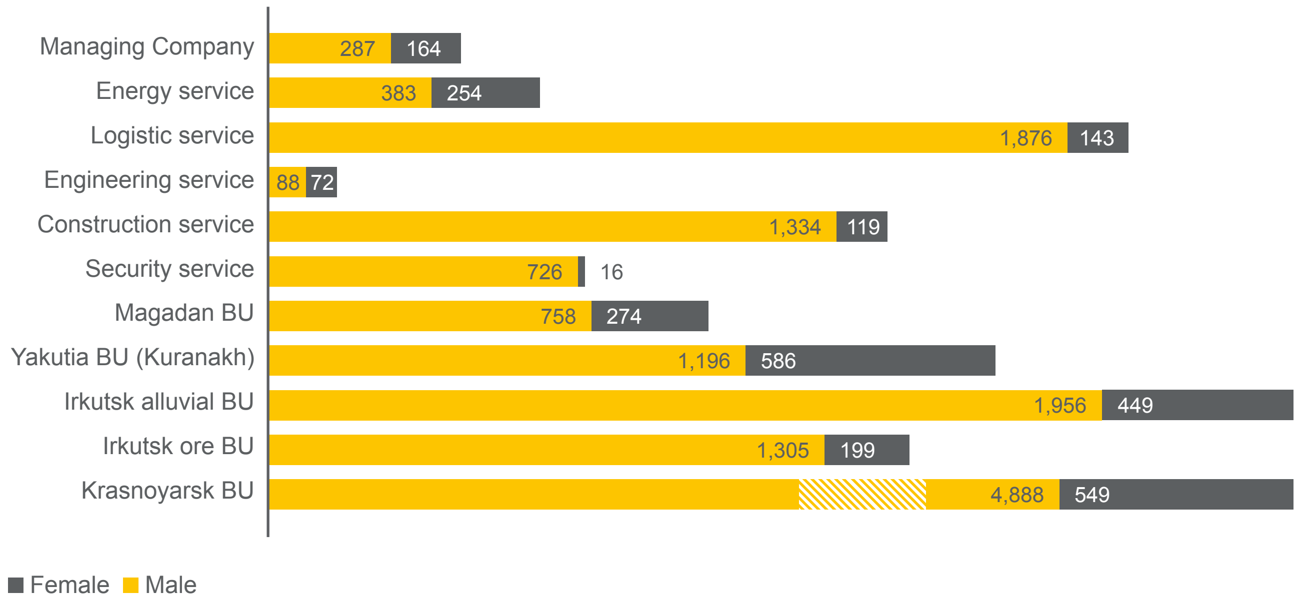
Employees by function 2014–2016, %



Employees by gender and BU 2016, %

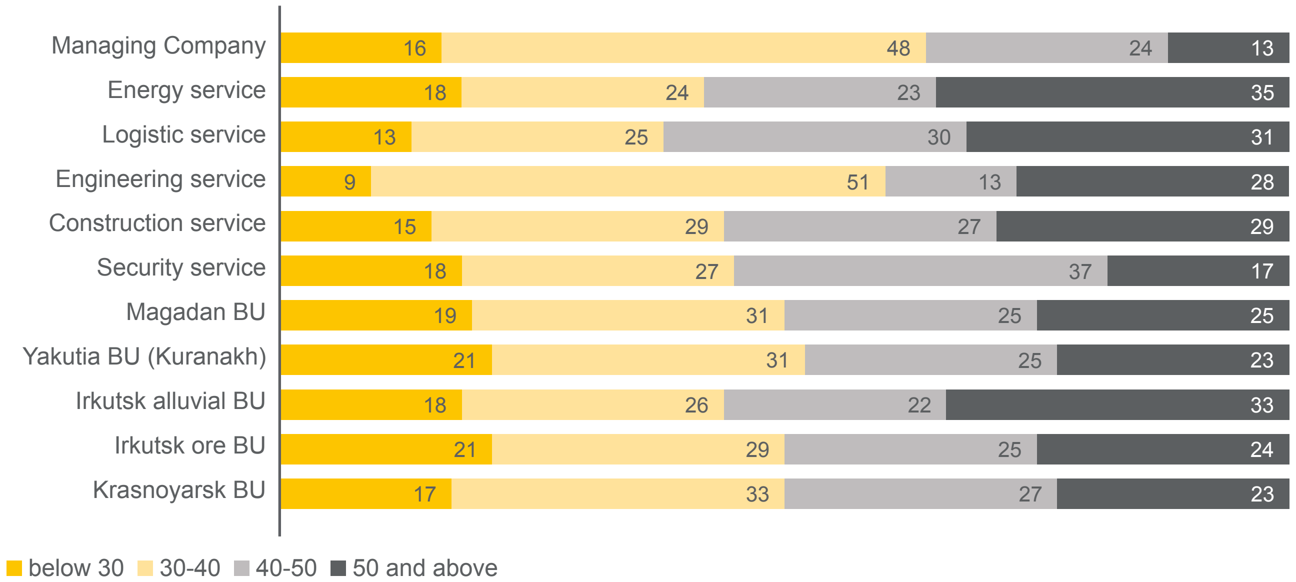


Employees by gender and BU 2016, absolute values

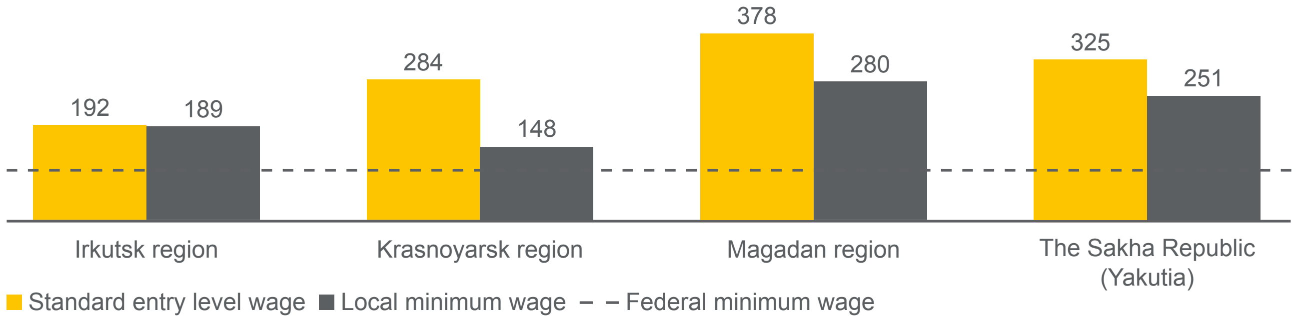


Employees continued

Employees by age group and BU 2016, %

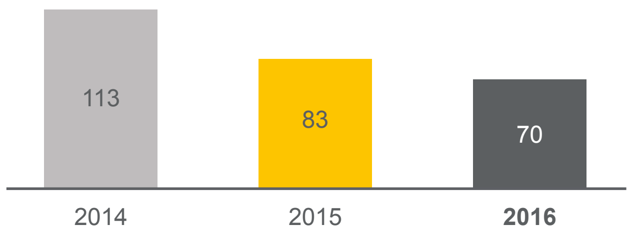


Standard entry wage at Polyus vs. local minimum wage by BU (monthly) (2016, USD)

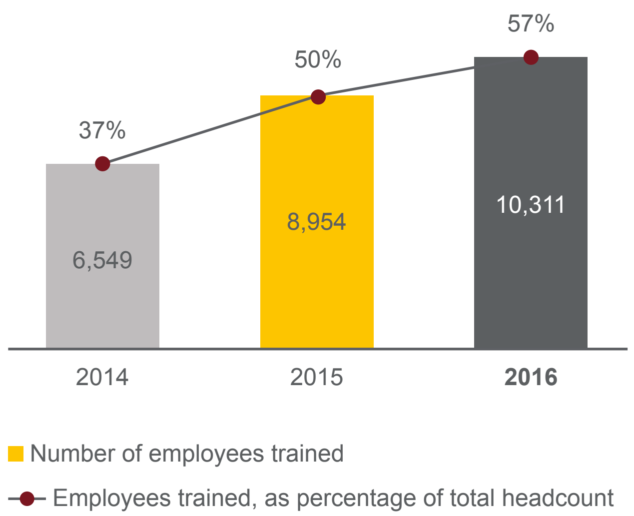


Average number of training hours per year per employee by employee category (2016)

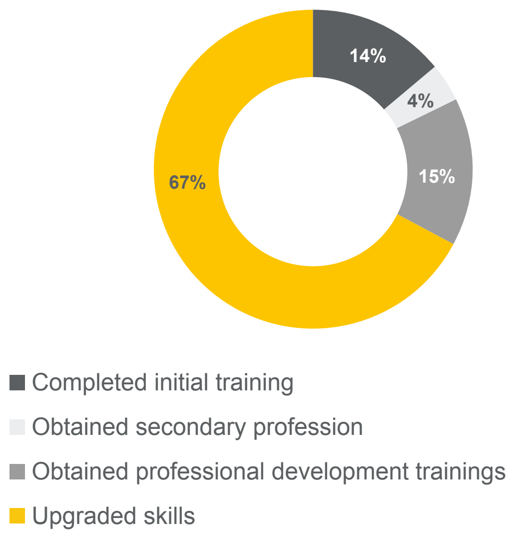
Average number of training hours per year per employee trained (2014–2016)



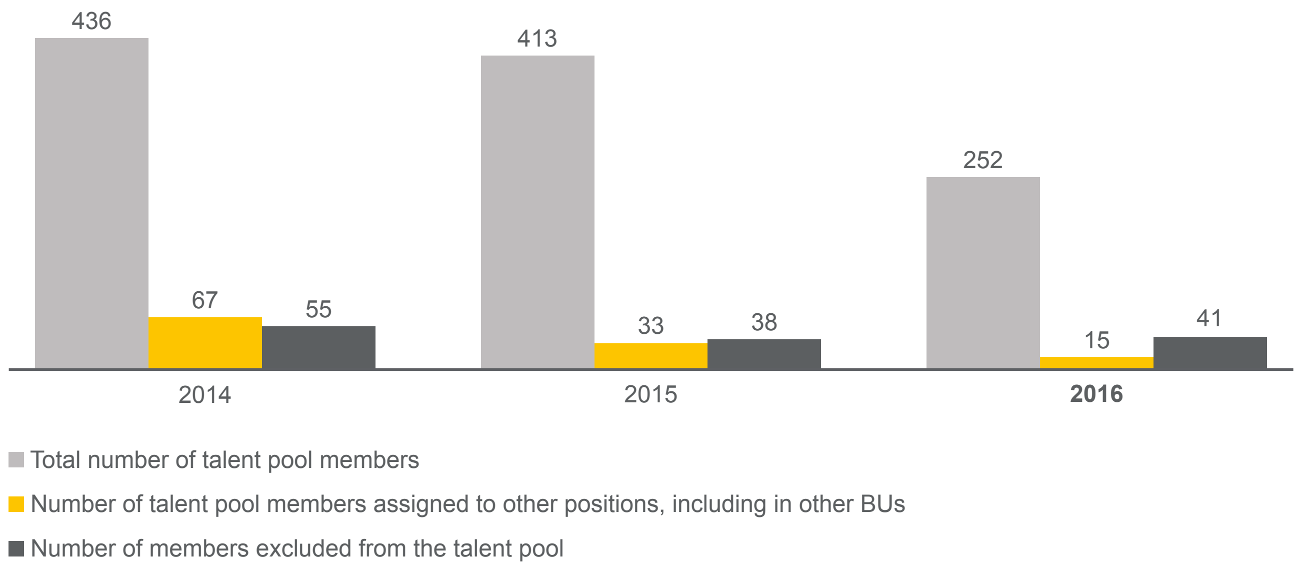
Number of employees trained (2014–2016)



Employees by type of training undertaken (2016)

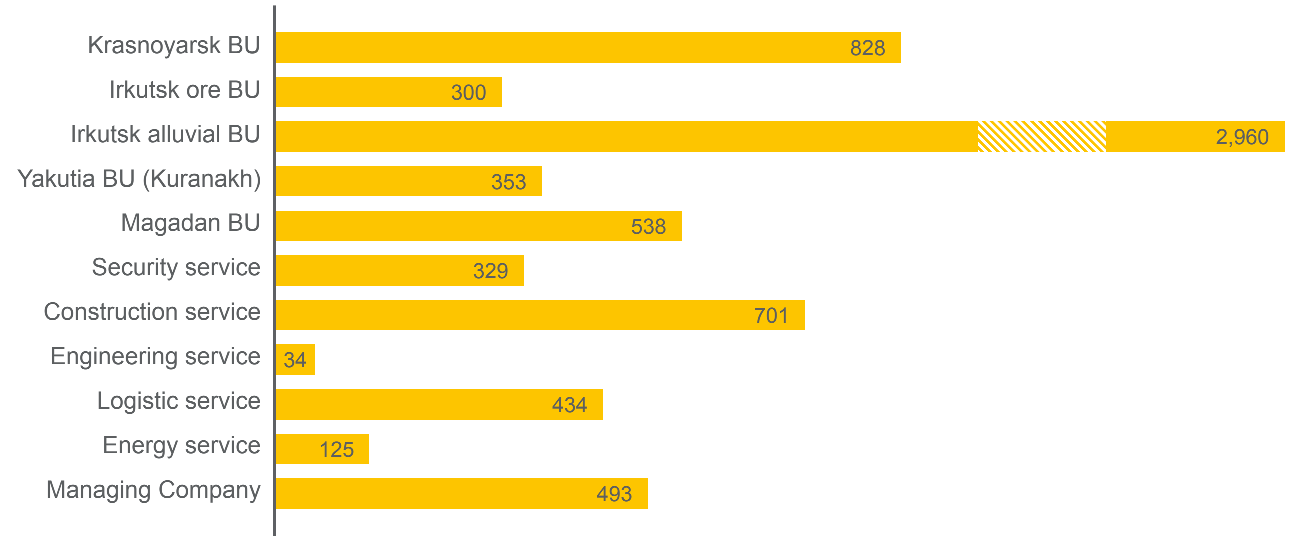


Talent pool (2014–2016)



Employees continued

Employees hired in the reporting year (2016)



Percentage of local management (2014–2016,%)

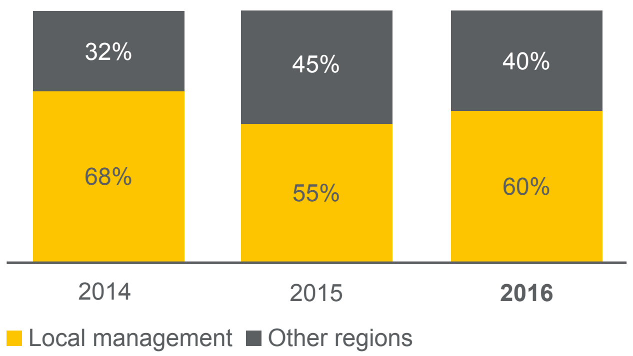


Photo: At the Kuranakh mine

Communities

Plans:	
• Continued effective cooperation with regional governments within the framework of socio-economic agreements, with a focus on implementing measures in the interests of the regions where the Group operates	Ongoing
• Continued effective cooperation with local governments to create a transport infrastructure in our regions of operation	Ongoing
• Interaction at the federal level with the Ministry of the Far East to execute existing agreements to construct overhead power lines in the Magadan region	Ongoing
• Continuation of the Group's participation in charitable and voluntary projects	2017
• Holding the Polyus – Golden season together with the theatre festival Territoriya – Magadan	2017
• Unification (through the Managing company) of work with business associations at federal and regional levels in order to implement consistent approaches at the Group	2017

Engagement with local communities

Approach

Polyus believes that local communities are one of our main stakeholders. Trustworthy and enduring relations with local communities and governments are a prerequisite for the Group's sustainable and successful growth. Polyus acknowledges our socio-economic impacts on local communities, both direct and indirect. As a result, we strive to maximise our positive impacts while at the same time mitigating those which are negative, and we regularly contribute to the wellbeing of local communities and to developing regions of operation. Engagement with communities involves successfully engaging with local people as well as various social institutions and public authorities at local, regional, and federal levels.

Organisational structure

The Group's Government Relations (GR) and Public Relations (PR) departments are responsible for interacting with communities. The GR department is responsible for interacting with public authorities, supervises the execution of agreements on socio-economic cooperation with local authorities, seeks state support for infrastructural projects, and determines the Group's charity activities and budget.

The PR department is responsible for engaging with the Group's various stakeholders. It aims to improve the Group's visibility via enhancing cooperation with the media, social networks, and other projects. Its responsibilities also include dealing with incoming complaints and organising social projects implemented by the Group, in addition to commitments under agreements with regional governments.

At a local level, BUs can independently maintain contacts with local communities, support them via charity projects, and provide financial and technical aid if the scale of activity does not entail coordinating with the Managing company.

Regulatory framework

The Group strives to develop a unified approach to social responsibility across all BUs, including implementing a strong and unified regulatory framework. Polyus has developed and adopted a set of policies and management standards that regulate social responsibility and which are in line with ICMM principles of sustainable performance:

- The Stakeholder engagement policy
- The Human rights policy
- The Charity, donation, and sponsorship policy; the Regulation on interacting with public authorities
- The Engagement with indigenous peoples standard
- The Involuntary resettlement standard
- The Sustainability management system standard

The Group is currently implementing the newly adopted documents across all BUs and will continue with this work in 2017.

Another change in the regulatory framework in the reporting year related to reforming the organisational structure of the Group, through the creation of the Managing Company. In order to coordinate the Managing Company and BUs, the Group's departments issued new supporting documents.

Engagement with regional authorities

In the reporting year, Polyus began to implement a new regulation on interacting with public authorities and adopted GR regulations related to interactions between the Managing company and BUs.

The Group continued to execute socio-economic cooperation agreements with local authorities. At the Krasnoyarsk Economic Forum, held in Krasnoyarsk on 18-20 February 2016, with the general support of Polyus, a new agreement with the Krasnoyarsk Territory was signed by Polyus Group CEO Pavel Grachev and Krasnoyarsk Territory Governor Viktor Tolokonsky. The agreement confirms the Group's commitment to expanding production capacity and increasing gold production at BUs located in the region, thereby increasing the region's budget revenues. The Krasnoyarsk Government, in turn, committed to supporting the expansion of Polyus operations by investing in the infrastructure of the North-Yenisei District. In particular, the repair of the Epishino – North Yeniseisk highway will be funded from the regional budget. In total, more than $52 million will be earmarked for this project, with more than $7 million already allocated in 2016.

On 16-18 June 2016, Polyus participated in the 20th St Petersburg International Economic Forum held at the St Petersburg Expoforum Centre. Over 10,000 guests from Russia and all over the world took part. Pavel also had the floor at a panel session dedicated to unlocking the economic potential of the eastern regions of Russia. He noted that large industrial projects could become the main development driver of the eastern regions as they are becoming more attractive due to a combination of their resource potential and state support measures. During the Forum, Polyus representatives also held a number of business negotiations, including a meeting with Irkutsk region Governor Sergey Levchenko and sessions with the media.

Polyus was an official partner of the Eastern Economic Forum held in Vladivostok on 2-3 September 2016. During the Forum, the Group signed a cooperation agreement with PJSC RusHydro. The parties agreed to determine the best method of interaction and to look at the feasibility of entering into electrical supply contracts. Pavel Grachev and the Minister of Development of the Far East Alexander Galushko signed an agreement to provide the Magadan BU with subsidies of more than $138 million for the construction of overhead lines between Ust-Omchug and Omchak, which are required to provide the Natalka mine site with a power supply. In addition to negotiations, Pavel participated in forum sessions entitled "Far East mineral resources: improving the efficiency of resource economics" and "Investor access to deposits: rules to be changed?" He also moderated the session "New mechanisms of investor support in the Far East".

Social support

Social support, such as charity and sponsorship activity, is one of the main components of the Group's social corporate responsibility. In 2016, Polyus focused on implementing the recently adopted Charity, donation, and sponsorship policy, aimed at unifying and regulating across the Group approaches and mechanisms of charitable and sponsorship activities. Under the policy, the Group prioritises the following charitable and sponsorship activities, taking into account the views of local stakeholders (including regional governments) before determining how group funding is deployed:

- Regional development (social/physical infrastructure)
- Education and science
- Sports and healthy lifestyles
- Ecology and environmental protection
- Support for vulnerable social groups
- Promoting gold mining industry unions and associations

Communities continued

The Group allocated more than $16 million to social investment in 2016, and has more than 320 ongoing or completed social projects related to the above areas at federal and regional levels.

The main type of social support is charity (83% of annual social investment), while the main areas of social investment are regional development and promoting gold mining industry unions and associations. In 2016, the Managing company and Krasnoyarsk and Irkutsk region BUs accounted for the majority of the charity budget, due to their funding of large federal infrastructure projects.

