**IMPORTANT NOTICE: NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS ("QIBs") AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") OR OTHERWISE TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED**

**IMPORTANT: You must read the following before continuing**. The following applies to the prospectus following this page (the "**Prospectus**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. If you have gained access to this transmission contrary to any of the following restrictions, you are not authorized and will not be able to purchase any of the securities described herein (the "**Securities**"). You acknowledge that this electronic transmission and the delivery of the attached Prospectus is intended for you only and you agree you will not forward this electronic transmission or the attached Prospectus to any other person. Any forwarding, distribution or reproduction of this document in whole or in part is unauthorized. Failure to comply with the following directives may result in a violation of the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or the applicable laws of other jurisdictions.

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.**

**THE SECURITIES REFERRED TO HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND SUBJECT TO CERTAIN EXCEPTIONS THE SECURITIES MAY NOT BE OFFERED, PLEDGED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE BENEFIT OR ACCOUNT OF, U.S. PERSONS.**

**THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.**

**PRIIPs Regulation**: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and, therefore, offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**MIFID II product governance**: Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in

respect of the Note (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

**Confirmation of your representation**: In order to be eligible to view the Prospectus or make an investment decision with respect to the Securities, an investor must be (i) a person that is not a U.S. person and that is outside the United States (within the meaning of Regulation S under the Securities Act) or (ii) a qualified institutional buyer ("**QIB**") as defined in Rule 144A under the Securities Act that is acquiring the securities for its own account or the account of another QIB. This Prospectus is being sent at your request and by accepting this e-mail and accessing the Prospectus, you shall be deemed to have represented to us that you and any customer you represent, and the electronic email address you have given to us and to which this email has been delivered, is outside the United States or that you are a QIB acquiring the securities referred to herein for your own account and/or for another QIB; and that you consent to delivery of such Prospectus by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers (as defined in the Prospectus) or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of Polyus Finance Plc in such jurisdiction.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Notes (as defined in the Prospectus) in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Prospectus who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the Prospectus. This Prospectus may only be communicated or caused to be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 (the "**FSMA**") does not apply and may be distributed in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "**Order**"), or (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Order (all such persons together being referred to as "**Relevant Persons**"). In the United Kingdom, the Prospectus is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which the Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

The Securities are not eligible for placement and circulation in the Russian Federation, unless, and to the extent, otherwise permitted by Russian law.

The information contained in this Prospectus is not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any Securities in the Russian Federation or to or for the benefit of any Russian person or entity.

The Prospectus and information contained herein does not constitute an advertisement or an offer of any securities in the Russian Federation. It is not intended to be, and must not be, distributed or circulated in the Russian Federation unless and to the extent otherwise permitted under Russian law.

The Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the

underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the issuer of the Securities in such jurisdiction.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently none of Polyus Finance Plc, Public Joint Stock Company Polyus, Joint Stock Company Polyus Krasnoyarsk or the Managers or any person who controls them, nor any director, officer, employee or agent of any of them or affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

# Polyus Finance Plc

*(incorporated with limited liability under the laws of England and Wales with registered company number 10695706)*

**as issuer of**

## US$500,000,000 4.70 per cent Guaranteed Notes due 2024

**unconditionally and irrevocably guaranteed by**

## Joint Stock Company Polyus Krasnoyarsk

**(a joint stock company incorporated under the laws of the Russian Federation)**

**and to be unconditionally and irrevocably guaranteed, pending corporate approvals, by**

## Public Joint Stock Company Polyus

**(a public joint stock company incorporated under the laws of the Russian Federation)**

Issue price of Notes: 100 per cent

Polyus Finance Plc (the "**Issuer**" or the "**Company**"), incorporated with limited liability under the laws of England and Wales with registered company number 10695706, is issuing US$500,000,000 aggregate principal amount of 4.70 per cent guaranteed notes due 2024 (the "**Notes**"). The Notes will be unconditionally and irrevocably guaranteed (the "**Guarantee**") by Joint Stock Company Polyus Krasnoyarsk (the "**Guarantor**" or "**JSC Polyus**"). Public Joint Stock Company Polyus ("**PJSC Polyus**") is expected to, subject to corporate approvals, accede to the Trust Deed and guarantee (separately, on a joint and several basis with JSC Polyus) the obligations under the Notes in accordance therewith not later than 180 days after 29 January 2018 (the "**Issue Date**") (the "**Additional Guarantee**"). Failure of PJSC Polyus to provide the Additional Guarantee shall entitle holders of the Notes (the "**Noteholders**") to request that the Issuer redeem the Notes as set out in "*Terms and Conditions of the Notes*" herein.

Interest on the Notes will accrue from 29 January 2018 at a rate of 4.70 per cent per annum of their outstanding principal amount payable semi-annually in arrears on 29 January and 29 July of each year, commencing on 29 July 2018 (the "**First Interest Payment Date**"). Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 29 January 2024. The Notes will be subject to, and have the benefit of, a trust deed between BNY Mellon Corporate Trustee Services Limited as trustee for the holders of the Notes (the "**Trustee**"), the Issuer and the Guarantor to be dated 29 January 2018 (the "**Trust Deed**").

The Notes will be unsecured and unsubordinated obligations of the Issuer and will rank equally in right of payment with the Issuer's existing and future unsecured and unsubordinated obligations. The Guarantee will be an unsecured and unsubordinated debt obligation of the Guarantor and will rank equally in right of payment with all respective existing and future unsecured and unsubordinated obligations of the Guarantor.

The Notes may be redeemed by the Issuer in whole but not in part at 100 per cent of their principal amount, plus accrued and unpaid interest and additional amounts (if any), if the Issuer or the Guarantor becomes obliged to pay certain additional amounts as a result of certain changes affecting taxation in any Relevant Jurisdiction as described under "*Terms and Conditions of the Notes — Redemption and Purchase — Redemption for tax reasons*". Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 29 January 2024.

**An investment in the Notes involves a high degree of risk. Prospective Investors should have regard to the factors described under the section headed "Risk Factors" beginning on page 14.**

Neither this Prospectus nor the information contained herein is an offer, or an invitation to make offers, to sell, exchange or otherwise transfer securities in the Russian Federation to or for the benefit of any Russian person or entity, and it does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. Information contained in this Prospectus is not intended for any persons in the Russian Federation who are not "qualified investors" within the meaning of Article 51.2 of the Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended (the "**Russian QIs**"), and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Notes have not been and will not be registered in Russia and are not intended for "placement" or "circulation" in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

Application has been made to the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's regulated market.

References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC.

The Notes and the Guarantee (the "**Securities**") have not been and will not be registered under the United States Securities Act of 1933 (the "**Securities Act**") or any state securities laws. The Securities are being offered and sold by Bank GPB International S.A. ("**Gazprombank**"), J.P. Morgan Securities plc, Renaissance Securities (Cyprus) Limited, SIB (Cyprus) Limited and VTB Capital plc (the "**Joint Lead Managers**") and CREDIT BANK OF MOSCOW (public joint-stock company) (the "**Co-Manager**" and together with the Joint Lead Managers, the "**Managers**") within the United States only to "qualified institutional buyers", in reliance on Rule 144A under the Securities Act ("**Rule 144A**"), and to non-U.S. persons in offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act ("**Regulation S**"). The Issuer has not been and will not be registered under the Investment Company Act. **You are hereby notified that the sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A**. The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Securities or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States. For a description of these and certain further restrictions, see "*Subscription and Sale*" and "*Transfer Restrictions*".

The Regulation S Notes will initially be represented by interests in a global note certificate in registered form (the "**Regulation S Global Note Certificate**"), without interest coupons, which will be deposited with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"), and registered in the name of a nominee, on or about the Issue Date. The Rule 144A Notes will initially be represented by interests in a global note certification in registered form (the "**Rule 144A Global Note Certificate**" and, together with the Regulation S Global Note Certificate, the "**Global Note Certificates**"), which will be registered in the name of Cede & Co., as nominee of, and deposited with a custodian for, The Depository Trust Company ("**DTC**") on or about the Issue Date. Beneficial interests in the Global Note Certificates will be shown on, and transfers thereof will be effected only through records maintained by, DTC, Euroclear or Clearstream, Luxembourg (as the case may be) and their respective participants. Individual note certificates in registered form will only be available in certain limited circumstances as described herein.

### *Joint Lead Managers*

**GAZPROMBANK** **J.P. MORGAN** **RENAISSANCE CAPITAL** **SBERBANK CIB** **VTB CAPITAL**

### *Co-Manager*

**CREDIT BANK OF MOSCOW**

Prospectus dated 26 January 2018

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## IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Issuer and PJSC Polyus and its consolidated subsidiaries (including the Guarantor) taken as a whole (the "**Group**") and the Securities, which, according to the particular nature of the Issuer, the Guarantor, the Group and the Securities, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer, the Guarantor and the Group, and the rights attaching to the Securities. The Issuer and the Guarantor each accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and the Guarantor (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is true and accurate in all material respects and is in accordance with the facts, and does not omit anything likely to affect the import of such information or which would make misleading any statement in this prospectus, whether of fact or opinion.

No person has been authorized to give any information or to make any representation other than those contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorized by or on behalf of the Issuer, the Guarantor, the Trustee or the Managers. The information contained in the Prospectus is current as of the date hereof. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the Condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Prospectus.

No representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Managers or the Trustee as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Securities. Each person receiving this Prospectus acknowledges that such person has not relied on the Managers or the Trustee in connection with its investigation of the accuracy of such information or its investment decision and each person must rely on its own examination of the Issuer, the Guarantor and the Group and the merits and risks involved in investing in the Securities. To the fullest extent permitted by law, the Managers do not accept any responsibility whatsoever for the contents of this prospectus or for any other statement made or purported to be made by them, or on their behalf, in connection with the Issuer, the Guarantor, the Group or the Securities. The Managers accordingly disclaim all and any liability, whether arising in tort, contract or otherwise, which they might otherwise have in respect of this Prospectus or any such statement.

We reserve the right to withdraw this offering of Securities at any time, and we and the Managers reserve the right to reject any commitment to subscribe for the Securities in the whole or in part and to allot you less than the full amount subscribed by you.

For a more complete description of restrictions on offers, sales and transfers, see "*Subscription and Sale*" and "*Transfer Restrictions*".

This Prospectus does not constitute an offer to sell or an invitation to subscribe for or purchase, by or on behalf of the Issuer, the Guarantor, the Managers or any other person, any of the Securities in any jurisdiction in which such offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this Prospectus and the offer and sale of the Securities in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus or any of the Securities are delivered are required to inform themselves about and to observe any such restrictions. Each prospective purchaser of the Securities must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Securities or possesses or distributes this Prospectus. In addition, each prospective purchaser must obtain any consent,

approval or permission required under the regulations in force in any jurisdiction to which it is subject or in which it purchases, offers or sells the Securities. Neither the Issuer nor the Guarantor shall have any responsibility for obtaining such consent, approval or permission. In particular there are restrictions on the distribution of this Prospectus and the offer or sale of Securities in the United States and the United Kingdom. For a description of these further restrictions on offers and sales of the Securities and distribution of this Prospectus, see "*Subscription and Sale*".

The contents of the Issuer's and the Guarantor's websites do not form any part of this Prospectus.

### Stabilisation

In connection with the issue of the Notes, J.P. Morgan Securities plc (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.

### Ratings

The Notes are expected to be rated "Ba1" (outlook stable) by Moody's Investors Service Limited ("**Moody's**"), "BB-" (outlook positive) by Fitch Ratings Ltd. ("**Fitch**"), and "BB-" (outlook positive) by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**" and, together with Fitch the "**Rating Agencies**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Fitch Ratings Ltd. is established in the European Union ("**EU**") and is registered under the Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**"). As such, Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation. Standard and Poor's is established in the European Union and is registered under the CRA Regulation. As such, Standard and Poor's is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation.

## AVAILABLE INFORMATION

Each of the Issuer and the Guarantor have agreed that, so long as any Securities are "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act, the Issuer and the Guarantor will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of any such restricted securities, or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

This Prospectus is being furnished by the Issuer and the Guarantor in connection with an offering exempt from the registration requirements of the Securities Act solely for the purpose of enabling a prospective investor to consider the acquisition of the Securities described herein. The information contained in this Prospectus has been provided by the Issuer, the Guarantor and other sources identified herein. Any reproduction or distribution of this Prospectus, in whole or in part, in the United States and any disclosure of its contents or use of any information herein in the United States for any purpose, other than considering an investment by the recipient in the Securities offered hereby, is prohibited. Each potential investor in the Securities, by accepting delivery of this Prospectus, agrees to the foregoing.

## NOTICE TO U.S. INVESTORS

**THE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER REGULATORY AUTHORITY IN THE UNITED STATES, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE SECURITIES OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

**THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, AND SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES. THE SECURITIES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON U.S. PERSONS IN RELIANCE ON REGULATION S AND WITHIN THE UNITED STATES ONLY TO QIBs IN RELIANCE ON RULE 144A (SEE "*SUBSCRIPTION AND SALE*"). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF ANY RULE 144A NOTE MAY BE RELYING UPON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.**

## NOTICE TO UNITED KINGDOM RESIDENTS

This Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"), (iii) high net worth entities falling within Article 49(2)(a) to (d) of the Order, and (iv) other persons to whom it may lawfully be communicated (all such persons together being referred to as "**Relevant Persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this document or any of its contents.

## NOTICE TO RUSSIAN INVESTORS

This Prospectus or information contained therein is not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any securities in the Russian Federation to or for the benefit of any Russian person or entity, and does not constitute an advertisement or offering of any securities in the Russian Federation within the meaning of Russian securities laws. Information contained in this Prospectus is not intended for any persons in the Russian Federation who are not "qualified investors" within the meaning of Article 51.2 of the Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended ("**Russian QIs**") and must not be distributed or circulated into the Russian Federation or made available in the Russian Federation to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law.

## PRIIPS REGULATION

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and, therefore, offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

## MIFID II PRODUCT GOVERNANCE

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Note (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

## FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are forward-looking statements. Forward-looking statements appear in various locations, including, without limitation, under the headings "*Overview*", "*Risk Factors*", "*Operating and Financial Review*" and "*Business*". The Group may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include statements concerning the Group's plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, its competitive strengths and weaknesses, its business strategy and the trends the Group anticipates in the industries and the political and legal environment in which it operates and other information that is not historical information.

Words such as "believes", "anticipates", "estimates", "expects", "intends", "predicts", "projects", "could", "may", "will", "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "*Risk Factors*", as well as those included elsewhere in this Prospectus. Each prospective investor should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to:

- changes in the prices of gold;
- changes in the Group's ability to maintain or obtain the licenses necessary for its businesses;
- changes in the Group's operating costs, including the costs of energy, transportation and labor;
- changes in the Group's ability to successfully implement any of its business, development plans or financing strategies;
- changes in the Group's ability to fund its future operations and capital needs through borrowings or otherwise;
- developments in, or changes to, the laws, regulations and governmental policies governing the Group's businesses, including changes impacting environmental liabilities;
- inflation, interest rate and exchange rate fluctuations;
- changes in the political, social, legal or economic conditions in Russia;
- the effects of international political events;
- the effects of the restrictive covenants in the Group's financing documentation; and
- the Group's success in identifying other risks to its businesses and managing the risks of the aforementioned factors.

This list of factors is not exhaustive. Some of these factors are discussed in greater detail in this Prospectus, in particular, but not limited to, discussion in "*Risk Factors*". When relying on forward-looking statements, each prospective investor should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, unless required

to do so by applicable law. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

**Important Notice about this Prospectus**

**The Securities may not be a suitable investment for all investors**

Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Notes and the information contained in the Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behavior of the relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

# PRESENTATION OF FINANCIAL AND OTHER INFORMATION

## Presentation of Financial Information

This Prospectus contains:

- the audited consolidated financial statements of the Group as of and for the year ended 31 December 2016, which include as comparative financial information the audited consolidated financial information of the Group as of and for the year ended 31 December 2015 (the "**2016 Financial Statements**");
- the audited consolidated financial statements of the Group as of and for the year ended 31 December 2015, which include as comparative financial information the audited consolidated financial information of the Group as of and for the year ended 31 December 2014 (the "**2015 Financial Statements**", and together with the 2016 Financial Statements, the "**Annual Financial Statements**");
- the unaudited reviewed condensed consolidated interim financial statements of the Group as of and for the nine months ended 30 September 2017, which include as comparative financial information the unaudited condensed consolidated interim financial information of the Group as of and for the nine months ended 30 September 2016 (the "**Interim Financial Statements**" and together with the Annual Financial Statements, the "**Financial Statements**").

The Annual Financial Statements were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"), as set out in note 2 to the 2016 Financial Statements and to the 2015 Financial Statements.

The Interim Financial Statements were prepared in accordance with International Accounting Standards ("**IAS**") 34 Interim Financial Reporting, as set out in note 2 to the Interim Financial Statements.