Major charitable and sponsorship projects (donations) of Group BUs implemented in 2016 are listed in the table below:

BU	Organisation	Type of support
Managing company	Eastern Economic Forum	Organising and holding a forum in Vladivostok
	Polyus. Golden Season	Holding regional theatre competitions
	Territoriya Cultural Fund	Sponsoring the Territoriya 11th International School Festival of Contemporary Art 2016
Krasnoyarsk BU	Krasnoyarsk Economic Forum	Organising and holding a forum in Krasnoyarsk
	Assumption Monastery in Krasnoyarsk	Funding the restoration and renovation of a cultural monument, the Assumption Monastery
	Supporting Veterans	Charitable assistance to veterans of the North-Yenisei district on Victory Day
Irkutsk ore and alluvial BUs	Sports and recreation complex	Funding the construction of a sports and recreation complex in Bodaibo
	Bodaibo municipality	Funding works to improve the square on Stojanovic St., Bodaibo, Irkutsk region
Yakutia BU	Nizhny Kuranakh City Hospital (Yakutia)	Purchasing Sterius disinfection devices
	The International Committee of the Children of Asia Games	Funding the VI International Sports Children of Asia Games in Yakutsk
	Metallurg House of Culture in Nizhny Kuranakh	Funding renovation works
Magadan BU	Social Partnership Fund of the Magadan region	Organising the training and retraining of qualified personnel for the needs of the mining industry
		Developing design and appraisal documentation for the construction of a secondary school and kindergarten in the Magadan Region, and the renovation of secondary schools in the region
		Organising Gold Digger Luck, the second All-Russian Golden festival

The Group actively develops corporate volunteering initiatives. This year an increased number of employees participated in the Become Ded Moroz charity event (Ded Moroz, or Grandfather Frost, is the Russian equivalent of Santa Claus). MC and BU employees bought presents for more than 400 children from an orphanage in the Krasnoyarsk region and invited them to a New Year's celebration in Krasnoyarsk.

Some charitable projects at the local level fall within the competence of BUs. Thus, the Yakutia BU provided targeted assistance to 11 educational institutions. The Irkutsk alluvial BU in turn helped children from disadvantaged families prepare for school. BU employees bought school uniforms, sportswear, and shoes for the children.

The Krasnoyarsk BU actively works with Komsomolskaya Pravda (KP) magazine. In 2016, they jointly prepared the Golden Geography Class for Krasnoyarsk schools, which recounts the history of gold mining in Krasnoyarsk Region, as well as the myths and legends that accompany it. In addition to an educational component, Polyus holds an art contest among ninth-graders dedicated to the theme of gold. Children who produced the best works of art were awarded laptops, tablets, and mobile phones. Other joint Krasnoyarsk BU and KP magazine charity projects included a lecture on gold mining organised in the Geology Museum of Central Siberia in Krasnoyarsk, and a trip to a dolphinarium organised for children with disabilities.

In addition to charitable activities, Polyus provides organisational and sponsorship support to a number of major economic events, such as the Eastern Economic Forum and the Krasnoyarsk Economic Forum.

Another important area of Polyus sponsorship activity is the promotion of gold mining industry unions and associations. Participation in such organisations gives the Group an opportunity to share industrial experience and best practices and to be involved in addressing applicable legal and regulatory issues. Polyus 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. In 2017, Polyus plans to unify (through the Managing company) work with business associations at federal and regional levels in order to implement consistent approaches across the Group.

Polyus – Golden Season

In 2016, Polyus held our first regional theatre competition, Polyus – Golden Season, which brought together 23 participants from the Siberia and Far East regions. The competition is aimed at promoting the development of the social and cultural environment in the regions where Polyus operates by supporting the development of regional theatres. In Yakutia, the strongest in two nominations (creativity and management) was the Pushkin State Academic Russian Drama Theatre. The Okhlopkov Irkutsk Academic Drama Theatre was the winner in the Irkutsk region, and in the Krasnoyarsk Region the Mayakovsky Norilsk Polar Drama Theatre ran out the winner. The Magadan Region Puppet Theatre also won a special prize.

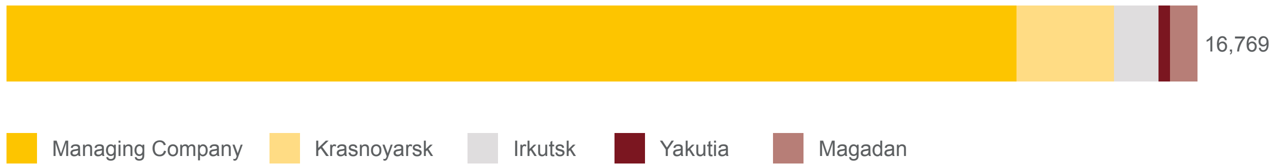
Each of the competition participants gave the jury two performances: one for adults and one for children, as well as a composite of materials reflecting the theatre's achievements. The winners were awarded development grants as well as grants to participate in a festival held in Sochi by a leading Russian repertory theatre, Theatrical Olympus. Two of the Polyus – Golden Season competition winners (theatres from Irkutsk and Yakutsk) also emerged as winners at the Theatrical Olympus festival.

In 2017, the Group is planning to hold the Polyus – Golden Season together with the Territoriya – Magadan theatre festival, with a focus this time on youth troupes and theatres from small towns. Also, Polyus is planning to invite the Moscow Museum of Modern Art to Magadan to organise a contemporary art exhibition in the regional museum of local lore.

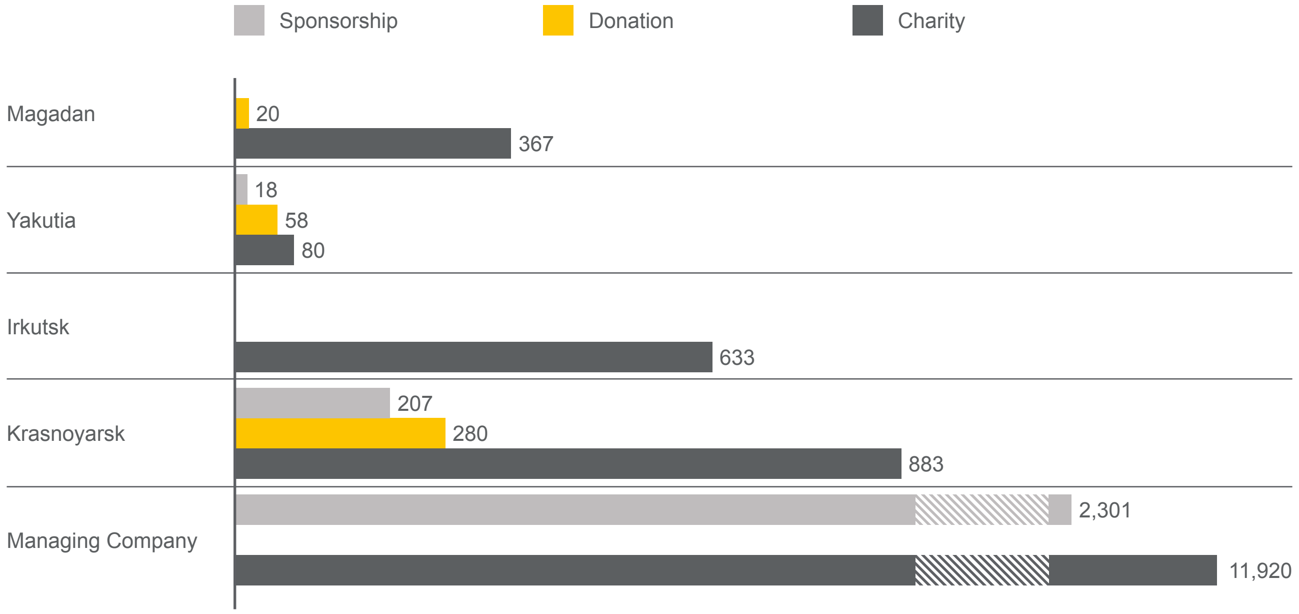
Communities continued

Performance results

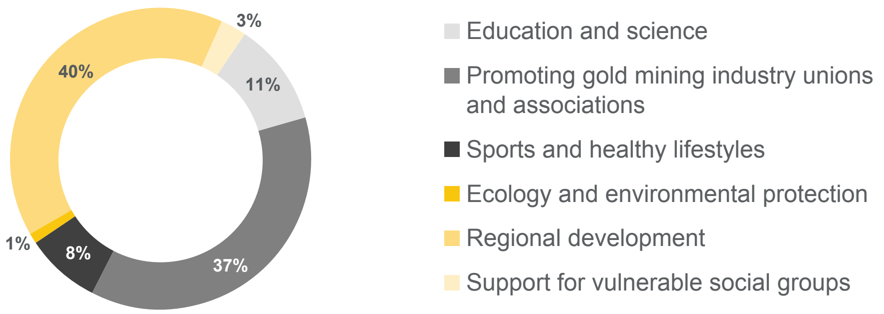
Polyus social support structure by region, 2016 ($ thousand)[25]



Polyus social support structure by region and type of support, 2016 ($ thousand)



Polyus social support structure by directions, 2016 (%)[26]



[25] Irkutsk Region data represent the social investment of Irkutsk Alluvial and Irkutsk Ore BUs, both through the Agreement of social support with the Irkutsk Regional Government and through BU initiatives.
[26] The current breakdown does not include Irkutsk alluvial BU charitable and sponsorship payments due to the unavailability of relevant data breakdowns.

Photo: Polyus corporate sport competitions, Krasnoyarsk

Directors' report

Photo: Doré gold at Verninskoye

Directors' report

Fair, balanced, and understandable
The Directors considered this Annual Review 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 review 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 Review and the 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 Senior Management and corporate functions
- further reviews are conducted by Senior Management
- final sign-off is provided by the Board of Directors

Review of operations and principal activities
The Strategic report disclosed on pages 5 to 26 provides a comprehensive review of Polyus operations, its financial position, and its business strategies and outlook, and is incorporated by reference to, and forms part of this Directors' report.

The Group's principal activities during 2016 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 5 to 76 of the Strategic report and Business Overview provide a full consideration of the performance and key milestones of Polyus operations for the year ended 31 December 2016, 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 159 to 163 of the Corporate governance report.

Share capital
The Group's share capital consists of 190,627,747 issued, fully paid, registered ordinary shares, each with a par value of 1.00 rouble, issued in accordance with the laws of the Russian Federation. All such shares were issued in 2006, in the course of the spin-off by OJSC Norilsk Nickel of its gold-mining assets, and they were registered by the Federal Service for Financial Markets on 27 April 2006.

The Group also has 28,594,162 authorised and non-issued ordinary shares, each with a par value of 1.00 rouble.

On 10 March 2016, the Board of Directors of the Group approved the distribution by LLC Polyus-Invest, a 100% indirect subsidiary of the Group, of an Information Memorandum to the holders of the Group's ordinary shares and ADRs in respect of the terms and conditions for the submission of applications to enter into securities purchase agreements.

As a result of the completion of the above-mentioned buy-back programme, LLC Polyus-Invest purchased 60,518,665 ordinary shares.

On 30 September 2016, LLC Polyus-Invest obtained from Polyus Gold International Limited 4,476,853 Group ordinary shares, which were used to settle loans issued and accrued interest in the total amount of $ 269 million.

On 22 December 2016, the Group's Extraordinary General Shareholders' Meeting approved the reorganisation of the Group in the form of a merger of LLC Polyus-Invest into the Group and the decrease of the Group's charter capital by way of cancellation of 64,995,518 shares held by LLC Polyus-Invest.

No preference shares are authorised or outstanding. Additional ordinary shares in excess of the number of authorised and non-issued ordinary shares stipulated in the Group's charter or any additional preference shares may only be issued if the scope of the relevant authorisations in the Group's charter is amended by a shareholders' resolution.

The Group is a public joint-stock company with more than 1,000 holders of shares carrying voting rights for the purposes of certain provisions of the Joint-Stock Companies Law.

Substantial shareholdings
The shareholder structure as of 31 December 2016 was as follows:

- 61.37% – Polyus Gold International Limited
- 34.10% – LLC Polyus-Invest
- 4.53% – free float

Dividends
Information about the dividend policy is outlined in the section 'Dividend policy' in the Corporate governance report on page 164.

In October 2016, the Board of Directors of the Group approved a new dividend policy, pursuant to which the Group will pay dividends on a semi-annual basis in the amount of 30% of the EBITDA for the applicable reporting period.

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

The Board of Directors of the Group anticipates assessing a recommendation for a first dividend in accordance with the new dividend policy in the first half of 2017, based on the consolidated financial results for the second half of 2016.

Registration and domicile
The Group was incorporated in the Russian Federation on 17 March 2006, as an open joint-stock company for an unlimited duration, and it operates under the laws of the Russian Federation.

The Group is registered at building 1, 15 Tverskoy Boulevard, Moscow 123104, Russian Federation, with state registration number 1068400002990.

The Group's main administrative office and its registered office are located at building 1, 15 Tverskoy Boulevard, Moscow 123104, Russian Federation, and its telephone number is +7 (495) 641-3377.

Corporate governance statement
As the Shares are included on the First Level quotation list on MOEX, the Group is required to comply with a number of corporate governance requirements, primarily deriving from Russian law and regulations.

Such requirements include:

- At least three (and not less than one fifth) of the board of directors should be independent directors, with the independence criteria determined pursuant to the Listing Rules of the Moscow Exchange (the "MLRs");
- Having the following committees of the Board of Directors:

Directors’ report continued

1. An Audit Committee, to be chaired by an independent director and made up of independent directors or, if this is not possible, of directors who do not include the chief executive officer or members of the management board, provided, however, that the majority of the committee is made up of independent directors.
2. a Nominations Committee, made up of independent directors or, if this is not possible, of directors who do not include the chief executive officer or members of the management board (if applicable), provided, however, that the majority of the committee is made up of independent directors.
3. a Remuneration Committee, comprising independent directors or, if this is not possible, of directors who do not include the chief executive officer or members of the management board, provided, however, that the majority of the committee is made up of independent directors, one committee may act as the joint remunerations, nominations, and hiring committee.

- The appointment of a corporate secretary and the adoption by the Board of Directors of Regulations of the Corporate Secretary.
- Compliance with the disclosure and notification requirements set forth in applicable Russian laws.

Employment policies and communication
Information on the Group’s employment policies and its employees is set out in the Sustainability report on page 117.

Political contributions
No donations to political parties were made and no political expenditure was incurred during the year 2016, as was the case in 2015.

Charitable donations
During the year, the Group made charitable donations of $13.9 million (2015: $6.4 million), principally to local charities serving the communities in which the Group operates. Key related messages are set out in the Sustainability report on page 129.

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, Polyus Logistics and Vitimenergo are already OHSAS 18001 certified. Polyus Stroy is working towards achieving OHSAS 18001 certification in 2018. The status of environmental targets and objectives across the Group are 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 109 to 116.

Greenhouse gas emissions
In 2016, the Group’s total greenhouse gas (GHG) emissions stood at 3.18 million tonnes of CO_2e, 3% below the 2015 level.

For more details on GHG emissions, including the calculation methodology, as well as the Group’s GHG policy and reduction targets for GHG emissions, see the Environmental stewardship section of the Sustainability report on pages 109 to 116.

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 2016 stood at $16 million, versus $7 million in FY 2015. Research and development costs totalled $5.3 million (2015: $16.2 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

Pavel Grachev

Chief Executive Officer

June 13, 2017.

Corporate governance report

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Photo: At the Verninskoye mine

AGM

The General Shareholders' Meeting, as below is the highest governing body for the Group's related affairs.

Procedure
The competency of a shareholders' meeting is set forth in the Joint-Stock Companies Law as well as in the Company's charter. A shareholders' meeting may not decide on issues that are not included in the list of its competences by the Joint-Stock Companies Law.

Voting at a General Shareholders' Meeting is generally done according to the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which is done through cumulative voting. Decisions are generally passed by a majority vote of the shareholders present at a General Shareholders' Meeting. However, Russian law and the Company's charter require a three-quarters majority vote of the holders of Shares present at a General Shareholders' Meeting to approve the following:

- charter amendments
- reorganisation or liquidation
- certain major transactions, including major transactions involving assets in excess of 50% of the balance sheet value of the assets of the Company
- determining the number, nominal value, and type of authorised shares as well as the rights granted by such shares
- repurchase by the Company of its issued shares
- adoption of a decision on the filing of an application to delist the Company's shares and/or other securities convertible to shares
- any issuance of shares or securities convertible into ordinary shares by closed subscription, or
- issuance by an open subscription of ordinary shares or securities convertible into ordinary shares, in each case constituting more than 25% of the number of issued and outstanding ordinary shares

The quorum for the Company's Shareholders' Meeting is met if shareholders (or their representatives) accounting for more than 50% of the Shares are present. If the 50% quorum requirement is not met, another Shareholders' Meeting with the same agenda may (or, in the case of an annual meeting, must) be scheduled and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the Shares are present at such meeting.

The annual General Shareholders' Meeting must be convened by the Board of Directors between 1 March and 30 June of each year, and the agenda must include the following items:

- election of the members of the Board of Directors
- approval of the annual statutory report, balance sheet, and profit and loss statement
- approval of the distribution of profits, including the approval of annual dividends, if any
- approval of an independent auditor for statutory accounts
- election of members of the Internal Audit Commission

The Shareholders' Meeting also approves the remuneration of the members of the Board of Directors. A shareholder or group of shareholders owning in aggregate at least 2% of the issued voting Shares may introduce proposals for inclusion in the agenda of the annual General Shareholders' Meeting and may nominate candidates to the Board of Directors and the Internal Audit Commission. Any agenda proposals or nominations must be provided to the Company by no later than 28 February.

Extraordinary General Shareholders' Meetings may be called by the Board of Directors at its own initiative, or at the request of the Internal Audit Commission, the independent auditor of the statutory accounts or a shareholder or group of shareholders owning in aggregate at least 10% of the Shares as at the date of the request.

A General Shareholders' Meeting may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by the General Shareholders' Meeting through the attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues on the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the Company without personally attending the meeting. a General Shareholders' Meeting by absentee ballot contemplates the determination of shareholders' opinions on issues on the agenda by means of a written poll.

Notice and participation
The Group's shares are listed for trading on MOEX and, as a result, the Group is subject to certain shareholder notification requirements. Under the Group's charter, all shareholders entitled to participate in a General Shareholders' Meeting must be notified of the meeting, whether the meeting is to be held in direct form or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, in relation to an Extraordinary General Shareholders' Meeting to elect the Board of Directors or a General Shareholders' Meeting to approve any reorganisation in the form of a merger, spin-off or demerger and to elect the board of directors of the company established as a result of any reorganisation in the form of a merger, spin-off or demerger, shareholders must be notified at least 50 days prior to the date of the meeting. Only those items that were set out in the agenda may be voted on at a General Shareholders' Meeting.

The list of persons entitled to participate in a General Shareholders' Meeting is compiled from the Group's shareholders register on the date established by the Board of Directors, whose date may not be earlier than 10 days from the date of adoption of the board resolution to hold a General Shareholders' Meeting, or more than 25 days before the date of the meeting (or, in the case of a shareholders' meeting to approve a reorganisation, not more than 35 days before the date of the meeting).

The right to participate in a General Shareholders' Meetings may be exercised by a shareholder as follows:

- by personally participating in the discussion of agenda items and voting thereon
- by sending an authorised representative to participate in the discussion of agenda items and to vote thereon, or by absentee ballot

The Board

The Group's Board of Directors is the governing body for the general management of Polyus PJSC, except for issues that fall under the responsibility of the General Meeting of Shareholders according to the Federal Law "On Joint-Stock Companies" and the Company's Articles of Association.

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

The Company considers three of the current nine directors, Messrs. Dowling, Potter, and Champion to be independent under the Moscow Exchange Listing Rules.

Role of the board
The Board of Directors is responsible to shareholders for ensuring the success of the Group. This can only be achieved if the Board is supported by appropriate and well-managed governance processes. The Board's role is to create and deliver value through the effective governance of the Group. The Board provides entrepreneurial leadership for the Group as well as advises and oversees the activities of the management team by providing guidance and strategic initiatives. It has collective responsibility and accountability for the long-term success of the Group: it creates strategic plans, determines risk appetite, establishes the Group's values and standards, ensures good governance, and promotes good behaviour.

The Board is 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 corporate governance system

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 locations, 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 that the Group faces and the processes that are in place to mitigate and manage such 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, as well as any financial risks to which the Group is exposed
- observe and ensure compliance with the Health, Safety, Environment, and Community policy
- safeguard the Group's reputation, values, ethics, culture and assets, including knowledge

Chairman of the Board of Directors
Edward Dowling has been Chairman of the Board since 5 April 2016. The role of Chairman is 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.

In particular, the Chairman is 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's executive appointments
- promoting effective relationships and communications between non-executive directors and members of the Group's executive Committees
- 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

Chief executive officer
Pavel Grachev was the CEO of Polyus Gold International until 3 March 2016, and remains the CEO of PJSC Polyus. 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

The Board continued

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 about the integrity of the financial information as well as 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 receive detailed information on operational and financial performance. The Board receives presentations and verbal updates from executives at Board meetings, as appropriate.

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

Board committees
The Group's Board of Directors comprises the following committees:

- the Audit Committee
- the Nomination and Remuneration Committee
- the Strategy Committee
- the Operations Committee

The Board Committees serve as consultative and advisory bodies that deal with issues raised by the Board. Committees may not act on behalf of the Board and are not considered to be management bodies of the Group. They have no powers in relation to managing the Company. Committees are held separately from Board meetings so that extra attention can be paid to discussing issues which require preliminary Board consideration prior to approval by Board members, and determine the necessity of the Board's approval for a specific issue.

The decisions of each Committee are taken by a majority vote of all Committee members taking part in the meeting. Each member has one vote and the Committee Chairman has no casting vote in the event of a tie.

The Audit, Nomination and Remuneration, Strategy, and Operations Committees of the Board of Directors of the Company were set up on 29 April 2016. The committees are headed by independent directors.

Audit Committee
The Audit Committee assists the Board of Directors in monitoring the company's risk management processes and control environment, and in reviewing the company's annual and quarterly financial statements and audit.

Composition of the Audit Committee:

- Kent Potter (Chairman)
- Edward Dowling
- William Champion

The main tasks of the Committee include:

- assuring that the financial statements of the Group are complete, accurate, and authentic
- assuring that the risk management and internal control systems are reliable and efficient
- assuring that the internal and external audit functions are independent and objective
- assuring that the system of notification about potential cases of unethical practices by Group employees (including unfair use of any insider or confidential information) and third persons, as well as other violations of the Group activity, is efficient; assuring that the practices adopted by the Group within the framework of such a system are duly implemented

Results of the Committee's activity in 2016:

- Deloitte was approved as auditor of the Group
- assessed reports covering major areas of IT and business process optimisation projects within the finance function (budgeting, capital management, treasury and accounting)
- assessed the report covering IT policy, governance policies, and IT risk management
- recommended that the Company's HR and Security review and update the Company's Code of Ethics and the Anti-Corruption policy, respectively, together with Internal Control and Compliance and Internal Audit
- approved the road map for developing the Company's internal audit function developed in accordance with recommendations made by Ernst & Young
- assessed the results of the audit of interim and annual Consolidated Financial Statements

Nomination and Remuneration Committee
The Nomination and Remuneration Committee assists the Board of Directors with the preliminary consideration of issues related to establishing an efficient and transparent remuneration policy, approving officers reporting to the Chief Executive Officer, the nomination of new Board members, and staff planning for the Group.

Composition of the Nomination and Remuneration Committee:

- Edward Dowling (Chairman)
- William Champion
- Kent Potter
- Anastasia Galochkina

The main tasks of the Committee comprise:

- developing and continually revising the remuneration policy of the Group in relation to Board members, the Chief Executive Officer, and supervising its introduction and implementation
- preliminary assessment of the work of the Chief Executive Officer after the annual results are published
- developing the terms of early termination of the employment agreement with the Chief Executive Officer
- elaborating recommendations for the Board of Directors for determining the remuneration amount and the principles for awarding the Corporate Secretary (employees of the unit performing the functions of the Corporate Secretary)
- annual assessment of the efficient work of the Board of Directors and its members, determining priority areas for enhancing the composition of the Board of Directors

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- elaborating recommendations for shareholders in relation to voting on the issue of electing candidates to the Board of Directors
- planning appointments, including considering the successor to the Chief Executive Officer, and elaborating recommendations for the Board of Directors in relation to candidates to the positions of Chief Executive Officer and Corporate Secretary

Results of the Committee's activity in 2016:

- approved the Chief Executive Officer's annual bonus for 2015
- recommended that the Board approve the KPIs for the Chief Executive Officer in 2016
- approved KPIs for the Senior Management of the Group for 2016
- recommended that the Board approve the long-term incentive plan for Senior Management

Strategy Committee
The Strategy Committee assists the Board of Directors in the preliminary consideration of issues related to developing the strategy of the Group.

Composition of the Strategy Committee:

- Edward Dowling (Chairman)
- Kent Potter
- Pavel Grachev
- Mikhail Stiskin
- Said Kerimov

The main tasks of the Committee comprise:

- elaborating recommendations to the Board of Directors in relation to strategic development issues
- determining the priority areas of the Group's activity, its development strategy, as well as ways to implement it
- improving activities related to the strategic management of the Group's equity
- developing, approving, elaborating, and adjusting the Group's strategic development plans, as well as its long-term financial model and key indicators
- introducing and improving the strategic planning procedure as a continuous management technology
- monitoring the execution of the Group's approved development plans, assessing the Group's performance and risk exposure
- analysing the effective governance structure and system of the Group and the entities controlled by it

Results of the Committee's activity in 2016:

- assessed and recommended the Strategy Committee Terms of Reference to the Board of Directors
- assessed the Group's benchmarking against major global peers
- assessed the Eurobond placement results and debt book

Operations Committee
The Operations Committee assists the Board of Directors with the preliminary consideration of issues related to the Group's health, safety and environmental policies, social responsibility, and operational effectiveness.

Composition of the Operations Committee:

- William Champion (Chairman)
- Edward Dowling
- Pavel Grachev
- Vladimir Polin

The Committee's task is to oversee initiatives related to health, safety, the environment, social responsibility, and operational effectiveness for the purpose of implementing the Group's strategy and achieving respective goals in these areas.

Results of the Committee's activity in 2016:

- considered and recommended the Operations Committee Terms of Reference to the Board of Directors
- assessed a detailed report on the HSE Development plan implementation status for the first half of 2016, covering injury rates, automotive accident rates, HSE event reporting, second quarter 2016 key achievements, the DuPont project status, the environment, transportation safety, health, sustainable Development, and the ICMM
- assessed the implementation and alignment of various operations-based management systems
- assessed the BIO-4 Project (flotation concentrate processing facility), covering the current status of flotation concentrate processing and BIO development at Olimpiada
- assessed an update on the mining and processing facility construction at the Natalka deposit, including a project overview and highlights, and outlining the construction and installation status. The project's financial model with the key risk areas was also assessed

Board activity
The Group's risk management process underpins the successful execution of strategy and planning for the future. Risk and its identification, assessment, management, and mitigation are fundamental to our business.

Board members met frequently in 2016 to discharge their duties effectively in compliance with the formal schedule of matters to discharge their duties in the best interests of the Group.

From 1 January 2016 to 5 April 2016, the Board of Directors held six meetings by passing a written resolution.

After 5 April 2016, the new Board of Directors held 10 meetings, including three face-to-face meetings. In addition to formal meetings, during the year Board members participated in five scheduled Board telephone conference calls.

The Board continued

The purpose of these was to give executive management the opportunity to update non-executive Directors on key matters during longer gaps between scheduled Board meetings. Two meetings were held by passing a written resolution.

Each Board meeting included one or more business and strategy presentations 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.

The attendance of the Group's directors at the in-person meetings of the Board and its committees during 2016 is shown below:

Member of the Board of Directors	Number of in-person meetings possible	Number of Board meetings attended	Audit Committee meetings attended (out of 5)	Nomination and Remuneration Committee meetings attended (out of 4)	Strategy Committee meetings attended (out of 2)	Operations Committee meetings attended (out of 3)
Edward Dowling	3	3	5	4	2	3
William Champion	3	3	5	4	–	3
Kent Potter	3	3	5	4	2	–
Pavel Grachev	3	3	–	–	2	3
Vladimir Polin	3	3	–	–	–	3
Mikhail Stiskin	3	3	–	–	2	–
Anastasia Galochkina	3	3	–	3	–	–
Gulnara Kerimova	3	1	–	–	–	–
Said Kerimov	3	2	–	–	–	–

Photo: At the Olimpiada mine

Board of Directors' composition

At the Annual General Shareholders' Meeting held on 5 April 2016, a new Board of Directors was elected. The changes in the Board of Directors' composition are presented below:

Board of Directors' composition after 22 May 2015	Board of Directors' composition after 5 April 2016
Mikhail Stiskin (Chairman)	Edward Dowling (Chairman & Independent Director)
Konstantin Gusev	William Champion (Independent Director)
Vyatcheslav Dzyubenko	Kent Potter (Independent Director)
Sergey Zhuravlev	Pavel Grachev (Chief Executive Officer)
Anton Rumyantsev	Vladimir Polin (Senior Vice President, Operations)
Alexey Vostokov	Mikhail Stiskin (Senior Vice President, Finance & Strategy)
Andrey Timoshkin	Anastasia Galochkina
Dmitry Ageyev	Gulnara Kerimova
Pavel Grachev (Chief Executive Officer)	Said Kerimov

EDWARD DOWLING
Date of birth: 10 May 1955.

Role: Chairman of the Board of Directors, Independent Director, Chairman of the Nomination and Remuneration Committee, Chairman of the Strategy Committee, Member of the Audit Committee, Member of the Operations Committee.

Experience: Mr. Dowling's mining experience spans 30 years, and includes holding the positions of Executive Director for Mining and Exploration at De Beers, President and CEO of Meridian Gold Inc., and Executive Vice President for Operations at Cliffs Natural Resources Inc. He is a former Board member of De Beers Société Anonyme, Victoria Gold Corp, Polyus Gold International Limited, and Zinco de Brasil Inc.

External appointments: Mr. Dowling is the Chairman of the Board of Directors of Alacer Gold, where he served as President and CEO between 1998 and 2012. In addition, he is also a Board member at Teck Resources Limited, Canada's largest diversified mining company, and Detour Gold Corporation, a Canadian intermediate gold mining company.

Education: Mr. Dowling graduated from Pennsylvania State University in 1982, with degrees in mining engineering and mining processing. He obtained his Master's and PhD in mineral processing from the same university in 1987 and 1998, respectively.

Note: This person does not own any shares in PJSC Polyus.

KENT POTTER
Date of birth: 15 August 1946.

Role: Chairman of the Audit Committee, Member of the Nomination and Remuneration Committee, Member of the Strategy Committee.

Experience: From 2013 to 2016 he was also a Board member of SUEK plc, Russia's largest coal producer and exporting company. Prior to these appointments, Mr. Potter spent 27 years with Chevron, during which he held a number of senior management positions. In 2003, he was appointed CFO of TNK-BP. Following TNK-BP, he was appointed Vice President and CFO of LyondellBasell Industries.

External appointments: Mr. Potter sits on the Board of Eurochem Group AG, the leading mineral fertiliser producer in Russia.

Education: Mr. Potter gained a Bachelor's degree in Engineering and an MBA from the University of California, Berkeley.

Note: This person does not own any shares in PJSC Polyus.

WILLIAM CHAMPION
Date of birth: 18 September 1952.

Role: Chairman of the Operations Committee, Member of the Nomination and Remuneration Committee, Member of the Audit Committee.

Experience: Mr. Champion has over 40 years' mining experience. From 2002 to 2014, he was at Rio Tinto where he held a number of senior management positions. These included Managing Director of Rio Tinto's Diamonds Business Unit and Managing Director of Rio Tinto Coal Australia.

External appointments: Mr. Champion serves on the Board of Compañía de Minas Buenaventura S.A.A., the largest publicly traded precious metals company in Peru.

Education: Mr. Champion gained a BSc in Chemical Engineering from the University of Arizona.

Note: This person does not own any shares in PJSC Polyus.

PAVEL GRACHEV
Date of birth: 21 January 1973.

Role: Chief Executive Officer, Member of the Strategy Committee, Member of the Operations Committee.

Experience: From 2010 to 2013, Mr. Grachev served as 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 the head of the Moscow office of the law firm Pavia e Ansaldo (Italy). Mr. Grachev has also served on the boards of the Company, the Federal Grid Company, Uralkali, PIK Group (as Chairman), and Polymetal.

External appointments: Since 2014, Mr. Grachev has been a General Director of PJSC Polyus. Since 2016, he has been a General Director of Management Company Polyus Limited Liability Company, a management company for JSC Polyus, and certain other its subsidiaries.

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

Board of Directors' composition
continued

Note: This person does not own any shares in PJSC Polyus.

VLADIMIR POLIN
Date of birth: 10 August 1962.

Role: Senior Vice President, Operations, Member of the Operations Committee.

Experience: Prior to joining Polyus, Mr. Polin was Chief Operating Officer at En+, a leading Russian industrial group with assets in the metals, mining, and energy sectors. Before that, for three years, he headed the East aluminium division at Rusal, the world's leading aluminium producer. Prior to joining Rusal, Mr. Polin spent almost 10 years at Mechel, a major coal and steel producer in Russia, in a variety of senior posts, including Chief Executive Officer and Senior Vice President at Mechel Management.

External appointments: Mr. Polin serves on the Boards of several PJSC Polyus subsidiaries.

Education: Mr. Polin graduated from Chelyabinsk Polytechnic Institute with a degree in metallurgy.

Note: This person does not own any shares in PJSC Polyus.

MIKHAIL STISKIN
Date of birth: 6 July 1983.

Role: Senior Vice President, Finance and Strategy, Member of the Strategy Committee

Experience: Prior to joining the Group, Mr. Stiskin was Managing Director at Sberbank CIB (until 2011 known as Troika Dialog, where he was also a partner), a corporate and investment banking arm of Sberbank, Russia's largest financial institution, where he was in charge of research coverage of the metals and mining/fertiliser sectors. For many years his team was rated as best in the sector within both the CIS and EMEA regions, according to annual institutional investor surveys. He was also actively involved in a number of landmark transactions in the sector.

External appointments: Mr. Stiskin holds management positions and is a member of the Board of Directors of PJSC Polyus subsidiaries.

Education: Mr. Stiskin graduated in economics (with honours) from the Moscow State Institute of International Relations, and he holds a Master's in Economics from the University of Michigan (Ann Arbor).

Note: This person does not own any shares in PJSC Polyus.

ANASTASIA GALOCHKINA
Date of birth: 26 May 1977.

Role: Member of the Nomination and Remuneration Committee.

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

External appointments: Ms. Galochkina is Managing Director of Nafta Moskva.

Education: Ms. Galochkina is a qualified chartered Financial Analyst. She graduated from the National Research University of Electronic Technology in Moscow with a degree in economics.

Note: This person does not own any shares in PJSC Polyus.

GULNARA KERIMOVA
Date of birth: 29 April 1990.

Experience: Ms. Kerimova has worked for Credit Suisse Group's representative office in Russia.

External appointments: Ms. Kerimova currently works at the representative office of JSC MG International AG.

Education: Ms. Kerimova graduated from the Moscow State Institute of International Relations (University) of the Russian Ministry of Foreign Affairs (International Business and Business Administration Faculty).

Note: This person does not own any shares in PJSC Polyus.

SAID KERIMOV
Date of birth: 6 July 1995.

Role: Member of the Strategy Committee.

Experience: Mr. Kerimov has worked at Kroford LLC.

External appointments: Mr. Kerimov currently works at Vega-Services Management Company LLC.

Education: Mr. Kerimov is currently studying at the Moscow State Institute of International Relations (University) of the Russian Ministry of Foreign Affairs.

Note: This person does not own any shares in PJSC Polyus.

Senior Management

Name	Position	Date of appointment
Pavel Grachev	Chief Executive Officer	02-Oct-14
Mikhail Stiskin	Senior Vice President, Finance and Strategy	02-Dec-13
Vladimir Polin	Senior Vice President, Operations	04-Dec-14
Andrey Krylov	Vice President, Operations and Technical Development	27-Oct-14
Sergey Lobov	Vice President, Mineral Resources	27-Aug-13
Sergey Zhuravlev	Vice President, Government Relations	03-Mar-14
Vyacheslav Dzyubenko	Vice President, Internal Audit	27-Jan-14
Alexander Shitov	Vice President, Control & Compliance	05-Oct-15
Elena Zhavoronkova	Vice President, Legal Affairs	13-Oct-14
Stefan Gueorguiev	Vice President, Project Management and Capital Construction	08-Sep-16
Felix Itskov	Vice President, Commerce & Logistics	20-Jul-15
Oleg Solin	Vice President, Security & Asset Protection	02-Dec-13
Lev Bondarenko	Vice President, Business Transformation	07-Nov-16
Anatoly Bariluk	Managing Director of JSC Polyus	30-Jun-14
Igor Tsukurov	Managing Director of JSC Pervenets	12-Nov-12
Alexey Noskov	Managing Director of JSC Aldanzoloto GRK	17-Apr-15
Grigory Koldunov	Managing Director of JSC RiM	09-Dec-15
Maxim Semyanskikh	General Director of JSC ZDK Lenzoloto	01-Dec-14

Corporate Secretary

The main tasks of the Corporate Secretary are:

- facilitating the implementation of the information disclosure policy of the Company, as well as providing storage for the Company's corporate documents
- facilitating interaction between the Company and its shareholders and participation in the prevention of corporate conflicts
- facilitating the implementation of procedures established by legislation and the internal documents of the Company, which ensure the exercising of the rights and legal interests of shareholders and monitoring their fulfilment
- preparing and facilitating the organisation of the General Meeting of the Company Shareholders
- preparing and facilitating the organisation of meetings of the Board of Directors and committees of the Board of Directors of the Company
- maintaining the status of the Company as a public company, interaction with regulatory bodies, securities market operators, depositories, registrars, and other professional participants of the securities market
- developing and keeping up to date the Company's internal documents governing the Company's corporate management system
- organising procedures aimed at developing the Company's corporate management system
- immediately notifying the Board of Directors about any violations of legislation identified, as well as about violations of provisions of the Company internal documents, observance of which relates to the functions of the Corporate Secretary of the Company

The statutory base of the functions of the Corporate Secretary of PJSC Polyus is, in addition to the Charter, the Regulation of the Corporate Secretary of PJSC Polyus, approved by the Board of Directors in April 2016.

On 1 April 2016, the meeting of the Board of Directors appointed Anna Solotova as the Corporate Secretary of PJSC Polyus.

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.

The Group complies with the legislative requirements of the Russian Federation. 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 the Group 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 anticorruption compliance. In May 2016, the position of Vice President, Controls and Compliance, was created.

Anti-corruption policies and associated internal documents that are directly applicable are in place in Polyus, its business units, and professional services. These policies take into account all requirements of Russian anti-corruption law, 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) 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 senior management. Essential issues relating to anti-corruption activity were included in the agenda of the Polyus 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 2016, over 90% of Polyus employees were certified, and signed personal undertakings to comply with anti-corruption legislation and policy.

A major task for each Group employee is to inform respective compliance managers in a timely manner about any violations and red flags that have come to their attention. There is a hotline in place 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 website: www.polyus.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 2016, no legal proceedings took place related to corruption activities or any other non-ethical practices against the Group or its employees.

Principal risks and uncertainties

The Group's operations are associated with various risks that may affect its operating, financial, and investment performance.

Risk management forms an integral part of the risk management and internal control system and is regulated by the Risk Management and Internal Control Policy. The Board's Audit Committee ensures the reliability and effectiveness of the system.

Risk management relies on the following principles observed by the Group's employees when performing duties within the scope of their competence:

- continuity – the continuous and uninterrupted functioning of the risk management and internal control system at all Company levels
- comprehensive coverage – the system covers all business lines and processes
- risk-based approach – the system is integrated within business process management with regard to the prioritisation of risk management initiatives
- reasonable adequacy – the scope and complexity of risk controls and risk management initiatives need to be relevant and sufficient to meet the system's goals
- segregation of duties – the rights and responsibilities of the Group's employees are segregated based on their role in the system
- responsibility – all of the Group's employees bear responsibility for the system performance within the scope of their duties
- timely reporting – information on risks and controls, as well as the results of the system performance assessment, are reported to respective executives in a timely manner
- flexibility – the system is constantly developing and improving, in tandem with a changing environment

Risk management includes risk identification and assessment, as well as the development and monitoring of risk mitigation initiatives.

The table below lists Polyus' key risks and the relevant mitigation initiatives.

Risk description	Risk mitigation actions
1. Industry risks: Falling gold prices	
The Group's financial results are largely dependent on gold prices. The gold market is cyclical and susceptible to global economic changes. Gold prices depend on external factors beyond the Group's control. A significant continuous decline in gold prices may render Polyus' gold production and/or exploration less profitable or even unprofitable, while also having a material adverse effect on the Group's operating and financial performance.	The Group is continuously monitoring gold markets, while also taking steps to reduce expenses, revising unfinished capital investment projects and engaging in derivative transactions. The Group initiated the Strategic Price Protection Programme, which comprises a revenue stabiliser and gold futures contracts, to protect its earnings and balance sheet from a potential significant fall in gold price.
2. Industry risks: Non-confirmed reserves and resources	
The Group's operations depend to a large extent on available reserves and resources. The estimation of mining companies' mineral reserves may be inaccurate by nature, and partially reliant on subjective statistical findings obtained via limited drilling and other analyses. In case of failure to confirm the quantity and quality of explored reserves at deposits under development, there is a risk of lower production efficiency due to more expensive and labour-intensive mining operations, a change in processing technology, or reduced life of mine.	The Group manages this risk by engaging independent experts to audit reserves at prospective and developed fields, and by reporting on exploration results and reserves availability (reserves-to-production ratio). In addition, the Group is involved in follow-up exploration (advance and operational) activities.
3. Financial risks: Rouble appreciation	
The Group's operating costs are mostly rouble-denominated. At the same time, the sale price of gold is pegged to the US dollar, which means that the Group's revenue is affected by fluctuations in the USD/RUB exchange rate.	The Group is constantly monitoring this risk. To mitigate forex risks, the Group borrows mostly in US dollars, while maintaining sufficient funds in roubles to pay off its short-term obligations.
4. Financial risks: Higher cost of debt and availability of debt financing	
Sanctions imposed by the US, EU, and a number of other countries, as well as Russia's credit rating downgrade to speculative, hinder borrowing on international debt markets. The Group may have a shortage of funds when it comes to financing its operating, management, and investment needs, as well as debt repayment.	The Group is continuously managing this risk, in order to create an optimal capital structure and to maintain sufficient funds to finance its operating, management, and investment needs. In addition, the Group engages in derivative transactions as per the hedging programme approved by its Board. To improve its debt capital structure, the Group replaced short-term loans with long-term loans and increases the number of instruments with a fixed interest rate.
5. Legal risks: Non-compliance with regulatory requirements in respect of subsoil licensing, environmental protection, etc.	
Due to a rapidly changing legal and regulatory framework, which impacts the Group's operations, the Group may be exposed to the risk of non-compliance with certain applicable legal and regulatory requirements. There is also a risk of an intentional breach of / non-compliance with local regulations by the Group's employees. In case of failure to comply with licence-related requirements, the licences needed by the Group may be revoked early, and/or may not be granted or renewed, or may be granted or renewed with a delay, or may impose requirements that limit the Group's ability to operate.	To minimise these risks, the Group has put in place a compliance system that monitors changes to legislation and industrial regulations. The Group also maintains a Security Hotline to ensure rapid responses in case of failure to observe the requirements imposed by the compliance system. The Group makes continuous efforts to improve the system for monitoring compliance with licence agreements and Russian standards. The Group carefully reviews and implements orders and instructions issued by the state regulatory and supervision agencies following the inspections of the Group's facilities.