## Alternative Performance Measures

The Group presents Adjusted net profit, Adjusted net profit margin, Adjusted Earnings before Interest, Taxes, Depreciation and Amortisation ("**Adjusted EBITDA**"), Adjusted EBITDA margin, total cash costs ("**TCC**"), TCC per ounce sold, all-in sustaining costs ("**AISC**"), AISC per ounce sold, cash operating costs, total cash position, net debt, net debt to Adjusted EBITDA, free cash flows ("**FCF**") and Adjusted net working capital, which are non-GAAP, alternative performance measures. These measures are used by management of the Group to assess the financial performance of the Group. Such measures as presented in this Prospectus may not be comparable to similarly titled measures of performance presented by other companies, and they should not be considered as substitutes for the information contained in the Financial Statements included in this Prospectus.

### *Adjusted net profit*

Adjusted net profit is defined by the Group as net profit / (loss) for the period adjusted for impairment loss / (reversal of impairment), unrealised (gain) / loss on derivative financial instruments and investments, net, foreign exchange (gain) / loss, net, and associated deferred income tax related to such items. For the calculation of the Group's Adjusted net profit and the reconciliation to the Group's profit / (loss) for the nine months ended 30 September 2017 and 2016 and the years ended 31 December 2016, 2015 and 2014 and other relevant periods, see "*Selected Consolidated Financial and Operating Information*".

Adjusted net profit presented by the Group has been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*". The item is discussed throughout this Prospectus, because the Group believes it provides a measure for comparing the Group's operational performance against that of its peer group. In addition, the Group uses this measurement to compare the performance of the Group's operations period-to-period, to monitor profitability and to evaluate operating efficiency. Adjusted net profit is not defined by IFRS and is not an IFRS measure. It should not be considered in isolation or as an alternative to profit / (loss) for the period. Adjusted net profit has limitations as it does not reflect the effect of (impairment) / reversal of impairment, unrealised (gain) / loss on derivative financial instruments and investments, net, foreign exchange gain, net, and associated deferred income tax related to such items. Although the presentation of Adjusted net profit is common industry practice, the Group's calculations of this item may vary from other gold mining companies' calculations, and by itself does not necessarily provide a basis for comparison with other gold mining companies.

***Adjusted net profit margin***

The Group calculates Adjusted net profit margin as Adjusted net profit divided by total revenue.

***Adjusted EBITDA***

The Group calculates Adjusted EBITDA as profit for the period before income tax, depreciation and amortisation, (gain) / loss on derivative financial instruments and investments (including the effect of the disposal of a subsidiary and subsequent accounting at equity method), finance costs, net, interest income, foreign exchange gain, net, impairment loss / (reversal of impairment), (gain) / loss on property, plant and equipment disposal, expenses associated with an equity-settled share-based payment plan and special charitable contributions as required to ensure calculation of the Adjusted EBITDA is comparable with the prior period.

Adjusted EBITDA presented by the Group has been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*". Adjusted EBITDA is presented in this Prospectus because the Group considers it to be an important supplemental measure of the Group's financial performance. Additionally, the Group believes this measure is frequently used by investors, securities analysts and other interested parties to evaluate the efficiency of a group's operations and its ability to employ its earnings toward repayment of debt. Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for the Group's operating results as reported under IFRS. Some of these limitations are as follows:

- Adjusted EBITDA does not reflect the impact of significant interest expense or the cash requirements necessary to service interest or principal payments in respect of any borrowings, which could further increase if the Group incurs more debt.
- Adjusted EBITDA does not reflect the impact of income tax expense on the Group's operating performance.
- Adjusted EBITDA does not reflect the impact of depreciation and amortisation of assets on the Group's performance. The assets of the Group's business which are being depreciated and amortized will have to be replaced in the future, and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from Adjusted EBITDA, Adjusted EBITDA does not reflect the Group's future cash requirements for these replacements.
- Adjusted EBITDA does not reflect the impact of a number of other significant non-cash items, specifically: foreign exchange gain, net; (gain) / loss on disposals of property, plant and equipment; impairment loss / (reversal of impairment) of property, plant and equipment; gain

from the disposal of a subsidiary and subsequent accounting at equity method; and change in fair value of derivatives.

- Adjusted EBITDA does not reflect the expenses associated with an equity-settled share-based payment plan.
- Adjusted EBITDA does not reflect the expenses associated with special charitable contributions.
- Other companies in the Group's industry may calculate Adjusted EBITDA differently or may use them for different purposes than the Group does, limiting their usefulness as a comparative measure.

The Group compensates for these limitations by relying on its IFRS results and using Adjusted EBITDA only as a supplemental measure.

Adjusted EBITDA is a measure of the Group's operating performance that is not required by, or presented in accordance with, IFRS. Adjusted EBITDA is not a measurement of the Group's operating performance under IFRS and should not be considered as an alternative to profit for the period or any other performance measures derived in accordance with IFRS. For the calculation of the Group's Adjusted EBITDA and the reconciliation of Adjusted EBITDA to profit / (loss) for the nine months ended 30 September 2017 and 2016 and the years ended 31 December 2016, 2015 and 2014 and other relevant periods, see "*Selected Consolidated Financial and Operating Information*".

***Adjusted EBITDA margin***

The Group calculates Adjusted EBITDA margin as Adjusted EBITDA divided by total revenue.

***Total cash costs ("TCC") and TCC per ounce sold***

TCC is defined by the Group as the cost of gold sales, less property, plant and equipment depreciation and amortisation, provision for annual vacation payment, employee benefits obligation cost and change in allowance for obsolescence of inventory and adjusted by inventories. TCC per ounce sold is the cost of producing an ounce of gold, which includes mining, processing and refining costs. The Group calculates TCC per ounce sold as TCC divided by total ounces of gold sold for the period. The Group calculates TCC and TCC per ounce sold for certain mines on the same basis, using corresponding mine-level financial information. These items are not IFRS measures. For the calculation of the Group's TCC and TCC per ounce sold and the reconciliation to the cost of gold sales for the nine months ended 30 September 2017 and 2016 and the years ended 31 December 2016, 2015 and 2014 and other relevant periods, see "*Selected Consolidated Financial and Operating Information*".

The financial items, TCC and TCC per ounce sold presented by the Group have been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*". These items are discussed throughout this Prospectus, because the Group believes they provide a measure for comparing the Group's operational performance against that of its peer group. In addition, the Group uses these measurements to compare the performance of the Group's operations period-to-period, to monitor costs and to evaluate operating efficiency. TCC is not defined by IFRS and should not be considered in isolation or as an alternative to operating expenses or cost of sales. Although the presentation of TCC and TCC per ounce sold is common industry practice, the Group's calculations of these items may vary from other gold mining companies' calculations, and by themselves do not necessarily provide a basis for comparison with other gold mining companies.

TCC has important limitations as an analytical tool. TCC does not reflect the impact of depreciation on assets of the Group, it does not reflect obligations related to employee benefit costs or employee

vacation payments, nor does it reflect the obsolescence of inventory stockpiles. Further, TCC does not reflect the additional costs necessary to sustain the mining output of the Group, which includes selling, general and administrative expenses, research expenses, stripping activity, among other sustaining expenses.

***All-in sustaining costs ("AISC") and AISC per ounce sold***

AISC is defined by the Group as TCC plus selling, general and administrative expenses, research expenses, other sustaining expenses, stripping activity asset additions, sustaining capital expenditures, unwinding of discounts on decommissioning liabilities, provision for annual vacation payment, employee benefit obligations cost, and change in allowance for obsolescence of inventory less amortisation and depreciation included in selling, general and administrative expenses. AISC is an extension of TCC and incorporates costs related to sustaining production and additional costs which reflect the varying costs of producing gold over the life-cycle of a mine. The Group believes AISC is helpful in understanding the economics of gold mining. AISC per ounce sold is the cost of producing and selling an ounce of gold, including mining, processing, transportation and refining costs, general costs from both mine and alluvial operations, and the additional expenditures noted in the definition of AISC. The Group calculates AISC per ounce sold as AISC divided by total ounces of gold sold for the period. These items are not IFRS measures. For the calculation of the Group's AISC and AISC per ounce sold and the reconciliation to TCC for the nine months ended 30 September 2017 and 2016 and the years ended 31 December 2016, 2015 and 2014, see "*Selected Consolidated Financial and Operating Information*".

These items are discussed throughout this Prospectus, because the Group believes they provide a measure for comparing the Group's sustainable operational performance against that of its peer group. In addition, the Group uses these measurements to compare the performance of the Group's operations period-to-period, to monitor costs and to evaluate operating efficiency and sustainability of the operations. AISC is not defined by IFRS and should not be considered in isolation or as an alternative to operating expenses, cost of sales, or selling, general and administrative expenses. Although the presentation of AISC and AISC per ounce sold is common industry practice, the Group's calculations of these items may vary from other gold mining companies' calculations, and by themselves do not necessarily provide a basis for comparison with other gold mining companies.

AISC has important limitations as an analytical tool. AISC does not reflect the impact of depreciation of assets of the Group. Furthermore, AISC only includes costs the Group determines necessary to maintain the current state of operations and does not include capital expenditures for major growth projects of the Group or enhancement capital for significant infrastructure improvements at existing operations.

***Cash operating costs***

The Group calculates cash operating costs as the sum of the following costs within cost of sales for the period: Labor, Consumables and spares, Tax on mining, Fuel, Power, Outsourced mining services, Other costs. This item is not an IFRS measure. For the calculation of the Group's cash operating costs for the nine months ended 30 September 2017 and 2016 and the years ended 31 December 2016, 2015 and 2014, see "*Operating and Financial Review*".

The financial item cash operating costs presented by the Group has been calculated by management based on information derived from the Financial Statements. The item is discussed throughout this Prospectus, because the Group believes it provides a measure for comparing the Group's operational performance against that of its peer group. In addition, the Group uses this measurement to compare the performance of the Group's operations period-to-period, to monitor costs and to evaluate operating efficiency of the operations. Cash operating costs is not defined by IFRS and should not be considered in isolation or as an alternative to operating expenses or cost of sales. Although the presentation of cash operating costs is common industry practice, the Group's calculations of these

items may vary from other gold mining companies' calculations, and by themselves do not necessarily provide a basis for comparison with other gold mining companies.

Cash operating costs has important limitations as an analytical tool. Cash operating costs does not reflect the impact of depreciation on operating assets of the Group, nor does it reflect the costs associated with increasing gold-in-process and refined gold inventories. Furthermore, all non-operating cash costs are excluded, such as those associated with selling, general, and administrative activities or financing transactions.

***Total cash position***

The Group calculates total cash position as the sum of bank deposits and cash and cash equivalents. This item is not an IFRS measure. For the calculation of the Group's total cash position as of 30 September 2017 and 31 December 2016, 2015 and 2014, see "*Operating and Financial Review*".

The financial item total cash position presented by the Group has been calculated by management based on information derived from the Financial Statements. The item is discussed throughout this Prospectus, because the Group believes it provides a measure for analyzing the Group's most liquid assets. Total cash position is not defined by IFRS and should not be considered in isolation or as an alternative to cash and cash equivalents.

***Net debt***

The Group calculates net debt as non-current borrowings plus current borrowings less cash and cash equivalents and bank deposits. This item is not an IFRS measure. For the calculation of the Group's net debt as of 30 September 2017 and 31 December 2016, 2015 and 2014 and other relevant periods, see "*Selected Consolidated Financial and Operating Information*".

Net debt presented by the Group has been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*". The item is discussed throughout this Prospectus, because the Group believes it provides a measure for analyzing the Group's liquidity. Net debt is not defined by IFRS and should not be considered in isolation or as an alternative to total borrowings.

***Net debt to Adjusted EBITDA***

The Group calculates net debt to Adjusted EBITDA as net debt divided by Adjusted EBITDA. For the purposes of the net debt to Adjusted EBITDA ratio as of 30 September 2017, Adjusted EBITDA is calculated as the trailing twelve months ended on 30 September 2017 (being Adjusted EBITDA for 2016 less Adjusted EBITDA for the nine months ended 30 September 2016 plus Adjusted EBITDA for the nine months ended 30 September 2017).

***Free cash flow ("FCF")***

The Group calculates FCF as net cash generated from operating activities, plus proceeds from sales of property, plant and equipment, interest received, and other cash flows from investing activities less purchases of property, plant and equipment and payment for currency collars. FCF represents the cash that the Group is able to generate after the spending necessary to maintain or expand its asset base. This item is not an IFRS measure. For the calculation of the Group's FCF for the nine months ended 30 September 2017 and 2016 and the years ended 31 December 2016, 2015 and 2014 and other relevant periods, see "*Selected Consolidated Financial and Operating Information*".

FCF presented by the Group has been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated*

*Financial and Operating Information*". FCF is presented in this Prospectus, because the Group believes that FCF provides a measure for analyzing the Group's ability to generate cash. FCF is not defined by IFRS and should not be considered in isolation or as an alternative to net cash generated from operating activities.

***Adjusted net working capital***

The Group calculates Adjusted net working capital as the sum of inventories, deferred expenditures, trade and other receivables, advances paid to suppliers and prepaid expenses, taxes receivable and deducting trade and other payables and taxes payable. This item is not an IFRS measure. For the calculation of the Group's Net working capital as of 30 September 2017 and as of 31 December 2016, 2015 and 2014 and other relevant periods, see "*Selected Consolidated Financial and Operating Information*".

The financial item Adjusted net working capital presented by the Group has been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*". The item is discussed throughout this Prospectus, because the Group believes it provides a measure for assessing the Group's efficiency in allocating capital and managing its liquidity position. Adjusted net working capital is not defined by IFRS and should not be considered in isolation or as an alternative to other financial metrics.

***Krasnoyarsk business unit***

The Group defines Krasnoyarsk business unit as the aggregation of the Olimpiada and Blagodatnoye business segments. The Group uses geographical aggregation for additional analysis of Krasnoyarsk, as it is the region where the main assets of the Group are located. This aggregation has limitations as an analytical tool. The aggregation of business segments into the Krasnoyarsk business unit is not currently how the chief operating decision maker analyses the Group and the performance of the Krasnoyarsk business unit may not be indicative of the individual performance of each separate business segment due to different technology being applied in the Olimpiada and Blagodatnoye operations.

During the nine months ended 30 September 2017, the Group enhanced its business segment disclosure by presenting the Olimpiada and Blagodatnoye mines, part of the former Krasnoyarsk business unit, as separate segments, reflecting the way the segments are now analysed by the chief operating decision maker. The results of the Titimukhta mine are included within the Olimpiada mine segment, since extraction from the Titimukhta deposit has been insignificant since 1 January 2017 and the Titimukhta processing facilities are now used to process Olimpiada ore. Although the Group has changed its reportable segments in 2017 to divide the Krasnoyarsk business unit into the Olimpiada and Blagodatnoye business units, as described in note 4 to the Interim Financial Statements, certain financial information for the 2015 and 2014 years cannot be restated as the financial information for the new segments is not available for such period and the cost to develop such financial information would be excessive. Where such financial information is available, the Group has recast the former Krasnoyarsk segment financial information to reflect the financial information of the new segments Olimpiada and Blagodatnoye to provide readers of the Prospectus with consistent presentation and analysis.

**Presentation of Ore Reserves and Mineral Resources**

Unless otherwise stated, the Ore Reserve and Mineral Resource estimates presented in this Prospectus have been prepared by AMC Consultants Pty Ltd ("**AMC**") in a review of the Group's Ore Reserve and Mineral Resource estimates in 2016 (the AMC report and estimates are available at http://polyus.com/en/investors/shares/secondary-offering/ and http://polyus.com/en/media/press-

releases/ore-reserves-and-mineral-resources-update/) according to the minimum standards, recommendations and guidelines for public reporting in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "**JORC Code**") 2004 and 2012 Editions. Unless specifically noted, reference to the "JORC Code" is a reference to the JORC Code 2012 Edition.

All mineral resources and reserves in Russia are formally classified according to a system developed and administered by the Russian State Commission for Reserves (*Gosudarstvennaya Komissia po Zapasam*), referred to as the GKZ, and recorded on the national inventory and balance of mineral resources and reserves. The GKZ provides a prescribed protocol for the calculation of mineral reserves, which utilizes a polygonal method of reserve estimation. Preliminary mineral reserve estimates are calculated by the license holder and are submitted for approval by the GKZ with a justification of the cut-off grade criteria. The approved cut-off criteria are used to generate the mineral reserves that are submitted to the GKZ for approval.

Using the GKZ system, mineral resources and reserves are recognized as either prognosticated resources, which include those resources that are of an inferred, potential or speculative nature, or mineral reserves, which can be effectively subdivided into those that demonstrate economic significance (balance mineral reserves) and those with only potential economic significance (off-balance mineral reserves).

Balance mineral reserves comprise that part of the mineralization that has been demonstrated to a sufficient level of confidence to contain a metal or commodity whose economic viability has been approved by the GKZ. They may not, however, include adjustment for technical and economic matters, such as mining dilution and losses.

The GKZ resource estimates for Sukhoi Log were prepared in 2007 according to GKZ guidelines. Following the Group's acquisition of the license for the development of Sukhoi Log on 21 February 2017, the Group expects an update of the estimate once exploration and feasibility studies are carried out. Information on Sukhoi Log's resources is based on publicly available information provided by the Russian Government and has not been prepared or verified by the Group. Resources and reserves reported under the GKZ system may differ materially from resources and reserves measured under the JORC Code.

Estimates for Sukhoi Log reported and classified under the JORC Code have also been included in this Prospectus. The Group has had limited time to review the available data for Sukoi Log. To reflect the uncertainty that remains until reviews of the resource data and modifying factors are complete, these estimates have been classified and reported in accordance with the JORC Code as an Inferred Mineral Resource. The Group plans a further review of the data used to develop the resource model grade estimates, and it is possible that the resource information currently available and included in this Prospectus with regard to Sukhoi Log may change after this review, perhaps materially.

Any and all references in this Prospectus to ounces of gold whether mined, produced, milled or extracted or whether references to ounces of gold of the Group's reserves and resources, or any reference to TCC or AISC per ounce sold, are references to troy ounces of gold.

**General Information**

In this Prospectus, references to: the "**Company**" or the "**Issuer**" are to Polyus Finance Plc; "**PJSC Polyus**" are to Public Joint Stock Company Polyus; "**JSC Polyus**" or "**Guarantor**" are to Joint Stock Company Polyus Krasnoyarsk; the "**Group**" are to PJSC Polyus together with its consolidated subsidiaries, including (to the extent applicable and unless otherwise indicated) the Company (which was incorporated on 28 March 2017) and the Guarantor; and "**PGIL**" are to Polyus Gold International Limited.

In this Prospectus, all references to "**Russia**" are to the Russian Federation. References to "**U.S.**" or the "**United States**" are to the United States of America. References to "**UK**" or the "**United Kingdom**" are to the United Kingdom of Great Britain and Northern Ireland. References to the "**EU**" or the "**European Union**" are to the union formed following ratification of the Maastricht Treaty and currently comprising 28 states, and references to "**Europe**" are to the geographical region of Europe, including those states which are members of the European Union.

Definitions of certain terminology associated with the Group's business are set forth under "*Glossary of Terms*".

***Currencies and Exchange Rates***

In this Prospectus, references to "**U.S. dollars**" or "**US$**" are to the lawful currency of the United States, references to "**roubles**" or "**RUB**" are to the lawful currency of the Russian Federation and references to "**euro**" or "**EUR**" are to the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended.

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in U.S. dollars. The functional currency of PJSC Polyus and its subsidiaries is the rouble. On consolidation, income statements are translated into U.S. dollars, the presentation currency for the Group, at monthly average exchange rates. Balance sheet items are translated into U.S. dollars at period-end exchange rates. These translations should not be construed as representations by the Company that roubles could be converted into U.S. dollars at the rate indicated or at any other rate.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the rouble and the U.S. dollar, based on the official exchange rate quoted by the Central Bank of the Russian Federation (the "**CBR**").

| | ***Roubles per U.S. dollar*** | | | |
|---|---|---|---|---|
| ***For the period*** | ***High*** | ***Low*** | ***Average***[(1)] | ***Period end*** |
| Year ended 31 December 2013 | 33.47 | 29.93 | 31.91 | 32.73 |
| Year ended 31 December 2014 | 67.79 | 32.66 | 38.60 | 56.26 |
| Year ended 31 December 2015 | 72.88 | 49.18 | 61.32 | 72.88 |
| Year ended 31 December 2016 | 83.59 | 60.27 | 66.83 | 60.66 |
| Year ended 31 December 2017 | 60.75 | 55.85 | 58.30 | 57.60 |
| Up to and including 24 January 2018 | 57.60 | 56.36 | 56.66 | 56.41 |

**Note:**

1. The average of the exchange rate for the relevant period, based on the rates in such period for each day in the relevant period for which the CBR published the exchange rate. It should be noted that the methodology for calculating average rates for a period for the purposes of the Annual Financial Statements is different than the methodology used in this table.

The exchange rate between the rouble and the U.S. dollar on 24 January 2018 was 56.41 roubles per US$1.00.

A market exists for the conversion of roubles into other currencies, but the limited availability of other currencies may tend to inflate their values relative to the rouble. Fluctuations in the exchange rate between the rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of certain information in this Prospectus. Solely for the convenience of the reader, certain amounts included in "*Business*" and elsewhere in this Prospectus have been, unless otherwise indicated, translated from roubles into U.S. dollars at the rate of RUB 58.02 per US$1.00, the official exchange rate as published by the CBR on 30 September 2017.

**Rounding**

Certain amounts that appear in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

**Reproduction of Information**

This Prospectus includes (i) in "*Industry Overview*", market data that the Group has obtained from, and attributed to, the World Gold Council, Russian Union of Gold Miners, Metals Focus or such other sources as are indicated therein, and (ii) Russian macroeconomic data obtained from information published by the CBR. The Company accepts responsibility for having correctly reproduced such information, and, as far as the Company is aware and has been able to ascertain from information published by those industry publications or public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Other market share information and other statements in this Prospectus regarding the industry in which the Group operates and the position of the Group relative to its competitors are not based on published statistical data or information obtained from independent third parties. Rather, such information and statements reflect the reasonable estimates of the Group based upon information obtained from trade and business organizations and associations, other contacts within the precious metals industry and annual reports and information published by other gold mining companies. This information from the internal estimates and surveys of the Group has not been verified by any independent sources.

## ENFORCEABILITY OF JUDGMENTS

The Company is a public limited company incorporated under the laws of England and Wales. The Guarantor is a joint stock company incorporated under the laws of the Russian Federation. Substantially all of the Guarantor's assets are located in the Russian Federation. In addition, the majority of the members of senior management of the Group and the Guarantor are nationals or residents of jurisdictions other than the United Kingdom or the United States, and may not be nationals or residents of other jurisdictions in which investors may be located, and all or a substantial portion of their assets are located outside the United Kingdom or the United States, and may be located outside other jurisdictions in which investors may be located. In particular, all of the Guarantor's operating assets are located in the Russian Federation, and most members of senior management of the Group and most of the senior management of the Guarantor are nationals or residents of the Russian Federation and all or a substantial portion of their assets are located in the Russian Federation.

It may be difficult for the Noteholders or the Trustee to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom or the United States, liabilities predicated upon English or U.S. securities laws. Courts in the Russian Federation will generally recognize judgments rendered by a court in any jurisdiction outside the Russian Federation only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the jurisdiction where the judgment is rendered or a federal law is adopted in the Russian Federation providing for the recognition and enforcement of foreign court judgments. No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain other jurisdictions, including the United Kingdom, and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation. As a result, new proceedings may have to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against the Company or its officers or directors or the Guarantor or its officers or directors. These limitations, as well as the general procedural grounds set out in Russian legislation for the refusal to recognize and enforce foreign court judgments in the Russian Federation, may significantly delay the enforcement of such judgments or deprive the Company, the Guarantor and/or the Noteholders of effective legal recourse for claims related to the investment in the Notes.

In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognized by a Russian court on the basis of reciprocity, if courts of the jurisdiction where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. In a number of recent instances, Russian courts have recognized and enforced a foreign court judgment (including English court judgments) on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which the Russian Federation and certain other jurisdictions, including the United Kingdom, are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant foreign court judgment in the Russian Federation. In the absence of established court practice, however, no assurances can be given that a Russian court would be inclined in any particular instance to recognize and enforce a foreign court judgment on these or similar grounds. The existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognize and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court.

Accordingly, it may be difficult or impossible for investors to:

- effect service of process within the United Kingdom, the United States or other jurisdictions in which investors may be located, on certain members of senior management of the Group or certain directors or members of senior management of the Guarantor;

- enforce judgments obtained in courts in the United Kingdom, the United States or other jurisdictions in which investors may be located, against the Guarantor's assets and against certain members of senior management of the Group or certain directors or members of senior management of the Guarantor; or
- enforce, in original actions brought in courts in the Russian Federation, liabilities predicated upon the civil liability provisions of the laws of the United Kingdom, the United States or the laws of other jurisdictions in which investors may be located.

The above limitations may deprive investors of effective legal recourse for claims related to an investment in the Notes.

Prospective investors should read the entire document and, in particular, the section headed "*Risk Factors*" when considering an investment in the Notes.

# OVERVIEW

*This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Prospectus, including the more detailed information regarding the Group's business and the financial statements and related notes included elsewhere in this Prospectus. Prospective purchasers of the Notes should also carefully consider the information set forth under the heading "Risk Factors". Certain statements in this Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements".*

## OVERVIEW OF THE GROUP

The Group is the largest gold mining group in Russia by both production and reserves, according to Metals Focus' Quarterly Gold Mine Cost Service report dated 24 February 2017. The Group is also the eighth largest gold company globally in terms of production, based on the Metals Focus Quarterly Gold Mine Cost Service report and publicly available reports, and is the second largest gold company globally in terms of attributable gold reserves (excluding Sukhoi Log), based on the latest reserves and resources statements of other gold mining companies. Since 2007, the Group's gold production has increased at a compound annual growth rate ("**CAGR**") of 6 per cent to 1,968 thousand ounces in 2016, principally as a result of expanding Olimpiada; launching production at the Blagodatnoye, Titimukhta and Verninskoye deposits; and introducing targeted optimization and debottlenecking projects at each of its mines.

The Group is committed to the Russian market and operates a portfolio of four core producing open pit mines with a major near-term greenfield development project. Its principal assets are located in the Krasnoyarsk, Irkutsk, Magadan and Republic of Sakha (Yakutia) regions of Russia.

The Group's mineral base as classified and reported according to the JORC Code includes 71 million ounces of Proved and Probable Ore Reserves and 193 million ounces of Measured, Indicated and Inferred Mineral Resources (including 58 million ounces of Inferred Mineral Resources for Sukhoi Log on a 100 per cent basis) as at 31 December 2016. Based on attributable 2016 production volumes and attributable Proved and Probable Ore Reserves (excluding Sukhoi Log), the Group has an average mine life of approximately 37 years.

In the nine months ended 30 September 2017, the Group had total gold sales of US$1,950 million, total revenue of US$1,978 million and profit for the period of US$974 million, and, as at 30 September 2017, total assets of US$6,040 million and total equity of US$386 million. The Group's Adjusted EBITDA was US$1,237 million in the nine months ended 30 September 2017. In 2016, the Group had total gold sales of US$2,429 million, total revenue of US$2,458 million and profit for the year of US$1,445 million, and, as at 31 December 2016, total assets of US$5,666 million and a total equity deficit of US$414 million. The Group's Adjusted EBITDA was US$1,536 million in 2016. The Group is well-positioned to maintain its position as one of the lowest-cost producers globally with total cash cost per gold ounce sold ("**TCC/oz**") of US$389/oz and average all-in sustaining cost per gold ounce sold ("**AISC/oz**") of US$572/oz in 2016 and TCC/oz of US$380/oz and AISC/oz of US$606/oz in the nine months ended 30 September 2017, placing the Group in the first decile of the 2017 global cost curves according to Metals Focus' Quarterly Gold Mine Cost Service report dated 28 November 2017. According to Bloomberg Intelligence, the Group is also one of the most profitable gold producers globally, with an Adjusted EBITDA margin of 62 per cent in 2016.

The Group's major gold deposits in Russia are:

- in the Krasnoyarsk region (representing 58 per cent of the Group's total Proved and Probable Ore Reserves and 74 per cent of the Group's total gold production in 2016 (72 per cent in the nine months of 2017)) – the Olimpiada deposit, which is the largest operating gold mine in

Russia according to Metals Focus' Quarterly Gold Mine Cost Service report for the third quarter of 2017, and the Blagodatnoye, Titimukhta and Poputninskoye deposits;

- in the Irkutsk region (representing 13 per cent of the Group's total Proved and Probable Ore Reserves (including the Chertovo Koryto deposit) and 18 per cent of the Group's total gold production in 2016 (19 per cent in the nine months of 2017)) – the Verninskoye deposit and Alluvials;
- in the Republic of Sakha (Yakutia) region (representing 6 per cent of the Group's total Proved and Probable Ore Reserves and 8 per cent of the Group's total gold production in 2016 (9 per cent in the nine months of 2017)) – the Kuranakh mine; and
- in the Magadan region (representing 23 per cent of the Group's Proved and Probable Ore Reserves) – the Natalka deposit, where production was officially launched in December 2017, with production expected to be fully ramped-up by the end of 2018.

Going forward, the Group is aiming to increase production from approximately 2.1 million ounces in 2017 to approximately 2.35-2.4 million ounces in 2018 and 2.8 million ounces by 2019. This would make the Group the fourth largest gold company globally in terms of production, based on production volumes for the largest gold producers as estimated by Wood Mackenzie. This anticipated increase is expected from the Natalka project, where production was launched at the end of 2017 and is expected to be ramped up by the end of 2018, and further anticipated production increases at existing operational assets with the development of low-risk, low-cost brownfield projects. Approximately 420-470 thousand ounces per annum (average over the life of mine) of targeted incremental gold production is expected after the ramp-up of the Natalka operations. On 21 February 2017, following an auction process instituted by the Russian Government, the Russian Federal Agency for Subsoil Use (the "**Rosnedra**") issued a license for the development of the Sukhoi Log deposit, one of the 30 largest gold mineral deposits globally in terms of reserves according to Metals Focus' Gold Focus 2016 report, with Total Inferred Mineral Resources of Sukhoi Log estimated at 58 million ounces with an average grade of 2.0 g/t in accordance with the JORC Code, to LLC "SL Gold" ("**SL Gold**"), PJSC Polyus' indirect subsidiary.

In December 2016, JSC Polyus entered into a number of cash option agreements with LLC "RT Business Development" ("**RT**"), a wholly owned subsidiary of Russian state-owned Rostec Corporation, to acquire a 23.9 per cent stake in SL Gold between 2017 to 2022. In May 2017, the Group exercised the first option agreement for US$21 million and increased its stake in SL Gold by 3.6 per cent. In July 2017, JSC Polyus entered into a number of additional option agreements with RT to acquire an additional 25.1 per cent participation interest in SL Gold. Total consideration for the additional 25.1 per cent participation interest is fixed at US$146 million and will be payable in PJSC Polyus' shares within the next five years in five tranches, with JSC Polyus having the right to accelerate the dates of these transactions. Subsequently, in July 2017, the Group exercised the first option agreement of the additional set of options for US$22 million and increased its stake in SL Gold by 3.8 per cent. Currently, the Group owns a 58.4 per cent stake in SL Gold.

The development of Sukhoi Log is expected to be a significant contributor to the Group's long-term strategy. In November 2017, the Group started a 180,000 meter drilling campaign at the Sukhoi Log deposit, which is scheduled to last two years and will provide the basis for the Group to update the block model for the deposit and provide both Ore Reserve and Measured and Indicated Mineral Resource estimates in accordance with the JORC Code. The Group has instructed Hatch Ltd and SRK Consulting (UK) Ltd ("**SRK**") to conduct a scoping study, which is expected to be completed by mid-2018, and intends to conduct a feasibility study, which is currently expected to last for approximately four years, with the assistance of international mining and engineering consultants. Based on the results of the feasibility study, the Group will evaluate options to start construction at Sukhoi Log.