Principal risks and uncertainties
continued

Risk description	Risk mitigation actions
6. Country and regional Risks: Higher tax burden	
The Group duly meets its tax obligations in full and on time. At the same time, tax risks could be triggered by: • differing statutory interpretations by the taxpayer and tax authority • the inconsistent application of tax laws in various circumstances • potential changes in tax laws and practices	• a proactive approach to obtaining information on upcoming regulatory changes and their analysis • engaging external consultants on complex matters to evaluate the impact of changes to the Group's operations
7. Country and regional Risks: Stronger international pressure on the Russian Federation	
The Group's operations are exposed to potential political instability, including an extension and tightening of the sanctions imposed on Russia by various nations.	Risk monitoring.
8. Strategic Risks: Inaccurate assessment of investment projects' economics and failure to achieve targets	
When implementing its investment projects, the Group faces the following challenges: • inaccurate assessment of project costs / other metrics • employee errors • ineffective investment budget management and monitoring processes	• harmonisation and standardisation of investment projects' evaluation principles • regular updates of valuation models as part of the investment project monitoring process, and suspension of projects with declining performance metrics • factoring in post-investment reviews of completed projects for the benefit of similar projects across the Group
9. Strategic risks: Failure to grow further due to imbalances between the Group's management systems and business processes	
The Group faces the risk that its existing structure and infrastructure do not match the scale and complexity of its projects. Also, overlaps in launching additional projects increase the risk of failure of both existing and new projects.	This risk is minimised through a well-balanced distribution of projects (by number and complexity) at the strategy development stage. The Group is also working to transform and align its business processes and information systems.
10. Strategic risks: Inefficiency of Sukhoi Log investments	
In 2017, the Group obtained a licence to develop the Sukhoi Log field together with Rostec, a state-run corporation facing US sectoral sanctions. The Group admits that any new sanctions or their tightening could affect the Sukhoi Log project. In addition, the development of the Sukhoi Log field could be exposed to the following risks: • non-confirmed reserves and resources • higher cost of debt and availability of debt financing • inaccurate assessment of investment projects' economics and failure to achieve the targets	• development of a strategy to gradually reduce Rostec's impact on the project • it is planned to undertake follow-up exploration of the field • regular updates of the project valuation model, subject to the harmonised principles and a post-investment review of completed projects
11. Strategic risks: No government support for The construction/reconstruction of infrastructure facilities	
Due to unclear regulations, the applicable law provides for a certain arbitrariness in allocating funds and providing tax exemptions under effective government programmes.	The Group monitors compliance with government relationship procedures and the quality of information submitted to government bodies. The Group promotes a positive image in its interactions with the government.

Risk description	Risk mitigation actions
12. Operational risks: Mining and geological risks, including pit wall and road failures	
Risk drivers: • errors in assessing rock mass stability • violation of the mining technological process; • incorrect ore body depth estimates, or a lack thereof	The Group regularly conducts exploration drilling, analyses the geological environment at sites, and organises pit wall research and monitoring.
13. Operational risks: Selection of inefficient technologies, insufficiency and/or poor quality of expert appraisals and tests for new technologies	
Risk drivers include a lack of or poor quality of the projects' technical expert appraisals, including insufficient analysis of the technological process during laboratory tests, and the non-representative character of ore/material samples.	The Group engages highly qualified professionals to conduct expert appraisals of strategic projects, including international engineering companies.
14. Operational risks: Production equipment failures	
Risk drivers include non-compliance with operational requirements and ill-timed maintenance programmes.	• analysis of unscheduled disruptions to technological processes • control planning and implementation of maintenance schedules • implementing property damage and business interruption insurance programmes
15. Operational risks: Blackouts	
Risk drivers: • potential insufficiency of power supplies in the market • limited throughput capacity of energy networks • natural anomalies	To enhance the reliability of power supplies, the Group constructs high-voltage power lines in the Krasnoyarsk Territory and the Magadan Region, to be linked to the federal grid companies' networks in Siberia and the Far East.
16. Operational risks: Delays and budget overruns under capital construction projects	
Risk drivers: • failure to adhere to the key milestones of project development stages • delays in the performance of contractor obligations (or poor performance thereof) • mid-project adjustments to design documents	• tighter controls over the quality of work schedule development • in-depth analysis of design and engineering documents by the Client • engagement of experienced and highly qualified design contractors
17. Operational risks: Workplace injuries and accidents	
Risks may occur due to: - breach by employees' of their health and safety obligations - client and/or contractor HSE Management systems are not established or are inefficient	• collection and assessment of data related to accidents and incidents, equipment failures and shutdowns (description of each accident / incident / failure / shutdown including route cause) • assessment of lessons learned

Principal risks and uncertainties

continued

Risk description	Risk mitigation actions
18. Operational risks: Environmental impacts	
The Group's operations are subject to environmental monitoring and regulations, as they relate to the use of environmentally hazardous substances, pollutant emissions, soil disturbance, potential negative impacts on animals and plants, and other adverse environmental factors.	The Group duly honours its environmental commitments, adhering to the principles and requirements set out in Russian and international standards, treaties, conventions and protocols. Furthermore, the Group implements ICMM standards as part of its ongoing operations.
19. Operational risks: Failure to meet deadlines and quality/volume requirements to the materials supplied and services provided	
Risk drivers: • not accounting for logistical pauses in setting delivery times • no consistent quantity- and quality-based acceptance system • inaccurate calculation of the target price for inventory items that have not been previously purchased • irrelevant data in the planned delivery time reference materials	• shifting delivery times with due account taken of logistical pauses • establishment of the incoming control function • formalisation of the target pricing procedure • implementation of a project to streamline supply processes • annual updates of the planned delivery time reference materials
20. Operational risks: Shortage of qualified staff	
Shortage challenges facing recruiters are driven by: • stronger competition for human resources in the Russian labour market • poor performance of educational institutions, especially technical ones • the Group operating mostly in remote regions with a challenging climate	• ensuring the successful recruitment of highly qualified staff • developing professional trainings in local higher education institutions • improvements to the incentive system, including through competitive salaries

Dividend policy

Russian law governs the procedure for how a company pays dividends to its shareholders. Dividends may be paid on a quarterly, semi-annual or annual basis. Under the Russian law “On Joint-Stock Companies” charter, dividends may only be paid out of the Company’s net income, calculated according to Russian Accounting Standards. Under the Joint-Stock Companies Law and the Company’s charter, it is within the competence of the Board of Directors to recommend to shareholders the amount of dividends for approval by a majority vote at the general shareholders’ meeting. The dividend approved at the shareholders’ meeting may not exceed that recommended by the Board of Directors.

Dividends, if declared, are payable to shareholders within 60 days after their declaration, unless a different time period is stipulated by the shareholders’ resolution declaring the payment of dividends.

On 7 October 2016, the Board of Directors of the Company approved a new dividend policy, pursuant to which the Company will, subject to applicable requirements of Russian law for dividends to be paid out of net profit determined in accordance with Russian Accounting Standards, pay dividends on a semi-annual basis in an amount of 30% of the EBITDA for the applicable reporting period. Payment will be calculated on the basis of the consolidated financial statements of the Group prepared in accordance with IFRS requirements, provided that the net debt/adjusted EBITDA ratio for the previous 12 months based on the consolidated financial statements of the Group is lower than 2.5x.

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

The Board of Directors of the Company may consider the option of paying special dividends, subject to the Group’s liquidity position, capital expenditure requirements, free cash flow, and leverage.

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

The Board of Directors of the Company anticipates assessing a recommendation for a first dividend in accordance with the new dividend policy in the first half of 2017, based on the consolidated financial results of the second half of 2016.

The Company did not declare dividends in the years ended 31 December 2015 and 2014. The Company expects to declare and approve dividends for the second half of the year ended 31 December 2016.

Audit Committee report

Kent Potter
Chairman of the Audit Committee

Introduction
As Chairman of the Audit Committee, I am pleased to present our report to shareholders. Through this report, I hope we will demonstrate how we have responded to the requirements, as well as our commitment, as an Audit Committee, to our responsibilities.

Key objective
Our key objective is to provide effective governance over the appropriateness of the Group's financial reporting. We do this by focusing on, among other things:

- the adequacy of accounting policies, practices, and disclosures
- the performance of both the internal audit function and the external auditor
- oversight of the Group's internal control systems, the framework for identifying and managing business risks, and related assurance activities

Membership
I chair the Committee, with the current members being Edward Dowling and William Champion, all of whom are independent Non-Executive Directors and who were members of the Committee from 29 April 2016 to the date of this report.

Responsibilities
As a Committee, we are responsible for:

- reviewing the announcements of the Group's financial results, including the Interim Reports, Annual Report and Financial Statements, and monitoring compliance with relevant statutory and stock exchange requirements
- reviewing the internal control and risk management systems and assessing the adequacy of these systems to prevent fraud, protect company assets, ensure compliance with all applicable laws and regulations, and avoid material misstatements in the financial reports of the company
- explaining what actions have been, or are being taken, to remedy any significant failings or weaknesses
- impact assessment of key judgements and the level of management challenge
- reviewing external audit findings, key judgements, and the level of misstatements
- assessing the quality of the internal team, their incentives, and the need for supplementary skillsets
- assessing the completeness of disclosures, including consistency with disclosures on the business model and strategy and, where requested by the Board, providing advice in respect of fair, balanced, and understandable statements
- overseeing the relationship with the external auditor, covering their appointment, assessing the audit's quality, effectiveness, and independence
- reviewing and approving the remit of the Internal Audit function, ensuring its independence, and that there are the necessary resources and access to information available in order for it to fulfil its mandate
- reviewing the effectiveness of the Group's systems for financial control, internal audit, financial reporting and risk management, incorporating a review of reports on any significant frauds, misappropriation of assets or unethical behaviour
- assuring that the system of notification for potential cases of unethical practices by Group employees (including the unfair use of any insider or confidential information) and third persons, as well as other violations of the Group's activity, is efficient; assuring that the practices adopted by the Group within the framework of such a system are duly implemented.

Committee evaluation
The Committee was subject to an internal self-evaluation as part of the Board self-evaluation process, which focused on the Board and each Committee performance in 2016, via the completion of a detailed survey by each Board (and Audit Committee) member. The Committee members agreed strongly that the Committee was effective in carrying out its mandate; it received well-presented papers and good reports from management. In 2016, the Committee dealt with important and meaningful issues and was able to make collective judgments about important matters. No significant areas of concern were noted. As an area of focus, it was noted that an improvement in the Internal Audit Group's contributions would be a key priority in 2017.

Meetings
We met five times during the period. The table below details the Board members and the members of senior management that were invited to attend meetings as appropriate during the calendar year. In addition, ZAO Deloitte & Touche CIS ("Deloitte") attended the meetings as auditors of the Group by invitation.

Audit Committee attendees

Kent Potter	Chairman of the Audit Committee	
Edward Dowling	Member of the Audit Committee	
William Champion	Member of the Audit Committee	
Pavel Grachev	Chief Executive Officer	Attended by invitation
Mikhail Stiskin	Chief Financial Officer	Attended by invitation

The Committee members' attendance at the meetings held during the calendar year is summarised in the table below.

Committee member	Audit Committee meetings attended (out of five)
Edward Dowling	5
William Champion	5
Kent Potter	5

Main activities
Over the course of the period since the last Annual Report, our work has focused on the following areas:

(i) financial reporting

(ii) internal control and risk management

(iii) internal audit

(iv) external audit

Audit Committee report continued

(i) Financial reporting
Our principal responsibility in this area is to review and challenge, where necessary, the actions and judgements of management in relation to financial statements before submission to the Board. The Committee's activities comprised:

- assessing and approving the 2016 Annual Report, the consolidated financial statements for the FY2016, and the Interim Management Report for H1 2016 and Q3 2016
- approving the expected auditor's fees for 2016, and monitoring the proposed audit timetable for 2016, as well as the proposed overall timeline for the 2016 Annual Report preparation
- assessing and approving both the external and internal audit plans for 2016, and ensuring that all significant audit risks are properly covered
- assessing and analysing the external auditor's non-audit services provided in 2016
- assessing 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 the preparation of the consolidated financial statements
- advising and supporting the Board to help it 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
- reviewing the annual budget

(ii) Internal control and risk management
The Board established a continuous process for identifying, evaluating, and mitigating the 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 eliminate the risk of failing to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board regularly reviews the effectiveness of the Group's risk management and internal control systems and monitors the implementation of the anti-corruption policy. 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 monitored and whether any significant weaknesses have been promptly remedied, and to indicate any need for more extensive monitoring. The Board has also performed a specific risk assessment for preparing this Annual Report. This assessment considers all the 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 Committee did not identity or was advised of any failings or weaknesses, which were determined to be significant.

(iii) Internal audit
One of the main duties of the Committee is to review the annual Internal Audit programme and to ensure that the internal audit function is adequately resourced (which includes assessing the independence of the function) and has appropriate standing within the Group. A risk-based approach is taken when deciding which businesses and which processes to audit, as well as the scope of each audit. The factors considered include critical system or senior management changes in the period, financial results, the timing of the most recent Internal Audit visit, and any other assurance reviews undertaken. The Internal Audit Plan is reviewed in detail and approved by the Committee each year. The Head of Internal Audit quarterly reports on audit activities, progress against the plan, and the results of audit visits, with a particular focus on high-priority findings and action plans, including management responses to address these areas.

Private discussions between the Head of Internal Audit and myself are held during the year and once a year with the full Committee. I, along with other Audit Committee members, review all key audit findings and issues identified by Internal Audit during the course of their audits and reviews.

(iv) External audit
Deloitte is the current auditor of the Group.

Auditor effectiveness
The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. Deloitte presents its detailed audit plan to us each year, identifying their assessment of the key risks. For the current period, key focus areas were the potential impairment of Natalka, valuation and hedge accounting for financial instruments, going concern issues, exploration and evaluation assets, and the accounting aspects of transactions relating to participating in the auction to acquire the license for the Sukhoi Log deposit. Revenue recognition was selected by Deloitte as part of its work to assess the risk of fraud or management overriding internal controls. In respect of this area, the Audit Committee was assured by the work of the auditors when they confirmed that there was nothing that had to be brought to our attention. In addition, the Committee derived assurance from the work of Internal Audit.

Our assessment of the effectiveness and quality of the audit process in addressing these matters is formed by, among other things, a review of the reporting from the auditors to the Committee and by seeking feedback from management on the effectiveness of the audit process. Overall, management is satisfied that there is an appropriate focus on and challenges to the primary areas of audit risk.

The Committee holds private meetings with the external auditor quarterly to provide additional opportunities for open dialogue and feedback from the Committee and the auditor without management being present. Matters typically discussed include the auditor's assessment of business risks and related management activity, the transparency and openness of interactions with management, confirmation that there has been no restriction in scope placed on them by management, and how they have exercised professional skepticism. I also meet or communicate with the lead audit partner outside the formal committee process, as necessary, throughout the year.

Based on input from management and discussions we have held with Deloitte, we are of the view that the audit process is of high quality.

Independence and non-audit services
Oversight and responsibility for monitoring independence, objectivity, and compliance with ethical and regulatory requirements remain the day-to-day responsibility of the Group's CFO, and are reported to the Audit Committee or Board.

The Group's CFO and Audit Committee set out the categories of other non-audit services which the external auditor will and will not be allowed to provide to the Group. Types of other non-audit services external auditors should not perform so as to avoid compromising their independence (unless it can be clearly shown that the auditor undertaking such activity creates no threat to auditor independence) include:

- work related to the maintenance of accounting records and the preparation of consolidated financial statements that will ultimately be subject to an external audit
- management of, or significant involvement in, internal audit services
- design and implementation of the financial information system
- actuarial services
- investment advice and banking services

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- secondments to management positions that involve 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

Audit and other assurance services comprise statutory and voluntary audits, interim reviews, reporting accountants' work, and other assurance engagements, all of which require that the firm conducting the work is independent.

Total fees incurred during the financial year are set out in the table below. The Audit Committee monitors the ratio of other fees to Audit and Other assurance fees, as set out below:

Professional fees earned by Deloitte in 2016:

Total audit fees	$ thousand	620
Total other assurance fees		521
Audit-related assurance services	440	
Sustainability assurance services	81	
Total audit and other assurance fees		1,141
Total other advisory services		2,845

Non-audit fees are more than the audit fees in 2016, primarily due to the continuation of a number of assignments initiated during 2015 as part of a wide-reaching business transformation programme being undertaken by the Company. Each project in connection with the transformation underwent 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 some 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.

Advisory services related to:

- developing the unified master data concept
- reviewing the development of a target operating model and the corporate reporting system methodology
- advice on developing a budgeting, treasury, and investment methodology

These services were discussed and agreed with the Audit Committee during the reporting year and were previously approved by the Audit Committee of PGIL, as the Group's publicly listed holding company until its delisting from the London Stock Exchange at the end of 2015. A separate team, fully independent from the audit engagement, provides these non-audit services.

Areas of focus
The Audit Committee discussed with management the critical accounting judgements and key sources of estimation uncertainty outlined in Note 4 to the 2016 consolidated financial statements.

The significant areas of focus from this discussion and how these were addressed are outlined below:

Matter considered	Action
Derivative financial instruments The Group has a set of various derivative contracts to hedge or reduce exposure to the gold price, currency, and interest rate fluctuations. Valuation of these instruments is based on management's judgements and estimates, which could significantly affect the amounts recognised in the financial statement. In addition, during the year the Group entered into a number of different derivative financial instrument contracts to hedge exposure to the gold price and to reduce interest rate exposure. The financial statement positions of these derivatives as at 31 December 2016 are outlined in the table on pages 208 to 214.	The Audit Committee reviewed detailed reports provided by external auditors, examining continuing compliance with the criteria for hedge designation in accordance with IAS 39 and the valuation and disclosures in the consolidated financial statements, and considering them appropriate.
Recoverability of exploration and evaluation assets Management's judgement is required to determine whether expenditure which has been capitalised as exploration and evaluation assets is appropriately classified and valued.	The Audit Committee was given a presentation by management analysing the recoverability of the exploration and evaluation asset portfolio. This included a conclusion that no IFRS 6 impairment indicators were present, which was considered appropriate.
Impairment of Natalka mine Due to a decline in the gold spot rates in the last quarter of 2016, appreciation of the rouble and a significant revision of the model for the Natalka mining and processing operations, management assessed that impairment indicators existed as at 31 December 2016, in respect of the carrying value of the Natalka mine. As a result, management updated the model used for the impairment analysis.	The Audit Committee received a detailed analysis from external auditors, who reviewed the model prepared by management and challenged the appropriateness of the assumptions made on the Natalka impairment test, including sensitivity testing. 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. No impairment was identified, and an appropriate disclosure of the judgements involved was requested to be included in the Annual Report and accounts.
Going concern Under IFRS, management must consider the going-concern assumption for a period of not less than 12 months from the reporting date. Due to a recent increase in Net debt resulting from the buyback programme, the covenant compliance issue became a focus area.	The Audit Committee reviewed the external auditors' presentation, with a detailed analysis of the going-concern model prepared by management, challenging the assumptions used in outlining their rationale for adopting the model. The Group has no issues with covenant compliance in all scenarios, as the model is not very sensitive to key parameter fluctuations, including related to gold prices and exchange rates, and there is a significant cushion before at least one of the covenants would be breached.

KENT POTTER

On behalf of the Audit Committee March 2017

Remuneration of the Board of Directors and Senior Management

Remuneration of the Board of Directors
In the reporting year the Board of Directors of the Group consisted of the following three categories of directors:

1. Executive Directors
2. Non-Executive Directors representing major shareholders of the Group
3. Independent Non-Executive Directors

In accordance with the Directors' Remuneration Policy of the Group, only Independent Non-Executive Directors were entitled to receive remuneration for their services as members of the Board of Directors.