The table below sets out the Ore Reserves and Mineral Resources of the Group according to the JORC Code as at 31 December 2016.

| | Proved | | | Probable | | | Proved and Probable | | |
|---|---|---|---|---|---|---|---|---|---|
| | Tonnes (mln tonnes)[1] | Gold Grade (g/t)[1] | Gold (mln ounces) | Tonnes (mln tonnes)[1] | Gold Grade (g/t)[1] | Gold (mln ounces) | Tonnes (mln tonnes)[1] | Gold Grade (g/t)[1] | Gold (mln ounces) |
| ***Operating assets*** | | | | | | | | | |
| Olimpiada | 6.5 | 2.5 | 0.51 | 309 | 3.0 | 30 | 316 | 3.0 | 30 |
| Blagodatnoye | 42 | 0.9 | 1.1 | 182 | 1.5 | 8.9 | 223 | 1.4 | 10 |
| Titimukhta | 5.3 | 1.6 | 0.27 | 6.5 | 3.1 | 0.65 | 12 | 2.4 | 0.91 |
| Verninskoye[3] | 11 | 1.3 | 0.45 | 86 | 1.7 | 4.8 | 96 | 1.7 | 5.3 |
| Alluvials[2] | 0 | 0 | 0 | 105 | 0.34 | 1.1 | 105 | 0.34 | 1.1 |
| Kuranakh | 0 | 0 | 0 | 136 | 1.0 | 4.5 | 136 | 1.0 | 4.5 |
| **Total operating assets** | **64** | **1.1** | **2.4** | **824** | **1.9** | **50** | **888** | **1.8** | **52** |
| ***Mine under construction*** | | | | | | | | | |
| Natalka | 146 | 1.6 | 7.3 | 147 | 1.8 | 8.5 | 293 | 1.7 | 16 |
| **Total under construction** | **146** | **1.6** | **7.3** | **147** | **1.8** | **8.5** | **293** | **1.7** | **16** |
| ***Greenfield projects*** | | | | | | | | | |
| Sukhoi Log | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Panimba / Razdolinskoye | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Poputninskoye | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Zmeinoye | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Chertovo Koryto | 0 | 0 | 0 | 62 | 1.5 | 3.1 | 62 | 1.5 | 3.1 |
| Bamskoye | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Degdekan | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Burgankhchany | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Zapadnoye[4] | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Medvezhy[5] | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total greenfield projects** | **0** | **N.A.** | **0** | **62** | **1.5** | **3.1** | **62** | **1.5** | **3.1** |
| **Total** | **210** | **1.4** | **9.7** | **1,033** | **1.8** | **61** | **1,243** | **1.8** | **71** |

1. The estimates for all deposits are presented on a 100 per cent basis.
2. For the Alluvials, cubic meters ($m^3$) have been converted to tonnages using the general bulk density factor of 1.85 $t/m^3$ strictly for the purpose of the summary accumulations. Gold grades have been adjusted from $g/m^3$ to g/t, accordingly.
3. Including the Smezhny deposit.
4. Adjacent to the Sukhoi Log deposit.
5. Adjacent to the Verninskoye deposit.

| | Measured | | | Indicated | | | Inferred | | | Measured, Indicated and Inferred | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Tonnes (mln tonnes)[1] | Gold Grade (g/t)[1] | Gold (mln ounces) | Tonnes (mln tonnes)[1] | Gold Grade (g/t)[1] | Gold (mln ounces) | Tonnes (mln tonnes)[1] | Gold Grade (g/t)[1] | Gold (mln ounces) | Tonnes (mln tonnes)[1] | Gold Grade (g/t)[1] | Gold (mln ounces) |
| ***Operating assets*** | | | | | | | | | | | | |
| Olimpiada | 6.5 | 2.5 | 0.51 | 340 | 3.1 | 34 | 127 | 2.9 | 12 | 474 | 3.0 | 46 |
| Blagodatnoye | 42 | 0.9 | 1.1 | 309 | 1.5 | 15 | 69 | 1.3 | 2.9 | 420 | 1.4 | 19 |
| Titimukhta | 5.3 | 1.6 | 0.27 | 7.2 | 3.3 | 0.8 | 0.54 | 1.5 | 0.03 | 13 | 2.5 | 1.1 |
| Verninskoye[3] | 11 | 1.3 | 0.45 | 212 | 1.6 | 11 | 14 | 2.0 | 0.9 | 237 | 1.6 | 12 |
| Alluvials[2] | 0 | 0 | 0 | 243 | 0.21 | 1.6 | 34 | 0.40 | 0.44 | 277 | 0.23 | 2.1 |
| Kuranakh | 0 | 0 | 0 | 148 | 1.1 | 5.4 | 100 | 1.2 | 3.8 | 248 | 1.2 | 9.2 |
| **Total operating assets** | **64** | **1.1** | **2.4** | **1,260** | **1.7** | **67** | **344** | **1.8** | **20** | **1,669** | **1.7** | **89** |
| ***Mine under construction*** | | | | | | | | | | | | |
| Natalka | 150 | 1.7 | 8.2 | 261 | 1.8 | 16 | 148 | 2.1 | 9.9 | 558 | 1.9 | 34 |
| **Total under construction** | **150** | **1.7** | **8.2** | **261** | **1.8** | **16** | **148** | **2.1** | **9.9** | **558** | **1.9** | **34** |

| | Measured | | | Indicated | | | Inferred | | | Measured, Indicated and Inferred | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Tonnes (mln tonnes)[1] | Gold Grade (g/t)[1] | Gold (mln ounces) | Tonnes (mln tonnes)[1] | Gold Grade (g/t)[1] | Gold (mln ounces) | Tonnes (mln tonnes)[1] | Gold Grade (g/t)[1] | Gold (mln ounces) | Tonnes (mln tonnes)[1] | Gold Grade (g/t)[1] | Gold (mln ounces) |
| ***Greenfield projects*** | | | | | | | | | | | | |
| Sukhoi Log | 0 | 0 | 0 | 0 | 0 | 0 | 887 | 2.0 | 58 | 887 | 2.0 | 58 |
| Panimba / Razdolinskoye | 5.0 | 2.3 | 0.36 | 11 | 2.3 | 0.83 | 24.0 | 1.8 | 1.4 | 40 | 2.0 | 2.6 |
| Poputninskoye | 0 | 0 | 0 | 37 | 3.2 | 3.9 | 4.4 | 2.9 | 0.42 | 42 | 3.2 | 4.3 |
| Zmeinoye | 0 | 0 | 0 | 0.93 | 5.0 | 0.15 | 2.0 | 4.5 | 0.28 | 2.9 | 4.6 | 0.43 |
| Chertovo Koryto | 0 | 0 | 0 | 67 | 1.5 | 3.3 | 7.8 | 1.3 | 0.33 | 75 | 1.5 | 3.6 |
| Bamskoye | 0 | 0 | 0 | 15 | 1.8 | 0.9 | 5.1 | 1.6 | 0.26 | 20 | 1.8 | 1.1 |
| Degdekan | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Burgakhchany | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Zapadnoye[4] | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Medvezhy[5] | 0 | 0 | 0 | 0 | 0 | 0 | 6.5 | 1.8 | 0.38 | 6.5 | 1.8 | 0.38 |
| **Total greenfield projects** | **5.0** | **2.3** | **0.36** | **131** | **2.1** | **9.0** | **937** | **2.0** | **61** | **1,073** | **2.0** | **70** |
| **Total** | **219** | **1.6** | **11** | **1,652** | **1.7** | **92** | **1,429** | **2.0** | **91** | **3,301** | **1.8** | **193** |

1. The estimates for all deposits are presented on a 100 per cent basis.
2. For the Alluvials, cubic meters ($m^3$) have been converted to tonnages using the general bulk density factor of 1.85 $t/m^3$ strictly for the purpose of the summary accumulations. Gold grades have been adjusted from $g/m^3$ to g/t, accordingly.
3. Including the Smezhny deposit.
4. Adjacent to the Sukhoi Log deposit.
5. Adjacent to the Verninskoye deposit.

## Strengths

The directors of the Company believe that the Group's competitive strengths include:

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

With 2017 production of approximately 2.1 million ounces and 71 million ounces of Proved and Probable Ore Reserves, the Group is the largest gold mining company in Russia by both production and reserves, according to Metals Focus' Quarterly Gold Mine Cost Service report dated 24 February 2017. The Group is also the eighth largest gold company globally in terms of production, based on the Metals Focus Quarterly Gold Mine Cost Service report and publicly available reports, and is the second largest gold company globally in terms of attributable gold reserves (excluding Sukhoi Log), based on the latest reserves and resources statements of other gold mining companies. The Group benefits from an average mine life of approximately 34 years based on attributable 2017 production volumes, which is over two times higher than the average mine life of its top ten global peers. All of the Group's mines are open pit and have an average reserve grade of 1.8 g/t (2.0 g/t excluding heap leaching and the Group's alluvial operations). Because of its strong foothold in, and commitment to, the Russian market, the Group believes that it is well-positioned to capitalize on existing and future opportunities in the region and 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 optimization and project development, achieving a 30 per cent increase in production from 2013 to 2017, the Group believes that the Group 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 approximately 2.1 million ounces in 2017 to approximately 2.8 million ounces in 2019, representing 33 per cent growth and a 15 per cent CAGR. Approximately 420-470 thousand

ounces per annum (average over the life of mine) are expected after the ramp up of the Natalka operations, where production was launched at the end of 2017 and is expected to be ramped up by the end of 2018. Further gold production growth is expected from the expansions and further debottlenecking measures at Olimpiada, Blagodatnoye, Verninskoye and Kuranakh. Given its comfortable liquidity position and experience in asset development, the Group believes that the Group is well-positioned to bring its existing development projects into production. As the Group has received the license for the Sukhoi Log deposit, the subsequent development of the Sukhoi Log deposit, one of the Group's mid-term projects, is expected to enhance significantly the Group's existing production growth profile.

***A leading low-cost profile, with sustainable cost advantage as 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 on-going operational efficiency initiatives undertaken by current management between the end of 2013 and 2016. As a result, the Group's average TCC/oz and average AISC/oz of US$380/oz and US$606/oz in the nine months ended 30 September 2017, respectively, are in the first decile of the 2017 global cost curves, having moved from the fifth decile of the global cost curve, according to Metals Focus' Quarterly Gold Mine Cost Service report dated 28 November 2017. Furthermore, in 2014, as part of its focus on operational excellence and cost discipline, the Group launched the Total Optimization Program ("**TOP**") to incentivize the implementation of capital expenditure-light operational improvements across its business. The TOP's objective is to introduce quick 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. In 2016, operational efficiency measures generated US$134 million in total adjusted EBITDA improvements. From 2013 to 2016, adjusted EBITDA increased by 68 per cent from US$917 million to US$1,536 million. The Group intends to retain its status as one of the lowest-cost gold producers globally.

***Extensive and successful experience in asset development and optimization***

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 with Blagodatnoye and Verninskoye. Construction of Blagodatnoye, which is one of the largest Russian exploration projects developed in the last decade and which contributed 23 per cent of the Group's output in 2016, was completed in two years from its greenfield state, including commissioning all the supporting infrastructure. In addition, the current management team has demonstrated strong capabilities in optimizing and debottlenecking existing operations. Following a number of targeted improvements in mining and processing technologies, cash costs, recovery rates and throughput capacity have improved substantially at Olimpiada, Blagodatnoye, Kuranakh and Verninskoye. Also, most of the brownfield development projects identified in the Strategic Asset Review Program either had already been completed by the end of 2017 or are expected to be finalized in the near future, facilitating an increase in production of 30 per cent to 2.1 million ounces in 2017 as compared to 2013.

***Ability to efficiently expand resource base***

Because of its strong foothold in, and commitment to, the Russian market, the Group believes that it is well-positioned to capitalize on existing and future opportunities in the region and has a competitive advantage in bidding for new licenses and assets. On 21 February 2017, the Rosnedra issued a license for the development of the Sukhoi Log deposit to SL Gold, a company established by JSC Polyus and RT. The Sukhoi Log deposit is one of the 30 largest gold mineral deposits globally in terms of reserves, according to Metals Focus' Gold Focus 2016 report. Total Inferred Mineral Resources at

Sukhoi Log were estimated at 58 million ounces with an average grade of 2.0 g/t in accordance with the JORC Code.

**Strategy**

The Group's strategy is to create value by focusing on growing organically through the execution of expansion projects and the construction and launch of projects at new deposits that the Group owns. By pursuing this strategy, the Group seeks to provide investors with access to a company capable of generating industry-leading shareholder returns, while maintaining a commitment to operational excellence and its social and environmental responsibilities. The Group's current corporate strategy focuses on the following aspects:

- ***Maintain and Expand Extensive Reserve and Resources Base***: The Group is operating in the gold-rich CIS region. According to Metals Focus' "Gold Focus 2016" report, the Group successfully operates and develops two of three Russian deposits included in the list of the 30 largest gold assets globally in terms of resources, Olimpiada and Natalka. With the acquisition of the license for the Sukhoi Log deposit, which is the third Russian deposit included in the list, the Group further enhanced its operational profile. Moreover, the Group is the largest gold mining company in Russia by reserves, according to Metals Focus' Quarterly Gold Mine Cost Service report dated 24 February 2017, and the second largest gold company globally in terms of attributable gold reserves, based on the latest reserves and resources statements of other gold mining companies, with 71 million ounces of Proved and Probable Ore Reserves. The Group's operations are supported by an average mine life of approximately 34 years based on attributable 2017 production volumes (excluding Sukhoi Log).

- ***Pursue Capital-efficient Growth Opportunities***: The Group surpassed its annual production guidance by 5 per cent to 1,696 thousand ounces in 2014 (guidance of 1,580 to 1,650 thousand ounces), 6 per cent to 1,763 thousand ounces in 2015 (guidance of 1,630 to 1,710 thousand ounces), 11 per cent to 1,968 thousand ounces in 2016 (initial guidance range of 1,760 to 1,800 thousand ounces) and 3 per cent to 2,160 thousand ounces in 2017 (guidance of 2,075 to 2,125 thousand ounces). Following a 30 per cent increase in gold production from 2013 to 2017, the Group aims to deliver sustainable organic growth by executing an identified set of brownfield development projects. These projects are expected to enable the Group to extract maximum output from existing assets through targeted expansion and debottlenecking initiatives with high internal rates of return ("**IRRs**"). Additionally, the Group is developing a large scale greenfield project – Natalka (where production was launched at the end of 2017 and is expected to be ramped up by the end of 2018) – and is exploring Sukhoi Log and Chertovo Koryto. The Group launched additional exploration works and intends to conduct a feasibility study at Sukhoi Log, supported by international mining and engineering consultants. Based on the results of the feasibility study, the Group will evaluate options to initiate construction activities at Sukhoi Log. The Group expects that eventual development of the Sukhoi Log deposit should significantly enhance the Group's existing production growth profile. The development of the Sukhoi Log deposit, along with the Chertovo Koryto deposit as part of the development of the Irkutsk business unit, will comprise the next stage of the Group's growth strategy. One of the main strategic targets for the Group is to bring extensive ounces of reserves into low-cost profitable ounces of production.

- ***Preserve Cost Leadership***: 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 its large scale "Tier 1" assets, which are long-life, large-scale and low-cost assets. The Group also plans to continue implementing operational efficiency initiatives aimed at throughput and recovery rate increase as well as cost reduction.

- ***Striking a Balance Between Shareholder Returns and Optimal Capital Structure:*** The Group has set a dividend policy that is focused on shareholder returns. Under its dividend policy, the Group will pay dividends on a semi-annual basis in an amount of 30 per cent of the EBITDA for the applicable reporting period, provided that the net debt/adjusted EBITDA ratio for the last 12 months based on the consolidated financial statements of the Group is lower than 2.5x, with a minimum dividend payout in respect of each of the years 2017 and 2018 in the amount of US$550 million. With net debt/adjusted EBITDA ratio at 1.9x as of 30 September 2017 and a robust cash generation profile, the Group believes that the Group is well-positioned to maintain leverage below its target threshold. As at the date of the Prospectus, the Group continues to have a comfortable leverage profile with limited repayments in the coming years and a strong cash position, which the Group believes will allow it to meet its financing obligations and the planned capital expenditures program.

- ***Maintain High Standards of Corporate Governance and Corporate Disclosure***: The Group is committed to maintaining high standards of corporate governance and disclosure. The Group's board of directors includes four 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 of directors, former member of the board of directors and Executive Director for Mining and Exploration at De Beers, has over 30 years of experience in the mining industry and currently serves as the Chairman of the board of directors of Alacer Gold, and as a member of the board of directors 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 natural resources industry. William Champion has over 30 years of experience in the mining industry and currently serves on the board of directors of Compañía de Minas Buenaventura, Peru's largest publicly traded precious metals company. Maria Gordon has 20 years of experience in finance and capital markets and currently serves on the board of directors of the Moscow Exchange and Alrosa, the world's largest diamond producer. 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 such Committees are chaired by an independent non-executive director.

- ***Maintain Stringent Health and Safety Standards***: The Group is committed to the best HSE practices and is continuing implementation of a two-year action plan that commenced in 2015 to ensure full compliance with the ICMM Sustainable Development principles. According to the ICMM website, the Group is the only group in Eastern Europe and one of only three companies from emerging markets that is a member of the ICMM. The Group is committed to implement fully the ICMM Sustainable Development principles. The Group's ultimate goal is to achieve a zero fatality rate.

**Strategic Asset Review**

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

development and expansion projects, and various operational and other risks described elsewhere in this Prospectus. Under the Strategic Asset Review Program, the brownfield projects include:

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

As of the end of 2017:

- the reconfiguration of Mill No. 1 to process higher-grade ore from the Olimpiada deposit was completed in September 2016;
- the throughput run rate at the Blagodatnoye Mill was stabilized at 8.0 mtpa and reached 8.1 mtpa;
- the throughput run rate at the Kuranakh Mill reached 5.0 mtpa;
- the throughput run rate at the Verninskoye Mill reached 2.7 mtpa and the Group is now implementing initiatives to proceed with further capacity expansion;
- four out of eight units of an additional bio-oxidation circuit (BIO-4) at Olimpiada's Mills No. 1, 2 and 3 complex have been launched;
- heap leaching operations at Kuranakh have been implemented, with further ramp up expected with the start of the leaching season in 2018; and
- column tests continued at the Blagodatnoye heap leaching project site.