Each Independent Non-Executive Director receives a total of $165,000 annually, paid on a monthly basis starting from the date of their election to the Board until the date of termination of their appointment.

If an Independent Non-Executive Director is elected as PJSC Polyus Board Chairman, he receives an additional annual compensation of $135,000.

Additional compensation, in a total amount of $10,000 annually, is paid for membership in each of the committees, or $50,000 annually for chairing the Audit Committee, and $30,000 annually for chairing other Board committees.

All Directors were entitled to be reimbursed for expenses incurred in the performance of their duties on the Board.

Remuneration paid to Independent Non-Executive Directors in 2016 amounted to $590,944.

The reimbursement of expenses for Independent Non-Executive Directors amounted to $79,243.

Remuneration of Senior Management
The remuneration of the CEO and other members of the Senior management team consisted of:

1. A monthly base salary, which is fixed in individual employment contracts
2. An annual bonus under the short-term incentive plan (STIP), which is linked to the attainment of corporate and functional key performance indicators (KPIs)[1] as well as a personal performance assessment[2]
3. Award of the long-term incentive plan (LTIP), which was adopted by the Board of Directors in December 2016

Base salaries were reviewed annually, with any possible changes taking effect 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 international gold mining and local Russian markets

Annual bonuses under the STIP were based on performance conditions calibrated and established by the Remuneration Committee of the Board at the start of each financial year. Actual performance was measured over the preceding financial year.

Targets within the STIP reflected the Group's annual plan, which in turn reflected the strategic priorities of the Group. The corporate KPIs consisted of:

- Adjusted EBITDA
- Gold production volume
- Total cash cost per ounce of gold sold
- Safety Culture Evaluation

Each of the corporate and functional KPIs has predetermined "minimum", "target" and "maximum" values, against which actual results are assessed.

Achieving "target" results will equate to an on-target STIP payment. "Minimum" and "maximum" results are rewarded according to a predetermined numerical scale for each KPI.

The on-target STIP opportunity was set at 100% of the annual base salary for all top managers.

The maximum opportunity was calculated individually for each KPI, but typically did not exceed 120% of the annual base salary for exceptional performance.

Under the terms of the LTIP, eligible members of the senior management of PJSC Polyus and its subsidiaries will be granted options to purchase in aggregate up to 1,913,200 ordinary shares of PJSC Polyus, constituting approximately 1% of the entire issued and outstanding share capital of PJSC Polyus as at the date of this Review. Neither the members of the Board of Directors of the Company, nor non-eligible members of the management of the Company, are or will be entitled to purchase ordinary shares in PJSC Polyus under the terms of the LTIP.

[1] Functional KPIs are not applicable to the performance of the CEO
[2] The personal performance of the CEO is assessed by the Board at its discretion, and that of other top managers is assessed by the Chief Executive Officer

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Photo: At the Natalka mine

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

	Notes	2016	2015
Gold sales	5	**2,429**	2,159
Other sales		**29**	29
Total revenue		**2,458**	2,188
Cost of gold sales	6	**(891)**	(876)
Cost of other sales		**(28)**	(25)
Gross profit		**1,539**	1,287
Selling, general and administrative expenses	7	**(151)**	(143)
Other (expenses) / income, net		**(27)**	20
Operating profit		**1,361**	1,164
Finance costs, net	9	**(145)**	(45)
Interest income		**40**	69
Gain / (loss) on derivative financial instruments and investments, net	10	**119**	(125)
Foreign exchange gain, net		**396**	149
Profit before income tax		**1,771**	1,212
Income tax expense	11	**(326)**	(191)
Profit for the year		**1,445**	1,021
Profit for the year attributable to:			
Shareholders of the Company		**1,420**	987
Non-controlling interests		**25**	34
		1,445	1,021
Weighted average number of ordinary shares'000	17		
- for basic earnings per share		**140,765**	190,628
- for dilutive earnings per share		**140,774**	190,628
Earnings per share (US Dollar)			
- basic		**10.09**	5.18
- dilutive		**10.09**	5.18

Consolidated statement of comprehensive income

for the year ended 31 December (in millions of US dollars)

	Notes	2016	2015
Profit for the year		**1,445**	**1,021**
Other comprehensive income / (loss) for the year			
Items that may be subsequently reclassified to profit or loss:			
(Decrease) / increase in revaluation of cash flow hedge reserve on revenue stabiliser	13	**(65)**	126
(Decrease) / increase in revaluation of cash flow hedge reserve on gold forward	13	**(12)**	18
Deferred tax relating to change in revaluation of cash flow hedge reserve		**15**	(35)
		(62)	**109**
Items that will not be subsequently reclassified through profit or loss:			
Effect of translation to presentation currency		**(80)**	**(554)**
Items that have been reclassified through profit or loss:			
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser	13	**(53)**	(91)
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward	13	**(8)**	(25)
Deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss		**12**	22
		(49)	**(94)**
Other comprehensive loss for the year		**(191)**	**(539)**
Total comprehensive income for the year		**1,254**	**482**
Total comprehensive income for the year attributable to:			
Shareholders of the Company		**1,215**	469
Non-controlling interests		**39**	13
		1,254	**482**

Consolidated statement of financial position

at 31 December (in millions of US dollars)

	Notes	2016	2015
Assets			
Non-current assets			
Property, plant and equipment	12	**2,938**	2,023
Derivative financial instruments and investments	13	**57**	411
Inventories	14	**264**	184
Deferred tax assets	20	**75**	46
Other non-current assets		**37**	8
		3,371	**2,672**
Current assets			
Inventories	14	**369**	296
Derivative financial instruments and investments	13	**10**	205
Deferred expenditures		**10**	13
Trade and other receivables		**58**	23
Advances paid to suppliers and prepaid expenses		**19**	17
Taxes receivable	15	**89**	59
Cash and cash equivalents	16	**1,740**	1,825
		2,295	**2,438**
Total assets		**5,666**	**5,110**
Equity and liabilities			
Capital and reserves			
Share capital	17	**7**	7
Additional paid-in capital	17	**2,288**	2,273
Treasury shares	17	**(3,712)**	–
Cash flow hedge revaluation reserve		**12**	123
Translation reserve		**(2,720)**	(2,623)
Retained earnings		**3,617**	2,196
Equity attributable to shareholders of the Company		**(508)**	**1,976**
Non-controlling interests		**94**	71
		(414)	**2,047**
Non-current liabilities			
Site restoration, decommissioning and environmental obligations		**38**	32
Borrowings	18	**4,698**	2,151
Derivative financial instruments	13	**456**	509
Deferred revenue	19	**76**	–
Deferred tax liabilities	20	**182**	133
Other non-current liabilities		**32**	20
		5,482	2,845
Current liabilities			
Borrowings	18	**283**	38
Trade and other payables	21	**222**	151
Taxes payable	22	**93**	29
		598	**218**
Total liabilities		**6,080**	**3,063**
Total equity and liabilities		**5,666**	**5,110**

Consolidated statement of changes in equity

for the year ended 31 December (in millions of US dollars)

	Notes	Number of outstanding shares'000	Equity attributable to shareholders of the Company: Share capital	Additional paid-in capital	Treasury shares	Cash flow hedge revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 31 December 2014		**190,628**	**7**	**2,266**	**–**	**108**	**(2,090)**	**1,425**	**1,716**	**83**	**1,799**
Profit for the year		–	–	–	–	–	–	987	**987**	34	**1,021**
Increase in cash flow hedge revaluation reserve		–	–	–	–	15	–	–	**15**	–	**15**
Effect of translation to presentation currency		–	–	–	–	–	(533)	–	**(533)**	(21)	**(554)**
Total comprehensive income / (loss)		**–**	**–**	**–**	–	15	(533)	987	**469**	13	**482**
Equity-settled share-based payment plans (LTIP)	17	–	–	7	–	–	–	–	**7**	–	**7**
Increase of ownership in subsidiaries		–	–	–	–	–	–	(216)	**(216)**	(14)	**(230)**
Declared dividends		–	–	–	–	–	–	–	**–**	(11)	**(11)**
Balance at 31 December 2015		**190,628**	**7**	**2,273**	**–**	**123**	**(2,623)**	**2,196**	**1,976**	**71**	**2,047**
Profit for the year		–	–	–	–	–	–	1,420	**1,420**	25	**1,445**
Decrease in cash flow hedge revaluation reserve		–	–	–	–	(111)	–	–	**(111)**	–	**(111)**
Effect of translation to presentation currency		–	–	–	–	–	(94)	–	**(94)**	14	**(80)**
Total comprehensive (loss) / income			**–**	–	–	(111)	(94)	1,420	**1,215**	39	**1,254**
Equity-settled share-based payment plans (LTIP)	17	–	–	15	–	–	–	–	**15**	–	**15**
Increase of ownership in subsidiaries			–		–	–	–	(2)	**(2)**	(1)	**(3)**
Buy-back of treasury shares	17	(60,519)	–	–	(3,443)	–	–	–	**(3,443)**	–	**(3,443)**
Settlement of issued loans by own shares	17	(4,477)	–	–	(269)	–	–	–	**(269)**	–	**(269)**
Release of translation reserve due to disposal of subsidiary		–	–	–	–	–	(3)	3	**–**	–	**–**
Declared dividends		–	–	–	–	–	–	–	**–**	(15)	**(15)**
Balance at 31 December 2016		**125,632**	**7**	**2,288**	**(3,712)**	**12**	**(2,720)**	**3,617**	**(508)**	**94**	**(414)**

Consolidated statement of cash flows

for the year ended 31 December (in millions of US dollars)

	Notes	2016	2015
Operating activities			
Profit before income tax		**1,771**	**1,212**
Adjustments for:			
Reversal of impairment	8	**(4)**	(22)
Finance costs, net	9	**145**	45
Interest income		**(40)**	(69)
(Gain) / loss on derivative financial instruments and investments, net	10	**(119)**	125
Depreciation and amortisation		**148**	128
Foreign exchange gain, net		**(396)**	(149)
Other		**26**	5
		1,531	**1,275**
Movements in working capital			
Inventories		**(42)**	42
Deferred expenditures		**(1)**	(3)
Trade and other receivables		**(47)**	(6)
Advances paid to suppliers and prepaid expenses		**(10)**	(11)
Taxes receivable		**(27)**	(8)
Trade and other payables		**13**	27
Other non-current liabilities		**(1)**	5
Taxes payable		**23**	(1)
Cash flows from operations		**1,439**	**1,320**
Income tax paid		**(261)**	(217)
Net cash generated from operating activities		**1,178**	**1,103**

	Notes	2016	2015
Investing activities[1]			
Purchases of property, plant and equipment		**(405)**	(326)
Advance paid for the participation in the auction for the Sukhoi Log	12	**(138)**	–
Proceeds from government grants		**76**	–
Interest received		**50**	50
Increase in bank deposits		**–**	(74)
Proceeds from redemption of bank deposits		**–**	340
Payment for currency collars		**–**	(494)
Loans issued		**–**	(190)
Proceeds from repayment of loans issued		**124**	–
Proceeds from disposal of subsidiary, net cash disposed of		**10**	–
Other		**3**	6
Net cash utilised in investing activities		**(280)**	**(676)**
Financing activities[1]			
Interest paid		**(245)**	(124)
Commission paid		**(51)**	(6)
Proceeds from sales and leaseback transactions		**2**	–
Lease payments		**(1)**	–
Net proceeds on exchange of interest payments under interest and cross currency rate swaps	9	**44**	52
Payment for buy-back of treasury shares	17	**(3,443)**	–
Dividends paid to non-controlling interests		**(16)**	(10)
Proceeds from borrowings		**3,432**	627
Repayment of borrowings		**(734)**	(89)
Cash used to increase ownership in subsidiaries		**(3)**	(230)
Net cash (utilised in) / generated from financing activities		**(1,015)**	**220**
Net (decrease) / increase in cash and cash equivalents		**(117)**	**647**
Cash and cash equivalents at beginning of the year	16	**1,825**	**1,213**
Effect of foreign exchange rate changes on cash and cash equivalents		**32**	(35)
Cash and cash equivalents at end of the year	16	**1,740**	**1,825**

[1]Significant non-cash transactions in regard of investing and financing activities are disclosed in Note 17 to these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2016 (in millions of US dollars)

1. General

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

The principal activities of the Company and its controlled entities (the "Group") are the extraction, refining and sale of gold. The mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk Regions and the Sakha Republic of the Russian Federation. The Group also performs research, exploration and development works; the development works being primarily undertaken at the Natalka licence area located in the Magadan region of the Russian Federation. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in Note 26.

The shares of the Company are "level one" listed at Moscow Exchange. The controlling shareholder of the Company is Polyus Gold International Limited ("PGIL"), a public limited company registered in Jersey, which, until delisting from the London Stock Exchange's premium listed market in December 2015, was the primary reporting entity for the group of companies that included the Company and its controlled entities. Prior to 2016, PGIL prepared and published its consolidated financial statements, which complied with International Financial Reporting Standards ("IFRS") as adopted by the European Union. As of 31 December 2016 and 31 December 2015, the ultimate controlling party of the Company was Mr. Said Kerimov.

2. Basis of preparation and presentation

Going concern

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

Compliance with International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). IFRS include the standards and interpretations approved by the IASB including IFRS, International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of presentation

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

The consolidated financial statements of the Group are prepared on a historical cost basis except for derivative financial instruments, which are accounted for at fair value, as explained in the accounting policies below.

IFRS standards update

The following is a list of standards that have been adopted during the year ended 31 December 2016, and new or amended IFRS standards that have been issued by the IASB:

Title	Subject
IFRS 14	Regulatory deferral accounts
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception
Amendments to IAS 1	Disclosure initiative
Annual Improvements to IFRS, 2012-2014 Cycle	Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34
Amendments to IAS 27	Equity method in separate financial statements
Amendments to IAS 16 and IAS 41	Agriculture: bearer plants
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to IFRS 11	Accounting for acquisition of interests in joint operations

Adoption of the new and revised standards and interpretation as mentioned above had no effect on the amounts presented in consolidated financial statements for the year ended 31 December 2016, or overall presentation and disclosures.

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

Title	Subject	Effective for annual periods beginning on or after	Expected effect on the consolidated financial statements
Amendments to IAS 7	Statement of Cash Flows	1 January 2017	No effect
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses	1 January 2017	No effect
Amendments to IAS 40	Investment Property	1 January 2018	No effect
Amendments to IFRS 1	First-time Adoption of International Financial Reporting Standards	1 January 2018	No effect
Amendments to IFRS 2	Share-based payment	1 January 2018	Under review
IFRS 9	Financial instruments	1 January 2018	Under review
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	Date will be determined later	No effect
Amendments to IFRS 12	Disclosure of Interests in Other Entities	1 January 2017	Under review
IFRS 15	Revenue from contracts with customers	1 January 2018	Under review
IFRS 16	Leases	1 January 2019	Under review
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	Under review

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

Notes to the consolidated financial statements

for the year ended 31 December 2016 (in millions of US dollars)

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. The total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

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

When the Group loses control of a subsidiary, the profit and or loss on disposal is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

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

Functional currency

The individual financial statements of the Group's subsidiaries are each prepared in their respective functional currencies. The functional currency of the Company and all the subsidiaries of the Group is the Russian Rouble ("RUB").

3.2. Presentation currency

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

- all assets, liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting date;
- starting from 1 January 2016, all income and expenses are translated at the monthly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions. All income and expenses for the year ended 31 December 2015 are translated at the quarterly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions;
- resulting exchange differences are included in equity and presented as effect of translation to presentation currency within the translation reserve (on disposal of such entities this translation reserve is reclassified into the consolidated statement of profit or loss); and
- in the statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. Starting from 1 January 2016, all cash flows are translated at the monthly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions. Cash flows for the year ended 31 December 2015 are translated at the quarterly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions.

Individually significant items continue to be translated at exchange rate on the date of transaction.

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

	31 December	
Russian Rouble/US Dollar	2016	2015
Year-end rate	60.66	72.88

3.3. Foreign currencies

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

Exchange differences arising from changes in exchange rates are recognised in the consolidated statement of profit or loss, except for those exchange differences 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.

Notes to the consolidated financial statements

for the year ended 31 December 2016 (in millions of US dollars)

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 nor control over the goods sold;
- the amount of revenue can be measured reliably; and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

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

Other revenue

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

3.5. Income tax

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

Current tax

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

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements of the separate legal entities and the corresponding tax bases used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries and associates are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

Current and deferred tax for the year

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

3.6. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Costs for operating leases are recognised on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. Contingent rentals are recognised as expenses in the periods in which they are incurred.

3.7. Dividends

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

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

3.8. Property, plant and equipment

Mineral rights

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

Fixed assets

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

Notes to the consolidated financial statements

for the year ended 31 December 2016 (in millions of US dollars)

Fixed assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of the mines in accordance with the mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives. Depreciation is charged from the date a new mine reaches commercial production quantities and is included in the Cost of production. The estimated remaining useful lives of the Group's significant mines based on the mine operating plans are as follows:

Blagodatnoye	15 years
Olimpiada	12 years
Verninskoye	11 years
Kuranakh	7 years
Titimukhta	1 years

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

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

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

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

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

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

Capital construction in progress
Assets under construction at operating mines are accounted for as capital construction in progress. The cost of capital construction in progress comprises its purchase price and any directly attributable costs to bring it into working condition for its intended use. When the capital construction in progress has been completed and, in a condition necessary to be capable of operating in the manner intended by management, the objects are reclassified to fixed assets.

Capital construction in progress is not depreciated.

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

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

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

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

3.10. Impairment of long-lived tangible assets
Impairment of fixed assets, capital construction in progress and mine under development
An impairment review of long-lived tangible assets is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell or value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the consolidated statement of profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

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

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

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

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

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

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

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

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

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

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

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

- financial assets at FVTPL; and
- loans and receivables.

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

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any dividend or interest earned on the financial asset and is included in the Gain/(loss) on derivative financial instruments and investments, net line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in Note 13.

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

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

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

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

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

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

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

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

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

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

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

A financial liability is classified as held for trading if:

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

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

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

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

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

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

Derivative financial instruments
The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, as well as risk of volatility in the gold price.

As well as the other financial assets and liabilities at FVTPL, derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship. A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivative financial instruments are presented as current assets or current liabilities.

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

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

3.12. Cash flow hedges
The Group uses derivative financial instruments for hedge accounting as determined in accordance with IAS 39. The Group applies hedge accounting for cash flow hedges against the risk of decline of the gold prices. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective.

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

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

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

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

3.13. Inventories

Refined gold, ore stockpiles and gold-in-process

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

Stores and materials

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

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

3.14. Deferred expenditures

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

3.15. Cash and cash equivalents

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

3.16. Provisions

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

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

3.17. Site restoration, decommissioning and environmental obligations

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

Ongoing restoration costs are expensed when incurred.

3.18. Government grants

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

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

3.19. Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 17.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

4. Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying accounting policies

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

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

4.1. Economic useful lives of property, plant and equipment

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

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

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

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

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

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

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

4.3. Borrowing costs capitalisation
The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Capitalisation commences when the Group undertakes activities that are necessary to prepare the asset for its intended use or sale and it ceases once the asset is complete and available for use. Interest is then charged to the income statement as a depreciation expense over the life of the relevant asset. However, capitalisation is suspended for the extended periods of inactivity. Determination of the time period for which the borrowing costs need to be capitalised may require significant judgement.

Capitalisation of the borrowing costs relating to Natalka mine development was discontinued in December 2014, following the Group's decision to review its approach to the project and substantially reduce construction activities. Significant development activities were resumed by the Group in the second half of 2015. Accordingly, capitalisation of Natalka borrowing costs was continued starting from 1 July 2015.

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

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

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

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

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

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

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

Factors which could impact the underlying cash flows include:

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

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

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

In order to perform the allocation, the Group is required to identify separate components towards which the stripping costs have been incurred for the ore bodies in each of its mines. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant 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 a stripping activity asset or the cost of inventory to be the most suitable allocation basis.

4.9. Carrying value of stockpiles, gold-in-process and product inventories
Costs that are incurred in the production process are accumulated as stockpiles, gold-in-process and gold doré. Stockpiles are measured based on each stockpile's average cost per tonne; gold-in-process and gold doré are measured based on recoverable ounces of gold. Stockpile quantities are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces based on assay data and the estimated recovery percentage based on the expected processing method. Stockpile tonnages are verified by periodic surveys.

Although the quantities of recoverable gold are reconciled by comparing the grades of ore to the quantities of gold actually recovered (metallurgical balancing), the nature of the process inherently limits the ability to monitor precisely recoverability levels. As a result, the metallurgical balancing process is constantly monitored and engineering estimates are refined based on actual results over time. Variations between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realisable value are accounted for on a prospective basis. The split of stockpiles and gold-in-process between current (expected to be recovered within 12 months) and non-current (expected to be recovered after 12 months) is based on approved mine operating plans.