The Group is currently studying other options to further develop its existing operations in the Krasnoyarsk region, including further throughput capacity expansion.

**Total Optimization Program (TOP)**

In 2014, as part of its focus on operational excellence and cost discipline, the Group launched the TOP to streamline the implementation of capital expenditure-light operational improvements across its business. The TOP's objective was to introduce quick measures with a proven economic effect and that do not require investment in excess of RUB 35 million per initiative. Such measures have a payback period of not more than two years. The improvement in efficiency of the Group's operations is due to the standardization of business processes, increased productivity and a reduction in losses.

The TOP was initially only launched at the Olimpiada and Blagodatnoye business units, where a total of 164 initiatives have been implemented since 2014. For example, following the review of the drive layout for the wet SAG mill (7x7) No. 10, the Group decided to replace an intermediate shaft with a

lighter, hollow shaft with two bearing supports. This resulted in the reduction in pressure emitted from components and an even distribution of the load between both sides of a ring gear. The installation of a ring gear with a smaller diameter helped increase the shell rotation rate during repair works leading to shorter downtime, and a new design of the drive enabled the changing of a pinion together with a semi-coupling and a ring gear that reduced idle time at the mill. The implementation of this initiative resulted in a reduction of the mill drive downtime from two 60 hour periods each year to one 48 hour period per year; a decrease in the spare parts consumption rate from 10 to 4 per year for bearings and from 5 to 2 per year for pinions; and the additional recovery of 85 kg of gold per year. The Adjusted EBITDA effect of this initiative is estimated to be US$8.4 million.

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

The TOP has also had a positive impact on the Group's other business units, such as Verninskoye and Alluvials. With respect to the Group as a whole, the Group estimates that the TOP delivered a US$94 million positive impact on the Group's earnings in 2015 from 88 initiatives and a US$150 million positive impact on the Group's earnings in 2016 from 190 initiatives. By business unit, the Group estimates that the TOP has delivered a positive impact on Adjusted EBITDA in 2017 from 283 implemented initiatives as follows: Olimpiada and Blagodatnoye business units: US$99.8 million from 76 initiatives; Verninskoye: US$20.4 million from 86 initiatives; Kuranakh: US$12.9 million from 101 initiatives; and Alluvials: US$4.9 million from 20 initiatives. The Group expects further improvement in 2018.

**Risk Factors**

Investment in the Notes involves a high degree of risk. For a detailed discussion of the risks and other factors to be considered when making an investment with respect to the Notes, see "*Risk Factors*" and "*Forward-Looking Statements*". Prospective investors in the Notes should carefully consider the risks and other information contained in this Prospectus prior to making any investment decision with respect to the Notes. Prospective investors should note that risks described in this Prospectus are not the only risks Polyus faces. The Company and the Guarantor have described only the risks they consider to be material. However, there may be additional risks that they currently consider immaterial or of which they are currently unaware.

**OVERVIEW OF THE OFFERING**

*The following is an overview of the terms of the Securities. This overview is derived from, and should be read in conjunction with, the full text of the Terms and Conditions of the Notes (the "**Conditions**") and the Trust Deed constituting the Notes, which prevail to the extent of any inconsistency with the terms set out in this overview. Capitalized terms used herein and not otherwise defined have the respective meanings given to such terms in the relevant Conditions.*

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| Notes being offered | US$500,000,000 4.70 per cent guaranteed notes due 2024 |
| Issuer | Polyus Finance Plc |
| Guarantor | Joint Stock Company Polyus Krasnoyarsk |
| Joint Lead Managers | Bank GPB International S.A., J.P. Morgan Securities plc, Renaissance Securities (Cyprus) Limited, SIB (Cyprus) Limited and VTB Capital plc |
| Co-Manager | CREDIT BANK OF MOSCOW (public joint-stock company) |
| Issue price | 100 per cent |
| Maturity date | 29 January 2024 |
| Interest | The Notes will bear interest at the rate of 4.70 per cent per annum from and including 29 January 2018. |
| Interest payment dates | Interest on the Notes will be payable semi-annually in arrears on 29 January and 29 July of each year starting on 29 July 2018 (the "**First Interest Payment Date**"). |
| Ranking of the Notes and the Guarantee | The Notes will constitute direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the Issuer and shall at all times rank *pari passu* and rateably without any preference among themselves. The Guarantee will constitute direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the Guarantor. Each of the Issuer and the Guarantor shall ensure that at all times the claims of the holders of the Notes against them under the Notes and the Guarantee, respectively, rank in right of payment at least *pari passu* with the claims of all of their other present and future unsecured and unsubordinated creditors, save those whose claims are preferred by any mandatory operation of law. |
| Use of proceeds | The Company intends to use the net proceeds from the issue of the Notes primarily for debt refinancing and other general corporate purposes of the Group. |
| Further issues | The Issuer may from time to time, without the consent of the holders of the Notes, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects save for the first payment of interest thereon) so that such further issue shall be consolidated and form a single series with the outstanding Notes. Any such other securities shall be constituted by a deed supplemental to the Trust Deed and will benefit from a guarantee substantially in the form of the Guarantee. See "*Terms and Conditions of the Notes — Further Issues*". |
| Additional amounts | Any payments made by the Issuer or the Guarantor in respect of the Notes or the Guarantee will be made without withholding or deduction for taxes imposed or levied by any Relevant Jurisdiction, unless required by law. If withholding or deduction for such taxes is required to be made with respect to a payment on the Notes or the Guarantee, subject to certain exceptions, the Issuer or the Guarantor, as the case may be, will pay such additional amounts as may be necessary so that the net amount received by the |

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| | Noteholders after such withholding or deduction is not less than the amount that they would have received in the absence of such withholding or deduction. See "*Terms and Conditions of the Notes — Taxation*". |
| Redemption under make whole call option | The Notes may be redeemed early at the option of the Issuer, in whole but not in part, at the Make Whole Optional Prepayment Amount (as defined under "*Terms and Conditions of the Notes — Redemption and Purchase — Optional redemption at the option of the Issuer under make whole call option*") on giving not less than 30 nor more than 60 days' notice to the Noteholders. |
| Redemption under par call option | The Notes may be redeemed early at the option of the Issuer, in whole or in part, at 100 per cent of the principal amount thereof plus accrued and unpaid interest to the date fixed for such early redemption by giving not less than 10 nor more than 60 days' notice to the Noteholders, as described under "*Terms and Conditions of the Notes — Redemption and Purchase — Option redemption at the option of the Issuer under par call option*". |
| Redemption at the option of Noteholders | If the Additional Guarantee Event (as defined under "*Terms and Conditions of the Notes —Redemption and Purchase — Redemption at the option of Noteholders*") has not occurred, any Noteholder may require the Issuer to redeem or, at the Issuer's option, purchase such Note at 101 per cent of the principal amount thereof plus accrued and unpaid interest up to but excluding the Additional Guarantee Event Put Payment Date (as defined under "*Terms and Conditions of the Notes —Redemption and Purchase — Redemption at the option of Noteholders*") by exercising the Additional Guarantee Event Put Option (as defined under "*Terms and Conditions of the Notes —Redemption and Purchase — Redemption at the option of Noteholders*") not less than 30 nor more than 60 days after the Issuer has given notice to the Noteholders that an Additional Guarantee Put Event (as defined under "*Terms and Conditions of the Notes —Redemption and Purchase — Redemption at the option of Noteholders*") has occurred, as described under "*Terms and Conditions of the Notes — Redemption and Purchase — Redemption at the option of Noteholders*. |
| Redemption for tax reasons | The Notes may be redeemed early at the option of the Issuer, in whole but not in part, at any time at 100 per cent of the principal amount thereof plus accrued and unpaid interest and additional amounts, if any, to the date fixed for such early redemption if certain changes affecting taxation in any Relevant Jurisdiction would require the Issuer or the Guarantor to pay additional amounts, as described under "*Terms and Conditions of the Notes — Redemption and Purchase — Redemption for Tax Reasons*". |
| Form and denomination | The Notes will be in registered form, without interest coupons attached, in denominations of US$200,000 or multiples of US$1,000 in excess thereof.<br><br>The Notes will be issued in the form of the Regulation S Global Note and the Rule 144A Global Note, each in registered form without interest coupons. The Regulation S Global Note will be deposited with The Bank of New York Mellon, London Branch as |

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| | common depositary for, and registered in the name of The Bank of New York Depository (Nominees) Limited as a nominee of, Euroclear and Clearstream, Luxembourg. The Rule 144A Global Note will be deposited with The Bank of New York Mellon, New York Branch as custodian for, and registered in the name of Cede & Co., as nominee of DTC. Ownership interests in the Regulation S Global Note and the Rule 144A Global Note will be shown on, and transfer thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances. |
| Listing and Trading | Application has been made to the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's regulated market. References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC.<br><br>It is expected that the Notes may be admitted to trading or listed on other stock exchanges, including the Moscow Exchange. |
| Events of Default and certain covenants | The terms and conditions of the Notes contain events of default and covenants (including a cross-default provision and a negative pledge) as described further in "*Terms and Conditions of the Notes — Events of Default*" and "*Terms and Conditions of the Notes — Covenants*". |
| Trustee | BNY Mellon Corporate Trustee Services Limited. |
| Principal Paying Agent | The Bank of New York Mellon, London Branch. |
| Registrar and a Transfer Agent | The Bank of New York Mellon SA/NV, Luxembourg Branch. |
| U.S. Paying Agent and a Transfer Agent | The Bank of New York Mellon, New York Branch. |
| Governing law | The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection therewith shall be governed by and construed in accordance with English law. |
| Risk factors | Prospective purchasers of the Notes should consider carefully all of the information set forth in this Prospectus and, in particular, the information set forth under "*Risk Factors*" below before making an investment in the Notes. |
| Selling restrictions | The Notes are subject to selling restrictions in the United States, the United Kingdom and the Russian Federation. See "*Subscription and Sale*". |

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| Security Codes | Regulation S ISIN: XS1713474325<br>Regulation S Common Code: 171347432<br>Regulation S CFI: DBXXXR<br>Regulation S FISN: POLYUS FINANCE/1 20240129 RESTN<br>Rule 144A ISIN: US73181LAA98<br>Rule 144A Common Code: 111730962<br>Rule 144A CUSIP: 73181LAA9<br>Rule 144A CFI: DBFGGR<br>Rule 144A FISN: POLYUS FIN PLC/GTD NT 20240129 GTD |
| Expected rating of the Notes | "Ba1" (outlook negative) Moody's, "BB-" (outlook positive) Fitch, "BB-" (outlook positive) Standard & Poor's.<br><br>A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.<br><br>Fitch is established in the European Union and is registered under the Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**"). As such, Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation. Standard and Poor's is established in the European Union and is registered under the CRA Regulation. As such, Standard and Poor's is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation. |

# RISK FACTORS

*Investment in the Notes involves a high degree of risk. Prospective investors in the Notes should carefully consider the following information about the risks described below, together with other information contained in this Prospectus, prior to making any investment decision with respect to the Notes. The risks highlighted below could have a material adverse effect on the Group's business, results of operations, financial condition or prospects, which, in turn, could have a material adverse effect on the ability of the Company to service its payment obligations under the Notes. In addition, the trading price of the Notes could decline if any of these risks materialize, and Noteholders may lose some or all of their investment.*

*Prospective investors should note that the risks described below are not the only risks the Group faces. The Company has described only the risks it considers to be material. However, there may be additional risks that it currently considers immaterial or of which it is currently unaware, and any of these risks could have the effect set forth above.*

## RISKS ASSOCIATED WITH THE GROUP'S BUSINESS AND THE GOLD MINING INDUSTRY

***The financial results of companies operating in the gold mining industry depend largely on the price of gold, which may be subject to significant volatility***

The Group derives substantially all of its revenue from the sale of gold. Accordingly, its financial results largely depend on the price of gold. The gold market is cyclical and sensitive to changes in general economic conditions, and may be subject to significant volatility. As a result, it is not possible to forecast accurately the price of gold. The price of gold is influenced by various factors, many of which are outside the control of the Group, including, but not limited to:

- global and regional economic and political conditions;
- global and regional supply and demand, and expectations of future supply and demand;
- speculative trading activities in gold;
- actual, expected or rumored purchase or release of built-up reserves of gold by central banks or other large holders or dealers, as well as purchases under hedging contracts;
- military conflicts and acts of terrorism;
- changes in the use of gold in industrial applications or as an investment, as well as fluctuations in the demand for jewellery;
- local and foreign government regulations and regulatory actions, including export quotas;
- the overall level of forward sales by other gold producers;
- the overall level and cost of production of other gold producers;
- currency exchange rates, particularly movements in the value of the U.S. dollar against other currencies; and
- actual or expected inflation and interest rates.

The global gold price has declined significantly since 2012, and has been subject to volatile movements over short periods of time. In 2014, the gold price fluctuated between US$1,142 per ounce and US$1,385 per ounce. In 2015, the average London afternoon gold pricing fixing was US$1,160 per ounce, 8 per cent lower than in 2014, when it averaged US$1,266 per ounce. In 2016, the average London afternoon gold pricing fixing was US$1,251 per ounce, 8 per cent higher than in

2015. In 2017, the average London afternoon gold pricing fixing was US$1,257, remaining flat as compared to 2016. Gold opened in 2018 at US$1,312 per ounce and was US$1,354 per ounce on 24 January 2018.

In the case of a significant and prolonged reduction in the price of gold, the Group may be required to revise its exploration and development plans and budget, and if the price falls below the Group's cost of production, it may determine that it is not economically feasible to continue commercial production at some or all of its operations or the development of all of its current prospects. In such circumstances, the Group may curtail or suspend some or all of its exploration and production activities or be required to draw down (without replacement) or restate downwards its reserves, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Significant sustained declines in the price of gold may render any of the gold exploration or development activities to be undertaken by the Group less profitable or unprofitable and may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In March 2014, the Group initiated the Strategic Price Protection Program ("**SPPP**"), comprised of a series of zero cost Asian gold collars and gold forward contracts, aimed at increasing the price certainty of a material proportion of the Group's cash flow in light of gold price volatility (44.5 per cent of total gold sold in 2016 was covered by the SPPP). See note 13 to the 2016 Financial Statements. Although hedging can generally reduce exposure to volatility in the gold price, it may also deprive the Group of the benefits of a possible appreciation in the gold price to the extent of the proportion of sales covered by the hedge. Even if the Group has hedging in place, it cannot be guaranteed that the counterparties to the hedging arrangements will not fail to comply with the terms of these arrangements. Any of the foregoing risks, if materialized, may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group's Olimpiada deposit generates a significant portion of the Group's total gold production, leaving the Group exposed to adverse effects of a disruption to its operations***

In 2016, the Group derived 48 per cent of its gold production from its operations at the Olimpiada deposit. Gold production facilities located in the Krasnoyarsk region (the Olimpiada and Blagodatnoye business units) generated 76 per cent of the Group's Adjusted EBITDA, 73 per cent of its total gold sales and 72 per cent of its total revenue in 2016, and 78 per cent of the Group's Adjusted EBITDA, 74 per cent of total gold sales and 74 per cent of its total revenue in the nine months of 2017. See "*Business — Principal Operations — Krasnoyarsk region — Olimpiada deposit*" and "*Operating and Financial Review — Summary of performance results by business units — Olimpiada business unit, Blagodatnoye business unit)*". To the extent that the Group's operations at Olimpiada are subject to a temporary or prolonged disruption, including, among other things, as a result of suspension or termination of mining licenses, major equipment failure, failure to receive required supplies in a timely manner or at all, or catastrophic events, such as fires, floods or adverse weather conditions, the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes could be materially adversely affected. See "*— The Group may incur losses from uninsured or self-insured risks*".

***The development of Sukhoi Log is subject to risks***

The Group participated in the auction announced by the Russian government on 2 December 2016 (Decree of the Government of the Russian Federation No. 2550-r dated 30 November 2016) for the Sukhoi Log deposit, one of the 30 largest gold mineral deposits globally in terms of resources

according to Metals Focus' Gold Focus 2016 report. On 21 February 2017, further to the Governmental decree confirming the results of the auction, the Rosnedra issued a license for the development of the Sukhoi Log deposit to SL Gold (as defined below).

In order to be eligible under applicable Russian laws to participate in the auction for Sukhoi Log, the Group established a subsidiary, SL Gold. The Group holds a 58.4 per cent interest in SL Gold, with the remaining 41.6 per cent interest held by RT (see "*—The on-going conflict in Ukraine and the international reaction to Russia's action in connection with Crimea resulting in the imposition of sanctions, and other disputes between Russia and other countries, could further materially adversely affect the economic environment in Russia, including the business, results of operations and financial condition of the Group, and create significant political and economic uncertainty*").

Sukhoi Log is situated in a region with difficult conditions, and no assurance can be given that the project plan for the development of Sukhoi Log, when prepared, will meet expectations or that the Group will be able to obtain financing for the development of Sukhoi Log on terms acceptable to the Group. Any failure to fulfil the development expectations of Sukhoi Log could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

To the extent that the Group's future operations at Sukhoi Log are subject to a temporary or prolonged disruption, including as a result of major equipment failure, failure to receive required supplies in a timely manner or at all, or natural disasters such as fires, floods or adverse weather conditions, the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes could be materially adversely affected.

As of the date of this Prospectus, the Group's partner in SL Gold, Rostec Corporation, is on the U.S. OFAC Sectoral Sanctions Identifications List as an entity subjected to the sectoral sanctions imposed by the U.S. OFAC Directive 3, which bars U.S. persons from engaging in any dealings in Rostec Corporation's new debt of longer than 30 days maturity. Some of Rostec Corporation's affiliates and key executives are also subject to blocking sanctions (imposing asset freezes and prohibiting engaging in any activities with the persons listed in the U.S. OFAC Specially Designated Nationals List, in the case of the U.S., or annexes to the EU regulations, in the case of the EU) or sectoral restrictions (prohibiting, for instance, debt and equity financing of the listed persons) in the U.S. or EU.

On 27 October 2017, Rostec Corporation was also included in the U.S. Department of State list of entities considered to be operating in Russia's defense sector. The CAATS Act (as defined below) mandates the imposition of secondary sanctions with respect to non-U.S. persons who engage in significant transactions with Russia's defense sector. While the Department of State clarified in relevant public guidance that the focus of the implementation at the initial stage is expected to be on defense-related transactions and the Group believes that the Group's transactions with Rostec Corporation are civilian-related, no assurance can be given that the U.S. Government would not enforce the CAATS Act more broadly in the future.

Even though SL Gold is not subject to any U.S. or EU sanctions and the Group does not believe that the U.S. and EU sanctions currently in effect in respect of Rostec Corporation, its affiliates and certain of its key executives could impede future cooperation with Rostec Corporation, if new sanctions were to be imposed on Rostec Corporation, its affiliates and certain of its key executives, as a result of which the Group withdrew from SL Gold, such withdrawal would result in the Group losing its right to explore and develop the Sukhoi Log deposit, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group is subject to mining risks***

The Group's operations, like those of other mining companies, are subject to all of the hazards and risks normally associated with the exploration, development and production of natural resources, any of which could result in production shortfalls or damage to persons, property or the environment. The Group engages in open pit mining. Hazards associated with open pit mining operations include flooding, collapses of the open pit wall or shelf, accidents associated with the operation of mining transportation equipment, accidents associated with the preparation and ignition of large-scale open pit blasting operations, production disruptions due to weather and hazards associated with the disposal of mineralized waste water, such as groundwater and waterway contamination. On 23 May 2016, for example, the Group experienced a landslide at the Vostochny pit of its Olimpiada deposit, resulting in the ore supply from the Vostochny pit being temporarily suspended. The output of the Group's mines may also be adversely affected by the low winter temperatures in the regions where the Group's principal mines are located and by unforeseen geological conditions, as well as emergency breakdowns in mining equipment, such as those that the Group experienced at Verninskoye in 2012, where production was affected by the breakdown of the primary crusher.

The Group may experience any of these hazards. The occurrence of any of these or similar hazards could delay production, increase production costs, damage the Group's reputation or result in injury or death to persons and damage to property, as well as associated liability for the Group, and may result in actual production differing potentially materially from estimates of production. While the Group purchased property damage, machinery breakdown and business interruption insurance (including coverage of pollution clean-up, strikes, civil commotions, construction, and damage or collapse of tailings dam) for its main production units (JSC Polyus, JSC Polyus Verninskoye and JSC Aldanzoloto GRK), with coverage renewable on an annual basis, the Group may incur costs that are not covered under this insurance, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes. See "— *The Group may incur losses from uninsured of self-insured risks*".

***The on-going conflict in Ukraine and the international reaction to Russia's action in connection with Crimea resulting in the imposition of sanctions, and other disputes between Russia and other countries, could further materially adversely affect the economic environment in Russia, including the business, results of operations and financial condition of the Group, and create significant political and economic uncertainty***

The continuing political crisis and armed conflict in Ukraine have affected Russia's relations with the EU, the United States and certain other countries (including Canada, Australia, Japan and Norway). In March 2014, a referendum on the status of Crimea was held and resulted in a substantial majority of votes in favor of seceding from Ukraine and joining the Russian Federation as a federal constituent entity. On 18 March 2014, Russia and Crimea signed an agreement on the accession of the Republic of Crimea to the Russian Federation. On 21 March 2014, the Russian parliament passed legislation extending the effect of Russian laws and operation of governmental authorities to the territory of Crimea.

The events in Ukraine and Crimea and the resulting change in its legal status brought about a negative reaction from the EU, the U.S. and a number of other countries. Several countries imposed sanctions against Russia and refused to recognize the referendum held in Crimea as legal. The U.S. and the EU have imposed sanctions on a number of Russian officials and individuals, former Ukrainian officials, and several Russian companies, banks and businessmen with the consequence that entities and individuals in the U.S. and the EU cannot do business with them or provide funds or economic resources to them, with assets in the relevant sanctioning jurisdictions subject to seizure and the individuals to visa bans. In addition, the U.S. and the EU have applied "sectoral" sanctions, whose principal consequences are that several leading Russian state-owned banks have been restricted from accessing Western capital. Similar sanctions have been imposed on major companies in the oil and

gas and defense sectors of the Russian economy. The U.S. executive order implementing sectoral sanctions also permits sanctions to be applied against companies in the metals and mining sectors, although such sanctions are not currently in effect against any Russian metals and mining companies. The current sanctions regime is a result of multiple extensions by the United States and the EU in the term and scope of sanctions, the most recent of which were taken in December 2017 (in the case of EU sanctions) and August 2017 (in the case of U.S. sanctions). As a countermeasure to the Western sanctions, Russia imposed its own sanctions banning the importation of a range of agricultural products and foods originating from the United States, the EU, Canada, Australia, Norway, Ukraine, Albania, Montenegro, Iceland and Liechtenstein and significantly reduced the U.S. diplomatic presence in Russia.

The reaction of Western countries to the events in Ukraine and Crimea, in particular the economic sanctions described above, has had an adverse impact on the Russian economy and Russia's financial markets, increased the cost of capital and capital outflows and worsened the investment climate in Russia. During the course of 2015, international rating agencies S&P and Moody's downgraded their foreign currency sovereign debt rating for the Russian Federation to "BB+" and "Ba1", respectively, with negative outlook. Currently, S&P and Moody's foreign currency sovereign debt rating for the Russian Federation is "BB+" with positive outlook and "Ba1" with stable outlook, respectively.

As the Group's production assets are located in the Russian Federation, if the sectoral sanctions were to be expanded to the companies in the metals and mining sector, then PJSC Polyus or any or all of its subsidiaries, including SL Gold (the company established in connection with the Sukhoi Log auction; see "*—The development of Sukhoi Log is subject to risks*"), could be restricted from accessing Western capital markets and acquiring certain U.S. manufactured equipment, which could cause difficulties in the implementation of investment projects, securing supplies of imported equipment and raising funds on EU and U.S. markets. Potential risks include an inability to execute new contracts for the supply of equipment, machines, components and spare parts manufactured in the U.S., an inability to finance such purchases under existing contracts and a delay in the execution of the investment program and development of major deposits, including Natalka and Sukhoi Log, as a result of the failure to secure financing from EU and U.S. financial institutions. In addition, U.S. and EU sanctions apply to U.S. and EU employees, officers or directors of the Group, meaning such individuals could not approve or in any other way participate in operations with the banned organizations or enter into transactions to which sanctions apply. The Company and Group entities registered in the EU and U.S. are required to comply with applicable EU and U.S. sanctions with the consequence that such entities may not conduct business with any sanctioned persons in violation of EU and U.S. sanctions that apply to them. Non-compliance with applicable sanctions could result in civil and criminal liability, imposition of substantial fines, breaches of contractual undertakings, negative publicity and reputational damage.

Tensions between Russia and the U.S. and the EU have increased recently as a result of the conflict in Syria, increasing the risk of the imposition of additional sanctions on Russia. The impact of any escalation in confrontation between Ukraine and Russia or escalation of Russia's tensions with the EU and U.S. over the conflict in Syria would likely cause additional economic disruption. This, in turn, could result in a general lack of confidence among international investors in the region's economic stability and in Russian investments generally. Such a lack of confidence could result in reduced liquidity, trading volatility and significant declines in the price of listed securities of companies with significant operations in Russia, and in the Group's inability to raise debt or equity capital in the international capital markets, which may materially adversely affect its business, financial condition, results of operations and prospects. The conflict in Ukraine remains unresolved and could continue or escalate. Hostilities between Ukraine and Russia, if such were to occur, would likely cause substantial economic disruption to both countries. There could also likely be calls from the West for a comprehensive sanctions regime that would seek to isolate Russia from the world economy. If no resolution of the current conflicts in eastern Ukraine is forthcoming and Russia is continued to be perceived as acting uncooperatively, there may well be further strengthening and broadening of sanctions against Russian persons. Should either the EU or U.S. expand the existing sanctions to

designate existing or future customers, suppliers or other counterparties of the Group, such expansion could disrupt business with important customers, suppliers and other counterparties. The escalation of confrontation in Ukraine, the rise in tensions between Russia and the EU and U.S. and the expansion of sanctions may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In January 2017, U.S. governmental agencies released a report alleging that the Russian government had covertly attempted to influence the 2016 U.S. presidential election. Investigations into these allegations are currently conducted by agencies of the U.S. government, including the Federal Bureau of Investigations (the "**FBI**"), and in May 2017, the U.S. Justice Department appointed special counsel to oversee the FBI investigation. Concurrently with these investigations, the U.S. Senate, including its Judiciary Committee and Select Committee on Intelligence, are conducting their own investigations and hearings into these allegations. These investigations could potentially lead to further U.S. sanctions against Russia and Russian interests.

On 2 August 2017, U.S. President Donald Trump signed into law the Countering America's Adversaries Through Sanctions Act (the "**CAATS Act**"), which includes additional sanctions against Russian entities. In addition to codifying the existing U.S. sanctions against Russia, the CAATS Act reduces the maximum permitted tenor of short-term U.S. debt financing to entities covered by sectoral sanctions, and it increases the restrictions on the U.S. supply of goods or services to oil exploration and production projects in which certain Russian energy companies have an interest. The CAATS Act expressly authorizes the U.S. President to extend sectoral sanctions to further sectors of the Russian economy, including state-owned companies in the railways and mining and metals sectors, and introduces additional sanctions against new persons. It also provides for the possible imposition of "secondary sanctions", which would target activities of non-U.S. persons. Under the secondary sanctions, foreign persons who engage in certain activities in Russia could face a range of adverse economic consequences from denial of access to U.S. markets or denial of other U.S.-linked benefits to the blocking of all assets of such persons located in the U.S. or held by U.S. persons. The activities potentially subject to secondary sanctions include transactions related to the construction, modernisation and repair of energy export pipelines; significant transactions with the Russian intelligence and defence sectors; sanctions evasion and other significant transactions with sanctions targets; privatisations personally benefitting members of the Russian government or their associates; and activities that undermine the cybersecurity of any person or government. The CAATS Act also requires the U.S. administration to submit various reports to U.S. Congress, including reports on oligarchs and parastatal entities (due to be submitted on or before 29 January 2018 under Section 241 of the CAATS Act (the "**Section 241 Report**")), on the effects of expanding sanctions to include sovereign debt and derivative products, and on illicit finance, which could lead to further sanctions. The expansion of U.S. sanctions may have a material adverse effect on the Russian financial markets and investment climate and the Russian economy generally.

Although none of the Group or its shareholders or subsidiaries is currently subject to any U.S. or EU sanctions, more expansive sanctions targeting metals and mining companies, including the Group and its shareholders, or a broader segment of the Russian economy could interfere with the Group's operations. For example, the Group might become unable to deal with persons or entities bound by the relevant sanctions, including financial institutions and rating agencies, transact in US dollars, raise funds from investors, access international capital markets generally, or use international settlement, clearing and/or information exchange systems, and/or the Group's existing funds might be blocked. In these circumstances, the Company and the Guarantor may be unable to effect payments to discharge any of its obligations under the Securities. The independent directors of the Group's subsidiaries who are citizens of foreign countries, including the U.S. and EU, may be unable to participate in some or all meetings of the shareholders and Board of Directors as a result of an expansion of sanctions, which may have an adverse effect on the Group's corporate governance and limit its ability to enter into certain transactions. In addition, investors, clearing systems and other intermediaries in possession or control of the Notes, who are subject to the jurisdiction of any relevant sanctions regimes, may be

required to block the Notes and may be restricted in their ability to sell, transfer or otherwise deal in or receive distributions with respect to the Notes or process such transactions, which could make such Notes partially or completely illiquid. Potential holders of the Notes may be deterred from buying the Notes for the same reason. This could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes. Although inclusion of any person affiliated with the Group or its family members into the Section 241 Report does not itself automatically lead to the imposition of sanctions on such person or the Group, the trading price of the Notes may be adversely affected. None of the proceeds of the issue of the Notes will be used in any manner that will result in a violation by any person (including any person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of EU or U.S. sanctions or to fund or facilitate activities specified or referenced in the CAATS Act that could reasonably be expected to be a basis for the imposition of sanctions or penalties on such person.

***Global economic developments could have a significant adverse impact on the Group's total revenue and results of operations***

The global economic downturn which occurred from 2008 to 2010 had an extensive adverse impact on the global commodities markets. While many economies have subsequently experienced some recovery from the economic crisis, growth in many markets remains slow, and many markets which previously had seen very high growth have exhibited slower growth in recent years. For instance, China has recently seen a substantial decline in its rate of growth, as well as significant devaluations of its currency and volatility on Chinese stock exchanges, which may be signs of further difficulties for the Chinese economy in the future.

The region comprising the member states of the European Union that have adopted the euro (the "**Eurozone**") has been affected by the general slow growth in the economies of its Member States following the global economic crisis, as well as the continued financial crisis in Greece and negotiations over its inability to repay its substantial debt. On 30 June 2015, Greece became the first developed country to miss its loan payment to the International Monetary Fund. Although the payment was finally made during a grace period, Greece remains in a difficult position and may not be able to meet its further loan repayments without further bailouts from the European Central Bank. If the Eurozone debt crisis is not resolved, it may be the case that one or more countries may default on their debt. In addition, the departure of one or more countries from the European Monetary Union may result in the imposition of, among other things, exchange controls and mandatory payment laws.

Financial markets and the supply of credit are likely to continue to be impacted by concerns surrounding the sovereign debts of Greece and potentially other EU countries, the possibility of further credit rating downgrades of, or defaults on, such sovereign debt, as well as concerns about a slowdown in growth in certain economies. In June 2016, a majority of voters in the United Kingdom elected to withdraw from the E.U. in a national referendum. The British Government triggered the exit process on 29 March 2017. It is expected that the United Kingdom will officially leave the EU on 29 March 2019. There is a possibility of increased trade restrictions resulting from the United Kingdom leaving the EU, which may affect the macroeconomic environment in Europe. The referendum has also given rise to calls for the governments of other EU member states to consider withdrawal. In addition, the 2016 U.S. presidential election, which resulted in the Republican Party nominee, Donald Trump, becoming the president of the United States, may impact the financial markets and lead to greater uncertainty on the status of trade relations between the U.S. and some of its largest trade partners, including the U.S.'s existing trade agreements. The worsening of such trade relations, in particular between the U.S. and China, could result in negative repercussions in these countries and have a knock-on effect on global trade and the economic environment.

If any of these events were to occur, it could result in unpredictable market volatility as customers in the region could potentially reduce purchases from the Group, which could have a material adverse

effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The exact nature of the risks that the Group faces is difficult to predict and guard against in light of the difficulties in predicting the outcomes of the remedial measures being undertaken in Europe, the extent to which the Eurozone debt crisis, in a slowdown in growth or recession in Europe and elsewhere, will impact the global economy and the fact that the risks are outside of the Group's control. To the extent that the economic conditions in the European Union worsen, the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes could be materially adversely affected.

***The Group requires significant capital expenditures to fund the projects contemplated by its current development pipeline, which might be subject to inflationary pressures and which may require external financing that may not be available***

Management's current development pipeline contemplates significant investments in 2018, including capital expenditures required in connection with the on-going construction projects at Natalka in connection with the development of Natalka, where production was launched in 2017. See "*Business — Development Projects — Natalka*". The Group's capital expenditures might be subject to inflationary price pressures resulting from price increases, as well as price increases caused by an undersupply of critical equipment for mining and processing.