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

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

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgements based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, the 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 separate financial information available and reported regularly to the chief operating decision maker ("CODM"). The following is a description of operations of the Group's seven identified reportable segments and those that do not meet the quantitative reporting threshold for reporting:

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

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

- gold sales;
- ounces of gold sold, in 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. The Group does not allocate the results of companies that perform management, investing activities and certain other administrative functions within its internal reporting.

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	Gold sales	Ounces of gold sold in thousands	Adjusted EBITDA	TCC (USD per ounce)	Capital expenditures
For the year ended 31 December 2016					
Business units					
Krasnoyarsk	1,773	1,396	1,170	367	120
Irkutsk alluvial	220	169	90	598	16
Irkutsk ore	232	186	146	389	24
Yakutia Kuranakh	199	160	107	499	33
Exploration	5	4	1	1,010	10
Magadan	–	–	(2)	–	215
Capital construction	–	–	1	–	43
Unallocated	–	–	23	–	7
	2,429	1,915	1,536	389	468
Advances paid for the participation in the auction for the Sukhoi Log	–	–	–	–	138
Total	2,429	1,915	1,536	389	606
For the year ended 31 December 2015					
Business units					
Krasnoyarsk	1,611	1,293	1,007	399	58
Irkutsk alluvial	191	168	76	582	5
Irkutsk ore	189	161	115	417	21
Yakutia Kuranakh	165	144	70	598	10
Exploration	3	2	3	694	7
Magadan	–	–	–	–	113
Capital construction	–	–	1	–	53
Unallocated	–	–	6	–	1
Total	2,159	1,768	1,278	424	268

The gold sales reported above represent revenue generated from external customers (Note 25). There were no inter-segment gold sales during the years ended 31 December 2016 and 2015. Included within gold sales in 2016 are realised gains on derivatives of $67 million (note 13) (2015: $116 million).

Gold sales

	Year ended 31December	
	2016	2015
Refined gold	2,353	2,147
Other gold-bearing products	76	12
Total	2,429	2,159

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

	Year ended 31 December	
	2016	2015
Profit for the year	1,445	1,021
Income tax expense	326	191
Depreciation and amortisation	148	128
Finance costs, net (Note 9)	145	45
Long-term incentive plan (Note 17)	19	7
Foreign exchange gain, net	(396)	(149)
(Gain)/loss on derivative financial instruments and investments, net (Note 10)	(119)	125
Interest income	(40)	(69)
Reversal of impairment	(4)	(22)
Other	12	1
Adjusted EBITDA	1,536	1,278

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

	Year ended 31 December	
	2016	2015
Cost of gold sales	891	876
Adjusted for:		
Depreciation and amortisation (Note 12)	(154)	(126)
Other non-cash items in cost of gold sales	8	(1)
TCC	745	749
Ounces of gold sold, in thousands	1,915	1,768
TCC per ounce of gold sold (USD per ounce)	389	424

Capital expenditures are primarily related to the following projects:

- **Magadan business unit:** ongoing construction in all major areas of the first stage of the Natalka mill project, the tendering process is finished and external contractors have been selected for the main process equipment of the mill, ongoing infrastructure construction.
- **Krasnoyarsk business unit:** finishing reconfiguration of the Titimukhta mill and preparations for connecting to the new Razdolinskaya-Taiga grid, ongoing upgrading and expanding of the Blagodatnoye mill, launching works to build new BIOX unit.
- **Yakutia Kuranakh business unit**: completing project to increase equipment productivity, launched construction works at heap leach project, completed grading and levelling, ongoing heap construction, contractors have been selected for the main process equipment.
- **Construction business unit:** finishing construction of the Razdolinskaya-Taiga electricity grid.
- **Irkutsk ore business unit:** completed installation of the main process equipment as part of the project to increase the mill capacity to 2.5 million tons ore per year within the same mill, consulting company AMC finalized the report with proposals of the strategy of further development of the Irkutsk hub strategy.

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

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6. Cost of gold sales

	Year ended 31 December	
	2016	2015
Consumables and spares	242	205
Labour	227	239
Tax on mining	134	140
Fuel	72	74
Power	22	35
Outsourced mining services	8	12
Refining costs	3	3
Other	55	57
Total cash operating costs	**763**	**765**
Depreciation and amortisation of operating assets (note 12)	154	126
Total cost of production	**917**	**891**
Increase in stockpiles, gold-in-process and refined gold inventories	(26)	(15)
Total	**891**	**876**

7. Selling, general and administrative expenses

	Year ended 31 December	
	2016	2015
Salaries	105	100
Taxes other than mining and income taxes	12	12
Professional services	10	12
Depreciation and amortisation (note 12)	5	3
Other	19	16
Total	**151**	**143**

8. Impairment test

Following a decline in the gold spot rates in the last quarter of 2016, appreciation of the rouble and a revision of the model for the Natalka project's mining and processing operations, an impairment test for carrying value of the associated costs capitalised in the balance sheet principally within Mine under development was performed as of 31 December 2016. A detailed discounted cash flow model has been used to consider whether the value held is impaired which concluded that no impairment was required.

There are a number of subjective factors that are necessarily incorporated into such a review, both operational and financial, using the best evidence available. The values derived are particularly sensitive to the assumptions regarding the planned mining operations and flowsheet and the financial assumptions for the RUB to USD exchange rate, gold price and discount rates. The operational considerations reflect the most likely and optimal updated mining plan developed using the revised JORC reserves estimate and with the advice of the mining consultants. The financial assumptions include significant judgements associated with forecast gold prices determined at a volatile time for our markets.

The key long-term assumptions that were used in the impairment testing were a weighted average long-term gold price of $1,327 per ounce, exchange rate of 65.7 RUB for $1 and a post-tax discount rate of approximately 8.8%. The assumptions are provided in real terms.

A 20% appreciation of the Russian Rouble against the US dollar or decrease in the price of gold does not cause an impairment of Natalka's assets.

9. Finance costs, NET

	Year ended 31 December	
	2016	2015
Interest on borrowings	281	132
Unwinding of discounts on site restoration, decommissioning and environmental liabilities	3	4
Gain on exchange of interest payments under cross-currency swap (note 13)	(34)	(39)
Gain on exchange of interest payments under interest rate swaps (note 13)	(10)	(13)
Other	2	2
Sub-total finance cost	**242**	**86**
Interest included in the cost of qualifying assets	(97)	(41)
Total	**145**	**45**

10. Gain / (loss) on derivative financial instruments and investments, NET

	Year ended 31 December	
	2016	2015
Revaluation gain / (loss) on cross-currency swaps (note 13)	172	(198)
Gain on disposal of subsidiary	18	–
Revaluation (loss) / gain on revenue stabiliser under Tranches 3 and 4 (note 13)	(58)	49
Revaluation (loss) / gain on interest rate swap (note 13)	(9)	4
Revaluation (loss) / gain on ineffective part of the revenue stabiliser under Tranches 1 and 2 (note 13)	(4)	19
Gain on currency collars (note 13)	–	2
Other	–	(1)
Total	**119**	**(125)**

11. Income tax expense

	Year ended 31 December	
	2016	2015
Current tax expense	297	198
Deferred tax		
Origination and reversal of temporary differences	28	(29)
Deferred tax released from other comprehensive income	12	22
Effect of the revision of income tax rate (see below)	(11)	–
	29	**(7)**
Total	**326**	**191**

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On 11 May 2016, the Federal Law No. 144-FZ "On Amendments to Parts One and Two of the Russian Tax Code of the Russian Federation" (signed by the President of the Russian Federation on 23 May 2016) was adopted, amending the regulation of the preferential tax treatment of the "Regional Investment Project" (thereafter "RIP").

Entities that meet certain restrictive conditions, in particular:

- Place of location and implementation of the RIP is the territory of one of the regions of the Russian Federation specified in item 1 clause 1 of article 25.8 of the Tax Code of the Russian Federation;
- The amount of capital investment is not less than RUB 500 million with the condition of investing within a period not exceeding 5 (five) years from the date of RIP commencement but not earlier than 1 January 2013; and
- Revenues from the sale of goods produced following RIP implementation are not less than 90% of all revenues considered in determining the taxable base for income tax (specific requirement applicable only in respect of income tax);

have the right to apply reduced Tax on the mining rate and the Income tax rate.

JSC Pervenets, a 100% subsidiary of JSC Polyus, meets the criteria set up for precious metals mining operations and has applied for accession to the RIP in respect of Tax on mining and intends to apply not later than 28 February 2017 for accession to the RIP in respect of Income Tax starting from 1 January 2017.

Thus, from 1 August 2016 to 31 July 2018, JSC Pervenets has the right to apply Tax on mining rate at 0%. Every two following years the rate will increase by 1.2% until reaching 6% as it was before the entrance into the RIP.

In addition, from 1 January 2017 to 31 December 2021, JSC Pervenets will have the right to apply Income Tax rate at 0%; from 1 January 2022 to 31 December 2026 at 10%. Thereafter, Income Tax rate will be 20%, as it was before the entrance into the RIP.

As a result of the RIP, deferred tax assets and liabilities were recalculated by applying expected income tax rates in the respective periods. As of 31 December 2016, the resulting difference in the amount of $11 million was recognised in profit and loss and presented in reconciliation below in the line Effect of the revision of income tax due to RIP.

The corporate income tax rate in the Russian Federation is 20%. A reconciliation of Russian Federation statutory income tax, the location of the Group's major production entities and operations, to the income tax expense recorded in the consolidated statement of profit or loss is as follows:

	Year ended 31 December	
	2016	2015
Profit before income tax	**1,771**	**1,212**
Income tax at statutory rate applicable to principal entities (20%)	354	242
Effect of the revision of income tax due to RIP	(11)	–
Decrease in deductible temporary differences on revaluation of derivatives, for which no deferred tax was recognised and deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss	(15)	(37)
Income tax associated with intra-group sales of investments in subsidiary	8	–
Tax effect of non-deductible expenses and other permanent differences	(4)	(4)
Non-taxable income on disposals of subsidiary	(4)	–
Reversal of losses carried forward resulted from impairments	(1)	(6)
Income tax effect of impairment reversals	(1)	(4)
Income tax expense	**326**	**191**

12. Property, plant and equipment

	Fixed assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
Cost						
Balance at 31 December 2014	**1,538**	**1,134**	**203**	**199**	**307**	**3,381**
Additions	–	111	104	146	11	**372**
Transfers from capital construction in progress	134	–	–	(134)	–	**–**
Change in site restoration, decommissioning and environmental obligations	(6)	–	–	–	–	**(6)**
Disposals	(38)	(3)	–	(1)	–	**(42)**
Reclassifications	15	–	–	(3)	3	**15**
Effect of translation to presentation currency	(360)	(274)	(64)	(54)	(72)	**(824)**
Balance at 31 December 2015	**1,283**	**968**	**243**	**153**	**249**	**2,896**
Additions	–	215	55	227	154[1]	**651**
Transfers from capital construction in progress	133	–	–	(133)	–	**–**
Change in site restoration, decommissioning and environmental obligations	1	–	–	–	–	**1**
Disposals	(11)	(12)	–	(3)	–	**(26)**
Disposed on disposal of subsidiary	–	–	–	–	(105)	**(105)**
Reclassifications	27	(15)	–	12	(15)	**9**
Effect of translation to presentation currency	270	214	55	45	23	**607**
Balance at 31 December 2016	**1,703**	**1,370**	**353**	**301**	**306**	**4,033**
Accumulated amortisation, depreciation and impairment						
Balance at 31 December 2014	**(753)**	**(32)**	**(38)**	**(10)**	**(197)**	**(1,030)**
Charge	(134)	–	(21)	–	–	**(155)**
Disposals	36	–	–	–	–	**36**
Reversal of impairment	–	19	–	–	5	**24**
Effect of translation to presentation currency	188	4	14	3	43	**252**
Balance at 31 December 2015	**(663)**	**(9)**	**(45)**	**(7)**	**(149)**	**(873)**
Charge	(128)	–	(41)	–	–	**(169)**
Disposals	10	–	–	–	–	**10**
Disposed on disposal of subsidiary	–	–	–	–	105	**105**
Reclassifications	(9)	–	–	–	–	**(9)**
Reversal of impairment	–	3	–	1	–	**4**
Effect of translation to presentation currency	(148)	(1)	(13)	(2)	1	**(163)**
Balance at 31 December 2016	**(938)**	**(7)**	**(99)**	**(8)**	**(43)**	**(1,095)**
Net book value at						
31 December 2015	**620**	**959**	**198**	**146**	**100**	**2,023**
31 December 2016	**765**	**1,363**	**254**	**293**	**263**	**2,938**

[1] Additions for Exploration and evaluation assets include $138 million of advances paid to the Russian Federal Agency for Subsoil Use ("Rosnedra") on 21 December 2016 for the participation in the auction for the Sukhoi Log. Refer to Note 27 for more details.

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

	31 December	
	2016	2015
Mineral rights presented within fixed assets	49	46
Mineral rights presented within mine under development	34	28
Mineral rights presented within exploration and evaluation assets	159[1]	15
Total	**242**	**89**

Exploration and evaluation assets
The carrying values of exploration and evaluation assets are as follows:

	31 December	
	2016	2015
Sukhoi Log	141(1)	–
Chertovo Koryto	28	23
Razdolinskoye	24	16
Bamsky	18	11
Panimba	16	13
Smezhny	9	7
Blagodatnoye	7	6
Burgakhchan area	7	5
Olympiada	5	14
Medvezhy Zapadny	2	2
Other	6	3
Total	263	100

[1] As of 31 December 2016, advances in the amount of $141 million paid to the Russian Federal Agency for Subsoil Use ("Rosnedra") for the participation in the auction for the Sukhoi Log license was presented within mineral rights as part of exploration and evaluation assets. Refer to Note 27 for more details.

Depreciation and amortisation charge is allocated as follows:

	Year ended 31 December	
	2016	2015
Cost of gold sales	142	122
Depreciation in change in inventory	12	4
Total depreciation and amortisation within cost of production (note 6)	**154**	**126**
Capitalised within property, plant and equipment	13	27
Selling, general and administrative expenses (note 7)	5	3
Cost of other sales	1	3
Total depreciation and amortisation	**173**	**159**
Less: amortisation of other non-current assets	(4)	(4)
Total depreciation of property, plant and equipment	**169**	**155**

Capitalised borrowing costs
Included in the cost of qualifying assets are capitalised borrowing costs consisting of the following:

	Year ended 31 December	
	2016	2015
Interest expenses	97	41
Foreign exchange (gain) / loss, net	(3)	1
Interest income on bank deposits	(10)	(5)
Total	84	37

13. Derivative financial instruments and investments

	31 December	
	2016	2015
Non-current assets		
Revenue stabiliser	32	200
Cross-currency swaps	10	–
Interest rate swaps	7	11
Investment in joint venture	7	–
Loans issued	1	2
Loans issued to related parties	–	198
Total non-current assets	**57**	**411**
Current assets		
Revenue stabiliser	10	–
Loans issued to related parties	–	185
Gold forward	–	20
Total current assets	**10**	**205**
Total assets	**67**	**616**
Non-current liabilities		
Cross-currency swaps	434	509
Revenue stabiliser	22	–
Total non-current liabilities	**456**	**509**

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

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

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

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

The Group entered into revenue stabiliser agreements for Tranches 1 and 2 in 2014, Tranche 3 in 2015 and Tranche 4 during the year ended 31 December 2016. In 2015, the Group restructured Tranches 1 and 2 resulting in a partial close out of the fourth year options and lowering barriers on the remaining options for the first three years of each instrument.

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

	Year ended 31 December									
	Total	2014	2015	2016	2017		2018		2019	2020
Tranche 1 (covering the period 1 April 2014 – 30 March 2018)										
Total as per options agreements	**1,320**	225	300	300	75	315	—	105	—	—
Exercised	**(825)**	(225)	(300)	(300)	—	—	—	—	—	—
Outstanding as of 31 December 2016	**495**	—	—	—	**75**	**315**	—	**105**	—	—
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)										
Total as per options agreements	**720**	60	120	120	60	180	—	180	—	—
Exercised	**(300)**	(60)	(120)	(120)	—	—	—	—	—	—
Outstanding as of 31 December 2016	**420**	—	—	—	**60**	**180**	—	**180**	—	—
Tranche 3 (covering the period 1 January 2016 – 31 December 2019)										
Total as per options agreements	**1,680**	—	—	280	280	—	280	—	840	—
Exercised	**(280)**	—	—	(280)	—	—	—	—	—	—
Outstanding as of 31 December 2016	**1,400**	—	—	—	**280**	—	**280**	—	**840**	—
Tranche 4 (covering the period 1 April 2016 – 31 December 2020)										
Total as per options agreements	**600**	—	—	75	100	—	100	—	250	75
Exercised	**(75)**	—	—	(75)	—	—	—	—	—	—
Outstanding as of 31 December 2016	**525**	—	—	—	**100**	—	**100**	—	**250**	**75**
Total outstanding as of 31 December 2016	**2,840**	—	—	—	**515**	**495**	**380**	**285**	**1,090**	**75**

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

	Year ended 31 December								
	2014	2015	2016	2017		2018		2019	2020
Leg 1 (put)									
Strike	1,378	1,377	1,314	1,277	—	1,242	—	1,271	—
Knock-out barrier	950	950	916	907	—	900	—	900	—
Leg 2 (call)									
Strike	1,498	1,491	1,422	1,386	—	1,350	—	1,350	—
Knock-in barrier	1,633	1,618	1,531	1,492	—	1,450	—	1,450	—
Leg 3 (put)									
Strike	—	—	—	—	1,105	—	1,103	977	1,000
Knock-out barrier	—	—	—	—	900	—	900	927	950
Leg 4 (call)									
Strike	—	—	—	—	1,533	—	1,519	1,388	1,420
Knock-in barrier	—	—	—	—	1,714	—	1,687	1,580	1,620

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

	Year ended 31 December								
	2014	2015	2016	2017		2018		2019	2020
Tranche 1 (covering the period 1 April 2014 – 30 March 2018)									
First three years (put)									
Strike	1,383	1,383	1,383	1,383	—	—	—	—	—
Knock-out barrier	950	950	921	911	—	—	—	—	—
First three years (call)									
Strike	1,518	1,518	1,518	1,518	—	—	—	—	—
Knock-in barrier	1,662	1,655	1,634	1,634	—	—	—	—	—
Fourth year (put)									
Strike	—	—	—	—	1,107	—	1,107	—	—
Knock-out barrier	—	—	—	—	900	—	900	—	—
Fourth year (call)									
Strike	—	—	—	—	1,551	—	1,551	—	—
Knock-in barrier	—	—	—	—	1,750	—	1,750	—	—
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)									
First three years (put)									
Strike	1,359	1,359	1,359	1,359	—	—	—	—	—
Knock-out barrier	950	950	950	950	—	—	—	—	—
First three years (call)									
Strike	1,425	1,425	1,425	1,425	—	—	—	—	—
Knock-in barrier	1,525	1,525	1,525	1,525	—	—	—	—	—
Fourth year (put)									
Strike	—	—	—	—	1,100	—	1,100	—	—
Knock-out barrier	—	—	—	—	900	—	900	—	—
Fourth year (call)									
Strike	—	—	—	—	1,500	—	1,500	—	—
Knock-in barrier	—	—	—	—	1,650	—	1,650	—	—
Tranche 3 (covering the period 1 January 2016 – 31 December 2019)									
First three years (put)									
Strike	—	—	1,232	1,232	—	1,232	—	—	—
Knock-out barrier	—	—	900	900	—	900	—	—	—
First three years (call)									
Strike	—	—	1,350	1,350	—	1,350	—	—	—
Knock-in barrier	—	—	1,450	1,450	—	1,450	—	—	—
Fourth year (put)									
Strike	—	—	—	—	—	—	—	971	—
Knock-out barrier	—	—	—	—	—	—	—	921	—
Fourth year (call)									
Strike	—	—	—	—	—	—	—	1,391	—
Knock-in barrier	—	—	—	—	—	—	—	1,591	—

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Tranche 4 (covering the period 1 April 2016 – 31 December 2020)									
First three years (put)									
Strike	–	–	1,271	1,271	–	1,271	–	1,271	–
Knock-out barrier	–	–	900	900	–	900	–	900	–
First three years (call)									
Strike	–	–	1,300	1,300	–	1,350	–	1,350	–
Knock-in barrier	–	–	1,433	1,450	–	1,450	–	1,450	–
Thereafter (put)									
Strike	–	–	–	–	–	–	–	1,000	1,000
Knock-out barrier	–	–	–	–	–	–	–	950	950
Thereafter (call)									
Strike	–	–	–	–	–	–	–	1,350	1,420
Knock-in barrier	–	–	–	–	–	–	–	1,450	1,620

As a result of Tranche 1 of the revenue stabiliser, the Group ensures a minimum weighted average price of $1,383 per ounce for 300 thousand ounces of gold output annually during the first three years of the Programme, provided the gold price does not fall below $911 per ounce. During the first three years the Group benefits from price increases until the gold price reaches $1,634 per ounce, in which case the weighted average price is capped at $1,518 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted average price of $1,107 per ounce for the price-protected amount of 420 thousand ounces, provided the gold price does not fall below $900 per ounce. Additionally, in the fourth year of the Programme, the Group will have an obligation to sell 420 thousand ounces of gold at $1,551 per ounce should the gold price exceed $1,750 per ounce.