As the Group's strategy involves both acquisitions and the development of existing assets, further exploration and development may be dependent upon the Group's ability to obtain financing through the raising of equity or debt financing or other means. The Group's ability to secure debt or equity financing in amounts sufficient to meet the financial needs of the Group could be adversely affected by many factors beyond the Group's control, including, but not limited to, economic conditions, the level of liquidity in the Russian and international banking sectors and the impact of the U.S. and EU sanctions resulting from the Ukrainian crisis. There can be no assurance that additional funding required by the Group for its current development projects or any that might be undertaken in the future will be made available to it and, if such funding is available, that it will be offered on reasonable terms. If the Group is unable to obtain additional financing as needed, it may be required to delay or reduce the scope of its operations or anticipated capital investments, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group currently executes a number of significant projects related to the internal growth program, which could be disrupted by failure of third-party contractors to perform their obligations***

Management's current development pipeline contemplates the execution of a number of significant projects as part of the internal growth program. The Group relies on various third-party contractors to execute the projects on time, on budget and as otherwise planned. Failure by third-party contractors to meet schedules, budgets and/or specifications for the execution of the projects could adversely affect the introduction of both new production capacity and existing production plans, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group's operations depend to a significant extent on external contractors, including with respect to maintenance services, which exposes the Group to certain risks associated with the engagement of third parties***

The Group's operations are dependent to a significant extent on the efforts and abilities of outside contractors, experts and other advisors, including with respect to maintenance services. As a result,

the Group's operations at those sites at which such contractors are present are subject to a number of risks, some of which are outside the Group's control, including:

- negotiating agreements with contractors on terms acceptable to the relevant Group company;
- the inability to replace a contractor and its operating equipment in the event that either party terminates the agreement;
- reduced control over those aspects of operations which are the responsibility of the contractor;
- failure of a contractor to perform under its agreement with the Group;
- interruption of operations or increased costs in the event that a contractor ceases its business due to insolvency or other unforeseen events; and
- failure of a contractor to comply with applicable legal and regulatory requirements, to the extent it is responsible for such compliance.

The occurrence of any one of, or a combination of any of, the risks mentioned above could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group's principal operations are located in geographically remote areas with harsh climates, which in some cases requires limiting production operations to specific times of year, and the delivery of supplies to the areas where it operates may be disrupted or transportation costs may increase***

The Group's principal operations are located in remote areas, some of which have harsh climates, resulting in technical and logistical challenges for conducting both geological exploration and mining. While the Group benefits from the modern mining transportation skills and technologies, that it has developed for operating in areas with harsh climates, it may sometimes be unable to overcome problems related to weather and climate at a commercially reasonable cost, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The remote location of the Group's principal operations also results in increased costs and transportation difficulties. The delivery of supplies to areas where the Group operates may be disrupted, or transportation costs may increase. During winter, the minimum air temperature at the largest production sites (Olimpiada and Blagodatnoye) in Krasnoyarsk region can fall to as low as -61°C, and the annual average is -5°C. The main terminal at Lesosibirsk, which is designed to handle, ship, store and deliver all supplies to sites, is connected by a 320 kilometer road with a ferry crossing over the Yenisei River, or, in winter months, an ice crossing of the frozen river. The route is impassable from the end of October to December and from March to the middle of April each year. The mud periods also significantly challenge the timely procurement of materials and technical resources for capital construction projects. The seasonality of production restricts operations only at the Group's Alluvial operations, where output temporarily stops from the end of November to the following March on an annual basis. An increase in costs of, or interruptions in, transportation could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group's ability to conduct operations and to continue developing mines depends on the reliability of third parties***

The Group's operations use infrastructure provided by third parties, such as loading terminals and airfields, for transportation. The delivery of supplies may be disrupted or transportation costs may increase. Failure by suppliers to meet schedules for the production and delivery of necessary supplies

could affect the Group's ability to conduct operations and to continue developing mines. The inability to obtain consumables, materials and equipment in a timely manner could adversely affect the introduction of both new production capacity and existing production plans, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Success in the gold mining industry depends on maintaining a highly qualified, skilled workforce, including qualified geologists and other mining specialists***

The ability of the Group to maintain a competitive position and to implement its business strategy depends to a large degree on the services of the senior management. The business and results of operations of the Group also depend, to a large extent, on its ability to attract, retain and motivate qualified personnel, particularly qualified geologists and mining specialists. Competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals, particularly skilled managers, accounting personnel and information technology personnel. Furthermore, only a limited number of skilled geologists and other mining specialists with adequate qualifications and experience are available in Russia, and there is an increasing demand for such qualified personnel as more international companies invest in the Russian mining industries, as well as the oil and gas industries, which often compete for the same personnel. This competition for attracting and retaining qualified personnel is the main factor behind the recent increase in labor costs in the gold mining industry. The Group has experienced difficulties in the past in recruiting and retaining a sufficient number of qualified engineers and technicians for some of its facilities, and there can be no certainty that the services of current key personnel will continue to be available to the Group. To the extent that labor costs were to keep increasing in the gold mining industry, this could result in a reduction in the Group's profit margins, while failure to retain an adequate number of qualified geologists or other mining specialists may hinder the development of the Group's gold assets and have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Gold exploration and the development of mines involve a high degree of risk and uncertainty***

To maintain future gold production beyond the life of the current reserves or to increase production materially through mining new deposits, the Group will need to extend its mineral base through geological exploration. Gold exploration may require substantial expenditure and involves a high degree of risk, and exploration projects are frequently unsuccessful. Once gold deposits are discovered, it can take several years to determine whether gold reserves exist, and few prospects that are explored are developed into productive mines. The long-term success of the Group's operations will be related to the cost and success of its exploration programs. The risks associated with gold exploration include the identification of potential gold mineralization based on analysis of geological data, the technological challenges of exploration and development, the receipt of necessary governmental permits and licenses and the construction of mining and processing facilities at any site chosen for mining. A decline in the market price of gold may render reserves containing relatively lower grades of gold mineralization uneconomic. No assurance can be given that any exploration program undertaken by the Group will result in the discovery of new resources or in any new commercial mining operation.

Substantial expenditure may be required to establish reserves through drilling and to determine technological processes to extract metals from ore. If reserves are developed, it can take a number of years from the initial phases of drilling and identification of mineralization until production is possible. During this period, the assumptions on which the Group has based its assessments of the economic feasibility of the mine, including in relation to future gold prices, anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed, anticipated recovery rates of gold from the ore, anticipated capital expenditures and cash operating costs, may require significant

adjustment. The Group's initial access to information when forming such assumptions and making such assessments may also be limited.

Actual cash operating costs, production levels and economic returns may differ significantly from those anticipated by studies and estimates. There are a number of uncertainties inherent in the development and construction of a new mine or an extension to an existing mine. These uncertainties include, in addition to those discussed above, the timing and cost (which can be considerable) of the construction of mining and processing facilities; the availability and cost of skilled labor, power, water, consumables (such as cyanide, lubricants and fuel) and transportation facilities; the availability and cost of appropriate smelting and refining arrangements; the need to obtain necessary environmental and other governmental permits and the timing of those permits; and the availability of funds to finance construction and development activities in the longer term.

Consequently, no assurance can be given that the current and future exploration programs undertaken by the Group will result in the discovery of deposits, the expansion of existing reserves or the development of mines. This may result in a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The volume and grade of the ore the Group extracts may not conform to current expectations***

Like any mining company, the future financial condition of the Group will depend on its ability to economically extract its reserves and resources. Ore Reserve and Mineral Resource estimates of mining companies are inherently imprecise and depend to some extent on statistical inferences drawn from limited drilling and other testing, which may ultimately prove unreliable. Ore Reserve and Mineral Resource estimates and classifications are also affected by economic factors, such as significant changes in metal prices.

In 2016, AMC conducted a review of the Group's Ore Reserve and Mineral Resource estimates. Ore Reserve and Mineral Resource estimates are expressions of professional judgment, based on knowledge, experience and industry practice, but are subject to considerable uncertainties. As a result, the Group cannot be certain that its estimated Ore Reserve and Mineral Resources are completely accurate. Moreover, future volumes of mining, which may not occur for many years, and rates of recovery of metals could differ materially from such estimates. Should the Group discover, in the course of mining its deposits, that those deposits differ from those predicted by drilling, sampling and similar examinations, it may have to adjust its reserve and resource estimates and alter its mining plans in a way that might adversely affect the results of operations. The estimated Mineral Resources described in this Prospectus should not be interpreted as a statement of the commercial viability, potential or profitability of any future operations. Although most of the Group's Ore Reserve and Mineral Resource estimates have been prepared and reported according to the JORC Code, further exploration or evaluation may significantly alter their value. Moreover, some of the Group's mineral deposits have not been subject to preparation or reporting of estimates according to the JORC Code or any other internationally recognized classification scheme and have been subject only to internal evaluation.

Estimates for Sukhoi Log reported and classified under the JORC Code have also been included in this Prospectus. The Group has had limited time to review the available data for Sukoi Log. To reflect the uncertainty that remains until reviews of the resource data and modifying factors are complete, these estimates have been classified and reported in accordance with the JORC Code as an Inferred Mineral Resource. The Group plans a further review of the data used to develop the resource model grade estimates, and the resource information currently available and included in this Prospectus with regard to Sukhoi Log may materially change after this review.

If estimates of the Group's Mineral Resources based on the results of exploration activities prove to be inaccurate or lower than forecast, the Group's business, results of operations and financial

condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes could be materially adversely affected. Alternatively, if the Group's Ore Reserve and Mineral Resource estimates exceed current forecasts, it is not certain that it will be able to develop the production capacity to exploit those Ore Reserves commercially, and the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes could be materially adversely affected.

For instance, the Natalka Ore Reserve and Mineral Resource estimates previously were based on the 2011 resource block model reviewed by Micon International and documented in its mineral expert report of February 2012 prepared according to JORC Code (2004) requirements. When the Group hired Micromine Pty Ltd ("**Micromine**") and AMC in 2013 to update the resource block model and the Ore Reserve and Mineral Resource estimates, they found that in the 2011 resource model, the channel sampling information, comprising approximately 60 per cent of the resource database, was derived from historical Soviet-era underground samples dating as far back as 1945, which had significant location errors, caused by coordinate conversions, and poor quality control support, which resulted in a systematic positive bias on the order of 40 per cent to 60 per cent. Following a review of Ore Reserve and Mineral Resource estimates for the Natalka deposit in 2014 and reassessment of the deposit's Ore Reserves in the second half of 2014, the deposit's development was put on hold pending a detailed operational review. Following completion of a detailed operational review in August 2015, a project plan for the development of Natalka was prepared and approved by the Federal Agency for Subsoil Use. No assurance, however, can be given that the review has eliminated inaccuracies, or that the project plan for the development of Natalka will meet expectations. This may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary contracts, licenses and permits, including subsoil licenses, or fails to comply with the terms of its contracts, licenses and permits***

The Group's exploration, mining and processing activities are dependent upon the grant, renewal and continued enforceability of appropriate contracts, licenses, permits and regulatory approvals and consents, which may be valid only for a defined period of time, may be subject to limitations and may provide for withdrawal in certain circumstances. In particular, companies seeking to explore or mine mineral deposits in Russia must obtain a subsoil license issued by the Federal Agency for Subsoil Use for an identified mineral deposit. Subsoil rights are not granted in perpetuity in Russia, and any renewal of the relevant license must be granted before expiry of the relevant current term.

The legal and regulatory basis for the licensing requirements in Russia is often unclear and subject to frequent change, which increases the risk that the Group may be found to be non-compliant, and the regulatory authorities in Russia exercise considerable discretion in the timing of license issuances and renewals. In addition, it is possible that licenses applied for or issued in reliance on acts and instructions relating to subsoil rights issued by the relevant regulatory agencies in Russia could be challenged by governmental prosecutorial authorities or otherwise challenged as being invalid if such acts or instructions were found to be beyond the authority of that ministry or agency or if the licenses were issued in breach of the required procedures. Deficiencies of this nature may subject subsoil licensees and contracts to selective governmental claims. Any alleged non-compliance by the Group with licensing regulations or the terms of any of its licenses could lead to suspension or termination of the licenses and permits and to administrative, civil and criminal liability.

*Compliance*

Regulatory authorities in Russia exercise considerable discretion in the monitoring of a licensee's compliance with the terms of a license. Conditions imposed by those authorities may include requirements to comply with numerous industrial standards, recruit qualified personnel and subcontractors, maintain necessary equipment and quality control systems, monitor the operations of

the Group's license-holders, maintain appropriate filings and, upon request, submit appropriate information to the licensing authorities. As a result, compliance with such conditions may be costly and time-consuming, and delays in the commencement or continuation of exploration or mining operations may occur as a result of delays to fulfil a license-holder's obligations. The Group's current subsoil use contracts impose, on an annual basis, various social, financial, tax, insurance and other obligations and require the application of a specified period of time between the termination of exploration activities and the commencement of mining operations at the relevant site (for purposes of commercial discovery evaluation). The authorities have the power to impose fines for administrative violations of the terms and conditions of subsoil use contracts and licenses and can require that those violations be remedied. In such circumstances, any failure to implement the required remedial measures under two or more notifications from the competent authority within the period prescribed in such notification could result in the termination of the relevant subsoil use contract, as well as the imposition of administrative and civil liabilities on the license-holder or subsoil user. There can be no assurance that all license-holders within the Group will comply or continue to comply with their respective license or contractual obligations.

*Specific requirements of the Russian Federation*

The Group currently holds licenses for the use of subsoil plots that are considered subsoil plots of federal importance and may in the future acquire further licenses, that may relate to subsoil plots of federal importance or under which the Group may discover such subsoil plots. As a result of the composition of the Group's shareholders, some of the Russian subsidiaries of the Group are currently designated under Russian law as companies with foreign participation. The Law of the Russian Federation No. 2395-1, dated 21 February 1992, "On the Subsoil", as amended (the "**Russian Subsoil Law**"), provides that, if in the course of geological research at a subsoil plot, a Russian legal entity with foreign participation discovers a deposit which meets the criteria for a subsoil plot of federal importance and, as a result, the national security of the Russian Federation may be threatened, the licensing authorities have the right to revoke the relevant subsoil license or refuse to grant an exploration and production subsoil license. The license for the Bamskoye gold ore site, for example, has been temporarily suspended in the past because the deposit was recognized as a subsoil plot of federal importance, and the Group stopped all exploration works at the deposit pending receipt of permission of the Russian Government to continue works in accordance with Article 2.1 of the Russian Subsoil Law. An application to carry out exploration and mining works at the Bamskoye deposit was filed with the state authorities in the first quarter of 2013 and the Group received approval to carry out exploratory and mining works at the Bamskoye gold ore site in August 2014.

Companies which extract precious metals are required to offer refined precious metals on a priority basis to the relevant governmental authorities, which may use their pre-emptive rights if certain conditions are met. Refined precious metals, which have not been sold to governmental authorities under this priority system, may be sold in the domestic market, used in internal production or exported. In addition, gold producers are required to obtain a license from the Russian Ministry of Industry and Trade in order to export gold. For non-banking institutions, the Russian Ministry of Industry and Trade only issues such licenses with respect to each particular export contract for a term of no longer than one year. In 2017, substantially all of the Group's refined gold sales were made to Russian banks in roubles (linked to the official exchange rate of the U.S. dollar to the rouble at the date of transaction and at a gold price with a reference to London Metal Exchange Quotations) with immediate payment terms. Depending on market conditions, however, the Group may decide to export its products in the future, for which it would be required to obtain such a license in advance.

As a result of the foregoing uncertainties, there can be no assurance that the contracts, licenses, permits and regulatory approvals and consents that the Group requires to conduct its operations will be granted, renewed or continue in force, or, if so, on what terms. The withdrawal of licenses, termination of subsoil use contracts or failure to secure requisite licenses or subsoil use contracts in respect of any of the Group's operations may, therefore, have a material adverse effect on the Group's

business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Equipment failures or production curtailments or shutdowns could adversely affect the Group's sales and profitability***

The Group may experience plant shutdowns or periods of reduced production as a result of major equipment failures. Interruptions in production capacities may increase production costs and reduce sales revenue. In addition to equipment failures, the Group's facilities are also subject to the risk of catastrophic loss or production curtailments due to unanticipated events, such as fires, explosions or adverse weather conditions. If any of these events were to occur, future sales and the Group's profitability could be adversely affected. While the Group has in place property damage insurance covering, among other things, business interruption risks and the Group's gross profit for 12 months starting from the event date over an excess period of 30 days, a longer-term business disruption could result in a loss of customers and the Group's sales and profitability could be adversely affected, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes. See "*—The Group may incur losses from uninsured or self-insured risks*".