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

As a result of Tranche 3 of the revenue stabiliser, the Group ensures a minimum weighted average price of $1,232 per ounce for 280 thousand ounces of gold annually output during the first three years of the Programme, provided the gold price does not fall below $900 per ounce. During the first three years the Group benefits from price increases until the gold price reaches $1,450 per ounce, in which case the weighted average price is capped at $1,350 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted average price of $971 per ounce for the price-protected amount of 840 thousand ounces, provided the gold price does not fall below $921 per ounce. Additionally, in the fourth year of the Programme, the Group will have an obligation to sell 840 thousand ounces of gold at $1,391 per ounce should the gold price exceed $1,591 per ounce.

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

The revenue stabiliser options are exercised quarterly.

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

Tranches 1 and 2 of the revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the Cash flow hedge revaluation reserve within the consolidated statement of changes in equity, whilst the remaining change in the fair value of $4 million loss is reflected in the consolidated statement of profit or loss (note 10) (2015: gain of $19 million). During the year ended 31 December 2016, under Tranches 1 and 2, a loss of $65 million was recognised in the Cash flow hedge revaluation reserve within the consolidated statement of changes in equity (2015: a gain of $126 million) and following the sale of the hedged volume of gold and the exercise of certain options $53 million was subsequently reclassified to Gold sales within the consolidated statement of profit or loss (2015: $91 million).

Tranches 3 and 4 are accounted at fair value through profit and loss. The loss resulted from the change in their fair value totalled $58 million and is presented within the note 10 of the consolidated statement of profit or loss (2015: gain of $49 million) and following the sale of the hedged volume of gold and the exercise of certain options $6 million was subsequently reclassified to Gold sales within the consolidated statement of profit or loss (2015: nil).

Gold forward

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

There are no outstanding balances in regard of gold forward as of 31 December 2016. The gold forward contract was designated as a cash flow hedge.

Any change in the forward fair value was recognised in Cash flow hedge revaluation reserve within consolidated statement of changes in equity. During the year ended 31 December 2016, a loss of $12 million was recognised in the Cash flow hedge revaluation reserve within consolidated statement of changes in equity (2015: a gain of $18 million) and following the sale of the hedged amount of gold $8 million was reclassified from the Cash flow hedge revaluation reserve within consolidated statement of changes in equity into Gold sales within the consolidated statement of profit or loss (2015: $25 million).

The fair value was determined using the Black-Scholes valuation technique. Input data used in the valuation model (forward gold prices and volatility) corresponded to Level 2 of the fair value hierarchy in IFRS 13. The Group performed prospective and retrospective effectiveness testing for the instruments designated as a cash flow hedge at least at each reporting date.

Cross currency swaps

RUB denominated credit facilities with fixed interest rate

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

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

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During the year 2016, the Group amended previous cross currency contracts and entered into a new fixed rate swap offsetting the floating swap so that the following terms were in place as of 31 December 2016:

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

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

Rusbonds
The Group entered into cross currency swaps with leading Russian banks for a total amount of RUB 15 billion to economically hedge interest payments and principal amounts for Rusbonds. According to the cross currency swap agreements the Group will semi-annually pay to the banks (6MLIBOR + Margin 4.45% for RUB 10 billion and + 5.9% for RUB 5 billion) in USD and receive from the banks 12.1% in RUB; and at maturity (July 2021), the Group will exchange principal amounts, paying $255 million and receiving RUB 15 billion.

According to IAS 39, the swaps were not eligible to be designated as cash flow or fair value hedges. The Group accounted for these derivative financial instruments at fair value, which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps for the year ended 31 December 2016 resulted in a revaluation gain of $172 million recognised in the consolidated statement of profit or loss (note 10) (2015: a loss of $198 million). The gain on the exchange of interest payments in the amount of $34 million is recognised within the Finance cost (note 9) (2015: $39 million). The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB rates) which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

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

During the year ended 31 December 2016, the Group signed new offsetting interest rate swap agreements, according to which the Group pays semi-annually and until 29 April 2020 5.342% in USD and receives LIBOR + 3.55% in USD in respect of a $750 million nominal amount, to effectively swap variable interest rate payments under 2014 interest rate swaps into fixed ones.

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

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

In 2016, the loss on changes in the fair value of the interest rate swaps in the amount of $9 million is recognised in the consolidated statement of profit or loss (note 10) (2015: gain $4 million). The gain on the exchange of interest payments in the amount of $10 million is recognised within the Finance cost (note 9) (2015: $13 million).

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

Loans issued to related parties
Loans issued to PGIL
During the year ended 31 December 2016, all loans previously issued to PGIL and outstanding as of 31 December 2015 were settled in full in advance of their maturity dates:

	Due date	Interest rate,%	31 December	
			2016	2015
Loan 1	03/11/16	2.40	–	185
Loan 2	01/04/17	3.89	–	198
Total (refer to Note 23)			**–**	**383**

14. Inventories

	31 December	
	2016	2015
Inventories expected to be recovered after 12 months		
Stockpiles	253	174
Gold-in-process	11	10
Sub-total	**264**	**184**
Inventories expected to be recovered in the next 12 months		
Stores and materials	253	188
Gold-in-process	54	59
Stockpiles	51	44
Refined gold	23	13
Less: obsolescence provision for stores and materials	(12)	(8)
Sub-total	**369**	**296**
Total	**633**	**480**

15. Taxes receivable

	31 December	
	2016	2015
Reimbursable value added tax	73	43
Income tax prepaid	9	15
Other prepaid taxes	7	1
Total	**89**	**59**

16. Cash and cash equivalents

	31 December	
	2016	2015
Bank deposits		
- USD	1,443	1,630
- RUB	82	71
Current bank accounts		
- USD	41	59
- RUB	82	33
Cash in the Federal Treasury (refer to Note 19)	74	–
Other cash and cash equivalents	18	32
Total	**1,740**	**1,825**

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

Interest rates on bank deposits denominated in:

- USD	1.1–4.4%	1.0–6.0%
- RUB	8.4–10.2%	8.0–11.1%

18. Share capital

Authorised, issued and fully paid share capital of the Company comprised 190,627,747 ordinary shares at a par value of RUB 1.

On 10 March 2016, the Board of Directors of the Company approved the distribution by LLC Polyus-Invest etc, a 100% indirect subsidiary of the Group, of an Information Memorandum to the holders of PJSC Polyus' ordinary shares and ADRs in respect of the terms and conditions for the submission of applications to enter into securities purchase agreements. As a result of the completion of the above mentioned buy-back programme, LLC Polyus-Invest purchased the following number of ordinary shares:

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

* as of 10 March 2016, the date of buy-back approval

Additionally, on 30 September 2016, a 100% subsidiary of the Company obtained from PGIL 4,477 thousands of the Company's ordinary shares in exchange for an early settlement of the loans issued by the Group to PGIL and related accrued interest in the total amount of $269 million.

There were no dividends declared and paid for the year ended 31 December 2016 and 2015.

New dividend policy

On 7 October 2016, the Board of Directors (the "Board") has approved the Company's dividend policy, pursuant to which the Company will pay dividends on a semi-annual basis in an amount of 30% of the EBITDA of PJSC Polyus for the respective reporting period. Payment will be calculated on the basis of the consolidated financial statements of the Company in accordance with IFRS requirements, provided that the net debt/adjusted EBITDA (last 12 months) ratio based on the consolidated financial statements of PJSC Polyus is lower than 2.5x.

Should the net debt / adjusted EBITDA (for the last 12 months) ratio increase to higher than 2.5x, the Board will exercise discretion on dividends, considering the Company's financial position, free cash flow, outlook and macro environment. The Board may consider the possibility of payment of special dividends, subject to the Company's liquidity position, capex requirements, free cash flows and leverage.

Equity-settled share-based payment plans (long term incentive plan)

During the year ended 31 December 2015, a long term incentive plan ("LTIP") was approved by PGIL according to which the members of Senior management were entitled to a conditional award in the form of PGIL's ordinary shares linked to achieving a combination of financial and non-financial performance targets. The LTIP stipulated three three-year rolling performance periods, starting from 2015, 2016 and 2017. This plan was ended following a delisting of PGIL's shares from the London Stock Exchange.

On 22 December 2016, the Board of Directors of PJSC "Polyus" approved a new long term incentive plan according to which the members of Senior management of the Group are entitled to a conditional award in the form of PJSC Polyus' ordinary shares which vest upon achievement of financial and non-financial performance targets. The LTIP stipulates three rolling performance periods: 2016–2017; 2016–2018; and 2017–2019. The total number of shares that may be distributed under the LTIP is up to 1.5% of the total share capital of the Company, which can be granted from newly issued ordinary shares or from treasury shares, if any.

Total expense for the reporting period arising from LTIP was immediately recognised in the consolidated statement of profit and loss within the line Salaries included within Selling, general and administrative expenses in the amount of $19 million (2015: 7 million).

Weighted average number of ordinary shares

The weighted average number of ordinary shares for the year ended 31 December 2016 and 2015 used in the calculation of basic and diluted earnings ("EPS") per share is presented below:

	Year ended 31 December	
	2016	2015
Ordinary shares'000 in issue at the beginning of the year	**190,628**	**190,628**
Treasury shares'000 (64,996 during period from 10 March 2016 to 30 September 2016)	(49,863)	–
Weighted average number of ordinary shares'000 – basic EPS	**140,765**	**190,628**
LTIP'000	9	–
Weighted average number of ordinary shares'000 – dilutive EPS	**140,774**	**190,628**

19. Borrowings

	Nominal rate%	31 December 2016	2015
Credit facilities with financial institutions nominated in USD with variable interest rates	USD LIBOR + margins ranging from 1.35% to 4.50%	2,513	785
PGIL USD-credit facilities with fixed interest rate (note 23)	4.799% — 5.725%	1,237	750
Credit facilities with financial institutions nominated in RUB with fixed interest rates	10.35%	541	461
Credit facilities with financial institutions nominated in USD with fixed interest rates	3.75% — 4.10%	331	–
Notes due in 2025 (Rusbonds) with noteholders' early repayment option in 2021	12.1%	253	137
Credit facilities with financial institutions nominated in RUB with variable interest rates	Central bank rate + 2.3%	81	18
Letters of credit with deferred payments terms with variable rates	Euribor +1.8%, USD LIBOR + 1.15%	19	38
Lease liabilities nominated in USD with fixed interest rate	5.1% — 7.5%	5	–
Lease liabilities nominated in RUB with fixed interest rate	15.6%	1	–
Sub-total		**4,981**	**2,189**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(283)	(38)
Long-term borrowings		**4,698**	**2,151**

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The Company and subsidiaries of the Group from time to time obtain credit facilities from different financial institutions, and raise financing from the lenders to fund its general corporate purposes and to finance its capital investment projects.

Unused committed credit facilities
During the year ended 31 December 2014, one of the companies of the Group, entered into a five year RUB 40,000 million credit line with a bank to fund its general corporate purposes. As of 31 December 2016 and 31 December 2015, the amount of unused credit facilities was RUB 40,000 million equivalent to $659 million and $549 million, respectively.

During the year ended 31 December 2015, one of the companies of the Group, entered into an eleven year RUB 6,054 million credit line with a bank to fund construction of Razdolinskaya-Taiga power grid. As of 31 December 2016 and 31 December 2015, the credit facilities in the amount of $18 million (RUB 1,072 million) and $65 million (RUB 4,707 million), respectively were unused. As of 31 December 2016 and 31 December 2015, all shares of AO "TES", a 100% subsidiary of the Group were pledged to secure credit line.

Other matters
JSC Gold Mining Company Polyus, a 100% subsidiary of the Group, guaranteed liabilities of all the companies in the Group for all borrowings.

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

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

The Group was in compliance with covenants as of 31 December 2016.

Reclassification of Rusbonds to short-term borrowings
On 22 December 2016, the Company's shareholders approved the merger of LLC Polyus-Invest into PJSC Polyus. Pursuant to Article 60 of the Russian Civil Code, immediately thereafter the holders of Rusbonds became entitled to an early redemption of the bonds. The bondholders must notify the issuer by 13 March 2017 to exercise their right. As a result, the full outstanding amount of Rusbonds was reclassified to short-term as of 31 December 2016.

Fair value
The fair value of the Notes due in 2021 are within Level 1 of the fair value hierarchy. Whilst measured at amortised cost, the fair value measurement of all of the Group's borrowings except for Notes due in 2021 is within Level 2 of the fair value hierarchy in accordance with IFRS 13. The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB interest rates) which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value. The fair value of the borrowings as of 31 December 2016 was equal to $4,520 million (2015: $2,013 million).

19. Defered revenue

On 13 September 2016, the Ministry for the Development of the Russian Far East (the "Minvostokrazvitiya") and JSC Matrosova Mine (the "Matrosova Mine"), a 100% subsidiary of the Group representing Magadan business unit, entered into an agreement under which Minvostokrazvitiya has to provide to Matrosova Mine government grant in the following maximum amounts:

During the year ended 31 December	2016[1]
2016	76
2017	43
2018	45
Total	**164**

[1] All amounts were translated from RUB to USD at exchange rate as of 31 December 2016.

Under the agreement, Matrosova Mine receives a government grant, cash from which should be used for the construction of: (i) electricity transmission line 220 kW "Ust'-Omchug – Omchak New", (ii) 220 kW distribution point and (iii) electric power substation for 220 kW "Omchak New". The construction is expected to be completed during the second quarter of the year ended 31 December 2019. Unutilised balance of the government grant will have to be returned to Minvostokrazvitiya. JSC Gold Mining Company Polyus is a guarantor under the agreement.

The movement in the carrying value of deferred revenue associated with government grant was as follows:

	2016
Carrying value at the beginning of the year	–
Received cash	76
Carrying value at the end of the year	**76**

20. Deferred tax assets and liabilities

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

	Year ended 31 December	
	2016	2015
Net deferred tax liability at beginning of the year	**87**	**103**
Recognised in the consolidated statement of profit or loss	29	(7)
Recognised in the consolidated statement of comprehensive income	(27)	13
Effect of translation to presentation currency	18	(22)
Net deferred tax liability at end of the year	**107**	**87**

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

	31 December	
	2016	2015
Property, plant and equipment	213	155
Tax losses carried forward	(160)	(106)
Inventory	61	43
Trade and other payables	(10)	(4)
Deferred expenditures	3	3
Other	–	(4)
Total	**107**	**87**

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Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset) as they are presented in the consolidated statement of financial position:

	31 December	
	2016	2015
Deferred tax assets	(75)	(46)
Deferred tax liabilities	182	133
Net deferred tax liabilities position	**107**	**87**

Unrecognised deferred tax assets

	31 December	
	2016	2015
Unrecognised deferred tax assets resulting from losses on derivative financial instruments	123	115
Unrecognised deferred tax assets resulting from impairments	12	33
Unrecognised deferred tax assets in respect of tax losses carried forward available for offset against future taxable profit	8	18
Total	**143**	**166**

Unrecognised deferred tax liability

	31 December	
	2016	2015
Taxable temporary differences associated with investments in subsidiaries	348	80

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

Due to a change in the Russian legislation in 2016, the usage of tax losses carried forward would no longer be limited by 10 years from the year they are incurred, however the Group continues not to recognise some of its prior tax losses as it is not probable that the future taxable profits will be available to offset them in certain Group entities.

21. Trade, other payables

	31 December	
	2016	2015
Wages and salaries payable	77	56
Interest payable	58	31
Trade payables to third parties	34	25
Other accounts payable and accrued expenses	32	22
Accrued annual leave	21	16
Dividends payable to non-controlling interests	–	1
Total	**222**	**151**

The average credit period for trade payables at 31 December 2016 was 27 days (2015: 21 days). No interest was charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payment schedules to ensure that all amounts payable are settled within the credit period.

22. Taxes payable

	31 December	
	2016	2015
Income tax payable	40	4
Value added tax	30	6
Tax on mining	11	10
Social taxes	6	5
Property tax	3	2
Other taxes	3	2
Total	**93**	**29**

23. Related parties

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

Immediate shareholder

The Group entered into the following transactions with the parent entity:

	Year ended 31 December	
	2016	2015
Interest income	6	11
Interest received	7	–
Interest expense	4	21
Interest capitalised	45	25
Repayment of borrowing and interest accrued	46	47
Acquisition of treasury shares	3,423	–
Cash used for acquisition of non-controlling interest in subsidiaries	–	230
Loans issued	–	190
Proceeds from loans issued	124	–
Settlement of issued loans by own shares (refer to Note 17)	269	–
Loans received	500	–
Commission paid	13	–

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

	31 December	
	2016	2015
Loans received (note 18)	1,237	750
Interest payable	12	9
Loans issued (note 13)	–	383
Interest receivable	–	10

Key management personnel

	Year ended 31 December	
	2016	2015
Short-term compensation of key management personnel	19	15
Long-term compensation of key management personnel (LTIP)	19	7[1]
Termination benefits to the former key management personnel	–	1
Total	**38**	**23**

[1] Accrual of costs related to the old LTIP which was ended due to delisting of PGIL. Refer to Note 17 for more details.

24. Commitments and contingencies

Commitments

Capital commitments

The Group's capital expenditure commitments are as follows:

	31 December	
	2016	2015
Project Natalka	190	9
Other capital commitments	67	21
Total	**257**	**30**

Operating leases: Group as a lessee

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2065. Future minimum lease payments due under non-cancellable operating lease agreements at the end of the year were as follows:

	31 December	
	2016	2015
Due within one year	3	4
From one to five years	9	18
Thereafter	20	17
Total	**32**	**39**

Contingencies

Litigations

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

Taxation contingencies in the Russian Federation

Commercial legislation in the Russian Federation, including tax legislation, is subject to varying interpretations and frequent changes. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed with additional taxes, penalties and interest. Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also, according to the clarification of the Russian Constitutional Court, the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayer has obstructed or hindered a tax inspection.

The management of the Group is confident that applicable taxes have all been accrued and, consequently, the creation of provisions is not required. Under the Russian tax legislation, the authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by the authorities could affect the Group's previously submitted and assessed tax declarations. With regards to matters where practice concerning payment of taxes is unclear, management estimate that there were no tax exposures as of 31 December 2016 and 2015.

Environmental matters

The Group is subject to extensive federal and local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns. The Group's management believes that its mining and production technologies are in compliance with existing Russian environmental legislation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group adapts its technology to meet more stringent standards.

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

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014–2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to a substantial decrease of the Russian Rouble exchange rate.

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 the 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 a negative outlook. The above mentioned events have led to reduced access of Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and the financial position of the Group is at this stage difficult to determine.

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25. Financial instruments risk management activities

Capital risk management

The Group manages its capital to ensure that the entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt which is borrowings (note 18) less cash and cash equivalents (note 16), and equity of the Group.

Major categories of financial instruments

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

	31 December	
	2016	2015
Financial assets		
Cash and cash equivalents	1,740	1,825
Trade and other receivables	58	23
Derivative financial instruments	59	231
Loan receivables	1	385
Total financial assets	**1,858**	**2,464**

	31 December	
	2016	2015
Financial liabilities		
Borrowings	4,981	2,189
Derivative financial instruments	456	509
Account payables	201	135
Total financial liabilities	**5,638**	**2,833**

Derivative financial instruments are carried at fair value.

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

Gold price risk

The Group is exposed to changes in the gold price due to its significant volatility. According to the approved hedging strategy the Group may hedge up to 1/2 of its annual gold sales. During 2014, the Group entered into a number of derivative transactions (revenue stabiliser and gold forward agreements) under a Strategic Price Protection Programme to limit its exposure to future possible fluctuations of gold price (as detailed further in Note 13). Under the terms of the revenue stabiliser the Group ensures a minimum selling gold price in the case of declines in the gold price and at the same time may benefit from increases in the gold price until certain barrier prices are reached on the call options, at which point the sale price is capped.

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

Interest rate risk

The Group is exposed to interest rate risk as it borrows funds. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Before 2016, the Group entered into a number of derivative transactions with leading Russian banks (note 13). During 2016, in order to mitigate negative effect from expected increases of LIBOR, the Group has economically switched USD floating interest rate under cross-currency and interest rate swaps into USD fixed interest rate (as detailed further in note 13).

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

If interest rates used in calculations of fair values of interest rate and cross currency swaps as of 31 December 2016 were 0.5% higher/lower, the gain on revaluation would be $4 million lower/higher, respectively (2015: $39 million).

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

Foreign currency exchange rate risk

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

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

	31 December	
	2016	2015
Assets		
USD	1,585	2,134
EURO (presented in USD at closing exchange rate)	–	1
Total	**1,585**	**2,135**
Liabilities		
USD	4,642	2,084
EURO (presented in USD at closing exchange rate)	9	14
Total	**4,651**	**2,098**

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level. The table below details the Group's sensitivity to changes in exchange rates by 25% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in the respective currencies.

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If the USD or EURO exchange rate had increased by 25% for the year ended 31 December 2016 and year ended 31 December 2015 compared to RUB as of the end of respective year, the Group would have incurred the following losses / (gains):

	Year ended 31 December	
	2016	2015
Loss / (gain) (USD exchange rate increased compared to RUB)	764	(13)
Loss (EURO exchange rate increased compared to RUB)	2	3

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

In order to mitigate credit risk, the Group conducts its business with creditworthy and reliable counterparties, and minimises advance payments to suppliers. The Group employs a methodology for in-house financial analysis of banks and non-banking counterparties, which enables management to estimate an acceptable level of credit risk with regard to particular counterparties and to set appropriate individual risk limitations.

Within the Group's core companies the procedures for preparing new agreements include analysis and contemplation of credit risk, estimation of the aggregate risk associated with a counterparty (arising both from an agreement under consideration and from previously existing contracts, if any) and verifying compliance with individual credit limits.

Credit risk inherent to the contract was incorporated in the fair value of derivative financial instruments at the reporting date. The credit risk incorporated into valuations is based on the quoted counterparty CDS for the counterparty risk. The Group's credit risk profile is regularly monitored by management in order to avoid undesirable increases in risk, to limit concentration of credit and to ensure compliance with the above mentioned policies and procedures. Deposits, current bank accounts and derivative financial instruments are held with major Russian and international banks, with reasonable and appropriate diversification, which decreases concentration risk by spreading the credit risk exposure across several top rated banks.

Although the Group makes more than 90% of the total gold sales to four major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. a substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore the credit risk related to trade receivables is minimal.

As of 31 December 2016, trade receivables for gold sales amounted to $36 million (31 December 2015: USD nil).

Gold sales to the Group's major customers are presented as follows (note 5):

	Year ended 31 December	
	2016	2015
VTB Bank	906	493
Sberbank	647	651
Otkritie Bank	561	668
MDM Bank	72	166
Other	243	181
Total	**2,429**	**2,159**

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

For assessing own credit risk, a proxy CDS for the industry is used, since Polyus does not have a quoted CDS. The Group's cash management procedures include medium-term forecasting (a budget approved each financial year and updated on a quarterly basis), short-term forecasting (monthly cash-flow budgets are established for each business unit and a review of each entity's daily cash position is performed using a two-week rolling basis).

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

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

Presented below is the maturity profile of the Group's financial liabilities as of 31 December 2015 based on undiscounted contractual payments, including interest payments:

	Borrowings		Account payables	Total
	Principal	Interest		
Due in the first year	38	141	104	**283**
Due in the second year	258	138	–	**396**
Due in the third year	418	132	–	**550**
Due in the fourth year	578	90	–	**668**
Due in the fifth year	762	40	–	**802**
Due in the period between sixth to eight years	144	17	–	**161**
Total	**2,198**	**558**	**104**	**2,860**

26. Investments in significant subsidiaries
26.1. Significant restrictions on the Company's ability to access or use the assets and settle the liabilities of the Group
The basis of distribution of accumulated retained earnings for companies operating in the Russian Federation is defined by legislation as the current year net profit of the company, as calculated in accordance with Russian accounting standards. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for distributable profits and reserves in these consolidated financial statements.

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26.2. Information about significant subsidiaries of the Group

Subsidiaries	Nature of business	Effective% held[1] as of 31 December 2016	2015
Incorporated in Russian Federation			
JSC Gold Mining Company Polyus	Mining (open pit)	100	100
JSC Aldanzoloto GRK	Mining (open pit)	100	100
JSC Pervenets	Mining (open pit)	100	100
PJSC Lenzoloto	Holding company	64	64
JSC ZDK Lenzoloto	Mining (alluvial)	66	66
JSC Svetliy	Mining (alluvial)	56	56
JSC Matrosova Mine	Mining (development stage)	100	100
LLC Polyus Stroy	Construction	100	100
JSC TaigaEnergoStroy	Construction	100	100
LLC SL Gold	Participation in the auction for the Sukhoi Log license	51	–

[1] Effective% held by the Company, including holdings by other subsidiaries of the Group.

26.3. Summarised financial information of each of the Group's subsidiaries that have a material non-controlling interest

Summarised statements	PJSC Lenzoloto 31 December 2016	2015	LLC SL Gold 31 December 2016	2015
Current assets	222	179	148	–
Non-current assets	60	51	141	–
Current liabilities	14	15	289	–
Non-current liabilities	12	11	–	–
Equity attributable to the shareholders of the subsidiary	188	136	–	–
Non-controlling interests	68	68	–	–

Summarised statements	PJSC Lenzoloto Year ended 31 December 2016	2015	LLC SL Gold Year ended 31 December 2016	2015
Revenue	224	197	–	–
Profit for the year	43	72	–	–
Profit attributable to non-controlling interests	13	15	–	–
Net cash inflow from operating activities	61	56	1	–
Net cash (outflow) / inflow from investing activities	(13)	70	(138)	–
Net cash (outflow) / inflow from financing activities	(13)	(12)	286	–
Dividends paid to non-controlling interests	13	12	–	–

27. Events after the reporting date

Sukhoi Log

On 26 January 2017, the Russian Federal Agency for Subsoil Use ("Rosnedra") held an auction for the Sukhoi Log license, the largest undeveloped deposit globally and the biggest gold greenfield in Russia. According to the information available to the Company, LLC SL Gold ("SL Gold"), a company established by JSC Polyus and a Russian state-owned corporation Russian Technologies ("Rostec"), submitted the highest bid in the auction, of $153 million (of which $138 million was advanced to Rosnedra for the participation in the auction for the Sukhoi Log and translated from RUB to USD at exchange rate as at 21 December 2016).

The Government of the Russian Federation on 17 February 2017 announced SL Gold as a winner of the auction. It may take up to three months or potentially longer for Rosnedra to issue the license for Sukhoi Log to SL Gold.

Under a number of option agreements entered into between JSC Polyus and Rostec on 16 December 2016, JSC Polyus expects to increase its stake in SL Gold by 23.9 per cent of participation interest within the next five years (with the right to accelerate) at the following prices totalling approximately $141 million (at the exchange rate as of the auction date):

To be paid	Ownership,%	Amount, $ million
First half of 2017	3.6	21
Beginning of 2019	4.8	28
Beginning of 2020	4.8	28
Beginning of 2021	4.8	28
Beginning of 2022	5.9	36
Total	**23.9**	**141**

PGIL completed $800 million Notes issuance

On 7 February 2017, PGIL issued USD 800 million notes due in 2023 with a coupon of 5.25% per annum (the "Notes"). The Notes are guaranteed by JSC "Gold Mining Company Polyus", a 100% subsidiary of the Group. The Group intends to borrow the net proceeds from the issue of the Notes and use primarily for debt refinancing and other general corporate purposes of the Group, including the financing of operating activities and development projects of the Group.

Additional information

Photo: At the Natalka mine

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General standard disclosures	Disclosure	Page number (or link)	Comment	Omission
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STRATEGY AND ANALYSIS				
G4-1	Statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and its strategy	Chairman of the Board address, 11 Chief Executive Officer address, 13 Chief Executive Officer's message, 79		
G4-2	Description of key impacts, risks, and opportunities	Chief Executive Officer's message, 79 Principal risks and uncertainties, 159 Sustainability approach, 85 Sustainability governance, 99 Health and Safety, 103 Employees, 117 Environmental Stewardship, 109 Communities, 129 Materiality assessment, 93		
ORGANISATIONAL PROFILE				
G4-3	Name of the organisation	About this Report, 81		
G4-4	Primary brands, products, and/or services	Operational highlights, 8		
G4-5	Location of organisation's headquarters		The Group is headquartered in Moscow, Russia	
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.	Where we operate, 5 About this Report, 81		
G4-7	Nature of ownership and legal form		PJSC Polyus is the largest gold producer in Russia and a top-10 gold producer globally	
G4-8	Markets served	Business model, 29		
G4-9	Scale of the reporting organisation	About this Report: Report boundaries, 82 Employees, 117 Financial statements, 173		
G4-10*[1]	Total workforce by employment type, employment contract, and region, broken down by gender	Employees: Performance results, 123		
G4-11	Percentage of employees covered by collective bargaining agreements		In 2016, 91% of employees are covered by collective bargaining agreements	
G4-12	The organisation's supply chain	Sustainable approach: Supply chain management, 91		
G4-13	Significant changes during the reporting period regarding size, structure, or ownership	About this Report, 81		
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	About this Report, 81		
G4-16	Memberships of associations (such as industry associations) and/or national/international advocacy organisations	Sustainable approach: Commitments to external initiatives, 92		
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES				
G4-17	Entities included in the organisation's consolidated financial statements or equivalent documents	About this report: Report boundaries, 82		
G4-18	The process for defining the report content and the Aspect Boundaries	About this report: Report content 82		

[1] Select indicators under disclosures marked with * were subject to a limited assurance process (see Independent assurance statement).

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G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements	About this report: Restatements and significant changes, 84		
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	Materiality assessment, 93		
STAKEHOLDER ENGAGEMENT				
G4-24	List of stakeholder groups engaged by the organisation	Stakeholder engagement, 89		
G4-25	The basis for identification and selection of stakeholders with whom to engage	Stakeholder engagement, 89		
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, 89		
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, 89		

General standard disclosures	Disclosure	Page number (or link)	Comment	Omission
REPORT PROFILE				
G4-28	Reporting period for information provided	About this Report, 81		
G4-29	Date of most recent previous report	About this Report, 81		
G4-30	Reporting cycle	About this Report: Data measurement techniques, 83		
G4-31	Contact point for questions regarding the report or its contents	About this Report: Contact information, 84		
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, 81		
G4-33	Policy and current practice with regard to seeking external assurance for the report	About this Report: Assurance, 84		
GOVERNANCE				
G4-34	The governance structure of the organisation, including committees of the highest governance body	Sustainability Governance, 99 Corporate Governance Report, 141		
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, 99		
G4-36	Whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental, and social topics	Sustainability Governance, 99		
G4-37	Processes for consultation between stakeholders and the highest governance body on economic, environment and social topics	Sustainability Governance, 99 Stakeholder engagement, 89		

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General standard disclosures	Disclosure	Page number (or link)	Comment	Omission
G4-38	The composition of the highest governance body and its committees	The Board, 145		
G4-39	Whether the Chair of the highest governance body is also an executive officer	Board of Directors composition, 153		
G4-40	The nomination and selection processes for the highest governance body and its committees	Nomination and Remuneration Committee, 129		
G4-41	Process for the highest governance body to ensure conflicts of interest are avoided and managed	Corporate ethics code, Lists of affiliated persons: http://polyus.com/en/investors/disclosure/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.	Sustainability Governance, 99		
G4-43	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental, and social topics	The Board: Experience and attributes required, 145		
G4-44	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	The Board: Experience and attributes required, 145		
G4-45	The highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities	Sustainability Governance, 99		
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 Principal risks and uncertainties, 159		
G4-47	The frequency of the highest governance body's review of economic, environmental, and social impacts, risks, and opportunities	Sustainability Governance, 99		
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, 99		
G4-49	The process for communicating critical concerns to the highest governance body	Sustainability Governance, 99		
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		Sustainability issues are communicated to the Board on a quarterly basis	
G4-51	The remuneration policies for the highest governance body and senior executives	Remuneration of the Board of Directors and Senior Management, 171		
G4-52	The process for determining remuneration	Remuneration of the Board of Directors and Senior Management, 171		
G4-53	How stakeholders' views are sought and taken into account regarding remuneration	Remuneration of the Board of Directors and Senior Management, 171		

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General standard disclosures	Disclosure	Page number (or link)	Comment	Omission
G4-54	The ratio of the annual total compensation for the organisation'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 Senior Management, 171		
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 Senior Management, 171		
ETHICS AND INTEGRITY				
G4-56	The organisation's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	Corporate ethics code Human rights policy Stakeholder engagement policy Diversity policy Stakeholder Engagement, 89		
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, 123		
G4-58	The internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organisational integrity	Anti-corruption efforts, 123 Stakeholder engagement, 89		

SPECIFIC STANDARD DISCLOSURES				
DMA and indicators	Disclosure	Page number (or link)	Comment	Omissions
CATEGORY: ECONOMIC				
MATERIAL ASPECT: ECONOMIC PERFORMANCE				
G4-DMA		Strategy, 19 Business model, 29		
G4-EC1	Direct economic value generated and distributed	Financial highlights, 7 Financial statements, 173		
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Environmental stewardship, 109 Principal risks and uncertainties, 159	The Natalka ESIA assessed risks for the Natalka project as a result of climate change	
G4-EC3	Coverage of the organisation's defined benefit plan obligations		The Group fully complies with Russian laws by paying contributions to a 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, 117		
G4-EC5	Ratios of standard entry-level wage by gender compared to local minimum wage at significant locations of operation	Employees: Performance results, 123	The Group does not tolerate any form of discrimination, thus all employees, regardless of their gender or other diversity factors, receive equal wages for the same scope, quantity, and quality of labour	
G4-EC6	Proportion of senior management hired from the local community at significant locations of operation	Employees: Performance results, 123		

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DMA and indicators	Disclosure	Page number (or link)	Comment	Omissions
MATERIAL ASPECT: INDIRECT ECONOMIC IMPACTS				
G4-DMA		Communities, 129		
G4-EC7*	Development and impact of infrastructure investments and services supported	Communities, 129		
G4-EC8	Significant indirect economic impacts, including the extent of impacts	Communities, 129		
MATERIAL ASPECT: PROCUREMENT PRACTICES				
G4-DMA		Sustainable approach: Supply chain management, 91		
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	Sustainable approach: Supply chain management, 91		
CATEGORY: ENVIRONMENTAL				
MATERIAL ASPECT: ENERGY				
G4-DMA		Environmental stewardship, 109		
G4-EN3*	Energy consumption within the organisation	Environmental stewardship: Performance results, 111		
G4-EN4*	Energy consumption outside of the organisation		The data are not aggregated within the current reporting system	
G4-EN5	Energy intensity		Energy intensity Ratio: 0.8; the ratio denominator: ore processed. Data on energy consumed within the organisation were used. Energy types comprised fuel, electricity, and heating	
G4-EN6	Reduction of energy consumption	Environmental stewardship: Performance results, 111		
G4-EN7	Reductions in energy requirements of products and services		Not applicable due to the nature of the product	

DMA and indicators	Disclosure	Page number (or link)	Comment	Omissions
MATERIAL ASPECT: WATER				
G4-DMA		Environmental stewardship, 109		
G4-EN8*	Total water withdrawal by source	Environmental stewardship: Performance results, 111		
G4-EN9	Water sources significantly affected by withdrawal of water		16 water bodies are significantly affected by the organisation's withdrawal at the Irkutsk alluvial BU; two at the Irkutsk ore BU; one at the Yakutia BU (Kuranakh); one at the Magadan BU; and one at the Energy service.	
G4-EN10	Percentage and total volume of water recycled and reused	Environmental stewardship: Performance results, 111		
MATERIAL ASPECT: EMISSIONS				
G4-DMA		Environmental stewardship, 109		
G4-EN15*	Direct greenhouse gas (GHG) emissions (scope 1)	Environmental stewardship: Performance results, 111		
G4-EN16*	Energy indirect greenhouse gas (GHG) emissions (scope 2)	Environmental stewardship: Performance results, 111		
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)		The data are not aggregated within the current reporting system	
G4-EN18	Greenhouse gas (GHG) emissions intensity	Environmental stewardship: Performance results, 111	GHG intensity ratio: 21.96. GHG intensity is measured in thousand tonnes of CO_2-e per million kt of rock moved. GHG emissions comprised: direct (Scope 1), indirect (Scope 2). Gases included in the calculation: CO_2, NH_4, N_2O	

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DMA and indicators	Disclosure	Page number (or link)	Comment	Omissions
G4-EN19	Reduction of greenhouse gas (GHG) emissions	Environmental stewardship: Performance results, 111		
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: Performance results, 111		
MATERIAL ASPECT: EFFLUENTS AND WASTE				
G4-DMA		Environmental stewardship, 109		
G4-EN22*	Total water discharge by quality and destination	Environmental stewardship: Performance results, 111	Discharges are not reused by other organisations	
G4-EN23*	Total weight of waste by type and disposal method	Environmental stewardship: Performance results, 111	Other methods of waste disposal are not used	
G4-EN24	Total number and volume of significant spills		During 2016 there were no significant spills (reportable environmental incidents)	
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 engaged in the transportation, import, export, or treatment of waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII	

DMA and indicators	Disclosure	Page number (or link)	Comment	Omissions
G4-EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and runoff		Four water bodies are significantly affected by the organisation's discharges of water and run-off at the Krasnoyarsk BU: 12 at the Irkutsk alluvial BU; one at the Irkutsk ore BU; one at the Yakutia Kuranakh BU; one at the Magadan BU; and two at the Energy service. All water bodies fall into various categories of commercial fishing importance	
G4-MM3*	Total amounts of overburden, rock, tailings, and sludges and their associated risks	Environmental stewardship: Performance results, 111		
MATERIAL ASPECT: COMPLIANCE				
G4-DMA		Environmental stewardship, 109		
G4-EN29*	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Environmental stewardship: Performance results, 111		
MATERIAL ASPECT: OVERALL				
G4-DMA		Environmental stewardship, 109		
G4-EN31	Total environmental protection expenditures and investments by type	Environmental stewardship: Performance results, 111		
MATERIAL ASPECT: ENVIRONMENTAL GRIEVANCE MECHANISMS				
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms		In the reporting period, through formal grievance mechanisms no grievances regarding environmental impacts were submitted. Currently the Group's formal grievance mechanism is a hotline, which includes mail, email and a phone number	

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DMA and indicators	Disclosure	Page number (or link)	Comment	Omissions
MATERIAL ASPECT: CLOSURE PLANNING				
G4-MM10	Number and percentage of operations with closure plans		A reclamation and mine closure standard was developed and is being implemented	
CATEGORY: SOCIAL				
SUB-CATEGORY: LABOUR PRACTICES AND DECENT WORK				
MATERIAL ASPECT: EMPLOYMENT				
G4-DMA		Employees, 117		
G4-LA1*	Total number and rates of new employee hires and employee turnover by age group, gender, and region	Employees: Performance results, 123	The Group's turnover rate was 13.8% in 2016 (Irkutsk alluvial BU (Lenzoloto) data were excluded as the BU's workers are temps). The turnover rate of other BUs: Krasnoyarsk BU, 8.3%; Irkutsk ore BU, 20.7%; and the Yakutia Kuranakh BU, 8.6%.	Turnover by age group and gender. No such data are available within the current reporting system
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		The Group complies with the legal requirements. All employees entitled by law to go on leave for child care/parental leave are free to do so with retention of their position.	
MATERIAL ASPECT: OCCUPATIONAL HEALTH AND SAFETY				
G4-DMA		Health and Safety, 103		
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	Sustainability Governance, 99	The HSEC Committee operating at Board level is the key body responsible for health and safety issues in the Group. A separate management-worker health and safety committee also operates at Natalka	The percentage of the total workforce represented in formal joint management. No such data are available within the 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, 103		Within the current reporting system, no data are available for contractors on the occupational diseases rate, the lost day rate, and the absentee rate
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	Health and Safety: Health protection, 107		
G4-LA8	Health and safety topics covered in formal agreements with trade unions		Cooperation in the area of H&S with trade unions is carried out at the Yakutia BU (Kuranakh)	
MATERIAL ASPECT: TRAINING AND EDUCATION				
G4-DMA		Employees: Employee development, 119		
G4-LA9*	Average hours of training per year per employee by gender, and by employee category	Employees: Performance results, 123		Training per year per employee by gender. No such data are available within the current reporting system
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, 123		

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DMA and indicators	Disclosure	Page number (or link)	Comment	Omissions
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Employees: Recruiting and retaining personnel, 117	All employees undergo performance reviews on the basis of a functional and individual KPI system	
MATERIAL ASPECT: HUMAN RIGHTS GRIEVANCE MECHANISMS				
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	Stakeholder engagement, 89		
SUB-CATEGORY: SOCIETY				
MATERIAL ASPECT: LOCAL COMMUNITIES				
G4-DMA		Communities, 129		
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes		All new sites/assets under development underwent an EIA. An ESIA was carried out at Natalka. Community development programmes at all sites are implemented as part of the Group's charity and sponsorship activities	
G4-SO2	Operations with significant actual and potential negative impacts on local communities		An SEA was conducted for the Irkutsk alluvial BU (Lenzoloto). The study assessed key positive and negative impacts on the local community and developed respective mitigation measures. The Group plans to continue efforts in this area in subsequent years	

DMA and indicators	Disclosure	Page number (or link)	Comment	Omissions
G4-MM6	Number and description of significant disputes relating to land use, customary rights of local communities and indigenous peoples		There are no indigenous settlements in the area of operation of the Group	
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	Stakeholder engagement, 89		
MATERIAL ASPECT: ANTI-CORRUPTION				
G4-DMA		Anti-Corruption efforts, 123		
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	Anti-Corruption efforts, 123		
G4-SO4	Communication and training on anti-corruption policies and procedures	Anti-Corruption efforts, 123		The 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, 123		

Cautionary statement

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

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

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

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

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