***The Group is subject to extensive environmental, health and safety controls and regulations, and any breach of these regulations could result in fines or the suspension of operations, which could have a material adverse effect on its reputation, operating results and financial condition***

The Group is subject to extensive environmental controls and regulations in Russia. Its operations involve the use of environmentally hazardous materials, such as cyanides, as well as processes that could lead to the discharge of materials and contaminants into the environment, disturbance of land, potential harm to flora and fauna and other environmental concerns. In addition, environmental hazards may exist on the Group's properties, or may be encountered when its products are in transit. Environmental laws and regulations are continually changing and are generally becoming more restrictive. New laws and regulations, the imposition of more stringent requirements in licenses, increasingly strict enforcement or new interpretations of existing environmental laws, regulations or licenses, or the discovery of previously unknown contamination, may require further expenditures to modify operations, install pollution control equipment or perform site clean-ups; the curtailment of operations; or the payment of fees, fines and other penalties. The terms of the Group's subsoil licenses contain extensive site clean-up, restoration and rehabilitation obligations due in the future that are mandatory for the Group, and the Group is required to have a closure plan for each mine and to allocate a budget for site rehabilitation in the event of a mine closure. The Group could also be liable for losses associated with environmental hazards and rehabilitation. The Group's operations are associated with the emission of "greenhouse gases". Ongoing international negotiations, which aim to limit greenhouse gas emissions, may result in the introduction of new regulations, which may have an adverse impact on Group's operations.

In addition, the licenses and subsoil use contracts under which the Group operates include conditions regarding environmental compliance. For example, each operating mine of the Group is required to obtain a mandatory environmental permit in order to conduct atmospheric emissions, discharge waste water and dispose of waste. Failure to obtain such a permit could lead to administrative penalties, civil sanctions and, in certain circumstances, may result in the issuance of a court order prohibiting and suspending those operations of the relevant mine causing atmospheric emissions, waste water discharge or waste disposal, although the Group believes that such a severe sanction is unlikely to occur. The introduction of more stringent environmental laws and regulations could lead to the need for new or additional rehabilitation and decommissioning reserves or to an increase in the Group's environmental liabilities, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes. See "*Regulatory Matters — Environmental Law*".

Under Russian law, any company or individual violating industrial safety rules may incur administrative or civil liability, and individuals may also incur criminal liability.

A company that violates safety rules that results in health problems for an individual may also be obliged to compensate the individual for lost earnings, as well as for other damages and, in certain cases, its activity may be suspended. In addition, if the operations of a company violate environmental requirements or are harmful to the environment or any individual or legal entity, the environmental authorities may suspend such operations for up to 90 days or a court action may be brought to limit or ban such operations and require the company to remedy the effects of the violation.

Even though in the past Russian competent authorities have not suspended the Group's operations, no assurance can be given that they will not do so in the future in case of even minor breaches and violations of applicable environmental, health and safety control and regulations. Any such suspension or other sanction could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Actual and potential supply chain shortages and increases in the prices of production inputs may have an adverse effect on the Group's operations and profits***

The Group's results of operations may be affected by the availability and pricing of raw materials and other essential production inputs, including fuel, grind balls, and cyanide and other reagents. A sustained interruption in the supply of any of these materials would require the Group to find acceptable substitute suppliers and, in relation to cyanide, the Group believes that the alternatives to its two current suppliers are limited. Most of the Group's fuel is supplied by one supplier, and any sustained interruption in the supply of fuel would require the Group to replace such supplier with a substitute supplier within a short time frame. The Group is also reliant on one shipping contractor for the transportation of coal supplies, since there are currently no feasible alternatives. To the extent that the Group is unable to obtain alternative sources in the event of a prolonged disruption to its usual supply network, the Group may be forced to reduce its operating levels. Furthermore, even if the Group were able to obtain supplies of production inputs from alternative sources, it may incur substantially higher costs, particularly in relation to purchases of grind balls. More generally, the price of raw materials may be substantially affected by changes in global supply and demand, along with weather conditions, governmental controls and other factors. Any significant increase in the prices of these materials will increase the Group's operating costs and affect production considerations, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The cost and supply of electricity, particularly self-generated electricity, can be volatile. An increase in power costs will make production more costly and alternative power sources may not be available***

Power is one of the Group's largest operating expenses. Some of the Group's mines currently purchase power from state-controlled regional energy agencies, which charge consumers a rate based on tariffs that are modified from time to time. The Russian Government initiated the deregulation of electricity prices for industrial consumers in 2011, which has resulted in higher prices for the Group's electricity needs.

There is a deficit of power grid facilities in the Krasnoyarsk region (Olimpiada, Blagodatnoye and Titimukhta deposits). As a result, the Group is required to use more expensive captive generations, reducing the security of the energy supply for existing operations. The implementation of new power line construction projects may be threatened by a poor road infrastructure and harsh climatic conditions. The deficit of generating and power grid facilities, along with delays in the construction of new power grids, may result in a material adverse effect on the Group's business, results of

operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Some of the Group's mines generate their own power through coal, diesel or hydro-generation facilities located at the mines. These mines purchase diesel or transport coal by barges, and any increase in the costs of these supplies, or any interruption in any of these supplies, could result in higher overall fuel costs. These mines may use a combination of self-generated and purchased power if power costs increase, revenue and production capacity of the Group could be negatively affected, which may result in a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In addition, some of the Group's subsidiaries in the Irkutsk region that provide connections to the power grid to the other Group companies are subject to governmental regulation, which may affect their operations. For instance, in 2014, one of the Group's companies was found to have violated regulations that require it to provide connections to the power grid within the prescribed deadline on an equal basis for Group companies and other end users, and was ordered to provide power supply to other end users on the same basis as it provides supply for the applicable Group company. Since the Group is now providing power supply to other end users, some of the Group's operations could become more expensive or made more costly, which could result in a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Wage increases in Russia may reduce the Group's profit margins***

Wage costs in Russia have historically been significantly lower than wage costs in the more economically developed countries of North America and Europe for similarly skilled employees. However, to the extent that wage costs keep increasing in Russia, this could result in a reduction in the Group's profit margins. To the extent that the Group is unable to continue to increase the efficiency and productivity of its employees, wage increases could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group operates in a competitive industry and may not be able to compete successfully for licenses, exploratory prospects and producing properties***

The gold market is highly competitive and the Group faces competition from other competitors in all areas of its operations, including the acquisition of mineral licenses, exploratory prospects and producing properties. The Group's competitors include international gold producers, some of which are larger, have greater resources for raising capital, have more technologically advanced production facilities and, in some cases, have lower operating costs than it does. The Group cannot guarantee that it will be able to compete successfully in the future. The intensity of competition, combined with the cyclicality and unpredictability of gold markets, results in significant variations in economic performance, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group's acquisition strategy may not be successful***

As part of its development strategy, the Group monitors potential investment opportunities in the gold mining industry, both in Russia and overseas. The Group faces significant competition for potential acquisitions of gold assets as the Group believes that some international mining companies, which have greater resources than the Group, have begun to seek investment targets in the Russian gold mining industry. The participation of such companies in an auction or sale of Russian gold deposits

and assets could adversely affect the Group's ability to acquire additional gold mining operations in Russia because of, for example, the resulting increased prices for such acquisitions.

When making acquisitions, it may not be possible for the Group to conduct a detailed investigation of the nature or title of the assets being acquired, for example, due to time constraints in making the decision. The Group may also become responsible for additional liabilities or obligations not foreseen at the time of an acquisition. As a result, unforeseen expenditures may arise which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group is subject to foreign currency exchange rate risks***

The Group's income is subject to exchange rate fluctuations. The Group's revenue from gold sales is linked to U.S. dollars, whereas most of the Group's operating expenses are denominated in roubles. Accordingly, an appreciation of the rouble against the U.S. dollar may negatively affect the Group's margins by increasing the U.S. dollar value of its rouble-denominated costs. In 2016, for instance, the rouble appreciated by 20 per cent against the U.S. dollar. Conversely, an appreciation of the U.S. dollar may positively affect the Group's margins by decreasing the U.S. dollar value of its rouble-denominated costs. See "*—Inflation may materially adversely affect the Group's results of operations*". As a result of currency hedging transactions entered into primarily in the first half of 2014, the Group did not fully benefit from the rouble devaluation at the cash flow level. The negative effect from the collars in 2014 amounted to US$594 million and the Group's cross-currency swaps resulted in a loss of US$403 million.

An appreciation of the rouble against the U.S. dollar may negatively affect the Group's margins and its results of operations. As of 30 September 2017, 78 per cent of the Group's indebtedness is denominated in U.S. dollars. However, as all of the Group's revenue is linked to U.S. dollars, to the extent the Group has any rouble-denominated or linked debt, particularly if the existing hedging arrangements were to expire or be terminated or if the Group incurs any additional rouble-denominated or linked indebtedness, an appreciation of the rouble against the U.S. dollar may adversely affect the Group's net assets by increasing such debt obligations in U.S. dollars terms.

***Inflation may materially adversely affect the Group's results of operations***

The activities of the Group are located primarily in Russia, and the majority of its costs are incurred in Russia and in roubles. Russia has experienced high levels of inflation since the early 1990s. Inflation, along with government measures to combat inflation and public speculation about possible future government measures, has significant negative costs, contributing to economic uncertainty. The Russian Consumer Price Index, calculated by the Russian Federal State Statistics Service, was 1.7 per cent for the nine months ended 30 September 2017 and 5.4 per cent in 2016 compared to 12.9 per cent in 2015 and 11.4 per cent in 2014. Russian companies have generally experienced inflation-driven increases in their costs that are linked to the general price level in Russia, such as supplies and materials, as well as salaries. Accordingly, high rates of inflation in Russia are likely to increase the costs of the Group, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes. High inflation rates in Russia have historically been accompanied by a depreciation of the rouble relative to the U.S. dollar, which reduces the cost of the Group's rouble operating expenses in U.S. dollar terms. See "*— The Group is subject to foreign currency exchange rate risks*".

***The Group is leveraged, and a substantial amount of its borrowings are subject to covenants which could be breached***

The total interest-bearing loans and borrowings of the Group's companies, including the Issuer and the Guarantor (excluding intercompany indebtedness), as at 30 September 2017 and as at 31 December 2016, 2015 and 2014, were US$4,272 million, US$4,981 million, US$2,189 million and US$1,818 million, respectively. Furthermore, as at 30 September 2017, the Group's net debt to Adjusted EBITDA (last 12 months) ratio was 1.9x, and as at 30 September 2017, the Group's net debt was US$3,151 million. Although the Group will be seeking to deleverage, it will remain subject to fluctuations in Adjusted EBITDA as a result of the changes in market conditions and other factors, all of which could have a material adverse effect on the Group's ability to service its debt obligations, raise new debt financing (if required) or refinance existing indebtedness on commercially acceptable terms or at all.

Furthermore, the Group's borrowings include various financial covenants, including covenants requiring the Group to maintain certain net debt to Adjusted EBITDA and interest cover ratios. A breach of such ratios or other covenants could cause a cross default under the terms of the Group's other financing arrangements, causing all the debt under those other financing arrangements, including the Notes, to become due. No assurance can be given that if the indebtedness under the Notes were to be accelerated, the assets of the Group would be sufficient to generate the funds necessary to satisfy its obligations under the Notes.

In addition, the Group's debt instruments contain certain restrictions limiting its flexibility in operating its business, potentially placing the Group at a disadvantage compared to its less leveraged and/or restricted competitors and constraining its ability to take advantage of strategic or other opportunities if any arise. Such restrictions, among other things, limit the Group's ability to create liens, borrow money, sell or otherwise dispose of assets, engage in mergers or consolidation, and transfer assets. While the Group believes it is currently in compliance with its debt obligations, the Group's debt service and compliance obligations under these and future financings and the associated risks of breaching these obligations, as well as any difficulties in obtaining financing in the future, could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group may not be able to renew its arrangements with trade unions on favorable terms, and its operations could be adversely affected by strikes and walkouts***

As at 30 September 2017, approximately 38 per cent of the Group's employees at its Russian operations were represented by trade unions. The Group has not experienced any business interruption as a result of labor disputes at any of its businesses in Russia in the past. Although the Group considers its relations with its employees in Russia to be good, large union representation subjects the Group's businesses to the risk of interruptions through strikes, lockouts or delays in renegotiating collective agreements, whose terms are typically three years. The collective agreement for the Group's Yakutia (Kuranakh) business unit will expire on 23 February 2018 and the collective agreement for the Group's Olimpiada and Blagodatnoye business units was extended beyond its initial expiry date of 31 December 2017. If the Group is unable to renew its existing arrangements with trade unions on favorable terms or at all, the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes could be materially adversely affected.

***The Group is responsible for maintaining part of the social and physical infrastructure in some of the regions in which it operates***

The Group is currently responsible for establishing and maintaining some of the social and physical infrastructure in the regions of Russia in which it operates. These regions are economically dependent

on the Group's respective business operations to a significant degree, which requires a substantial commitment of resources. In addition, the Group may become liable to meet the costs of resettlement of persons living in proximity to its facilities if, as a result of changes in applicable law, such facilities no longer meet minimum standards required for industrial facilities that are located close to residential facilities. Any significant increase in such social contributions, voluntary or otherwise, could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group may incur losses from uninsured or self-insured risks***

The Group purchases property damage, machinery breakdown and business interruption insurance (including coverage for pollution clean-up, strikes, civil commotions, construction, and damage or collapse of tailings dam and pit walls), which provides the main production units of the Group (JSC Polyus, JSC Polyus Verninskoye and JSC Aldanzoloto GRK), with one-year coverage renewable on an annual basis. The total insured sum under the insurance policy amounts to US$4,045 million, with liability for each event that results in a loss being incurred by the Group capped at US$400 million. Approximately 85 per cent of the risk has been placed with insurance providers in overseas markets rated 'A-' and higher by S&P. The remainder of the risk has been placed with insurance providers in Russian markets rated 'Expert Ra A++'.

The Group's business interruption insurance covers the loss of gross profit (the difference in actual and expected gross profit due to a reduction in revenue and an increase in the cost of production) for the 12 month period from the insured event, starting from the event date, but excluding the first 30 days from and including the event date (such 30-day period, the "excess period"). In addition to business interruption insurance, the insurance policy also provides the Group with cover for major property damage or machinery shutdowns above an excess of US$2.5 million.

Losses from uninsured risks or from self-insured risks, including amounts above the self-retained amounts and policy caps described above, may cause the Group to incur costs that could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group's cash reserves are held predominantly at Russian state-owned banks and bankruptcy or financial soundness concerns regarding any of such banks could result in a forfeiture of the Group's cash reserves***

Most of the Group's cash reserves are kept at leading Russian state-owned banks, with a significant part of those cash reserves being held at Sberbank of Russia. Bankruptcy, revocation of banking license, failure to meet financial soundness requirements, the impact of the U.S. and EU sanctions resulting from the Ukrainian crisis or the impact of other material adverse developments on any of such banks could lead to forfeiture of, or delays in accessing, the Group's cash reserves or withdrawal/transactional limits or restrictions being imposed on the Group's accounts, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Russian currency control regulations may hinder the Group's ability to conduct business***

The Group's operational expenses are primarily denominated in roubles. The current Russian currency control laws and regulations impose a number of limitations on banking and currency transactions. Currency control restrictions include a general prohibition on foreign currency operations between Russian residents, except for certain specified operations permitted by law, and the requirement to repatriate, subject to certain exceptions, export-related earnings in Russia. For example, should the Group wish to export its gold, it will have to ensure that export-related earnings

are repatriated to Russia. Failure to comply with this requirement may lead to the imposition of various administrative fines on the relevant member of the Group exporting the gold. These currency control restrictions may restrict the Group's operational flexibility, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***If transactions or corporate resolutions that the Group's Russian subsidiaries have entered into are challenged for non-compliance with applicable legal requirements, the transactions could be invalidated or liabilities could be imposed on the Group***

The Group's Russian subsidiaries have taken a variety of actions relating to share issuances, corporate reorganizations, share and asset disposals and acquisitions, charter capital increases and decreases, valuation of property, interested party transactions, major transactions, currency control and antimonopoly issues, in respect of which the applicable legal procedures are not always clear and which, therefore, could be subject to legal challenges. If any such challenge was successful, it could result in the invalidation of the relevant transaction or resolution, seizure of the relevant assets and/or the imposition of liabilities on the Group. Moreover, since many provisions of Russian law are open to many different interpretations, the Group's Russian subsidiaries may not be able to defend successfully any challenge in respect of such transactions. For example, the provisions of Russian law defining which transactions must be approved as "interrelated major transactions" are subject to differing interpretations and there is no assurance that former or current minority shareholders of PJSC Polyus or shareholders of its Russian subsidiaries or any other interested parties will not challenge such transactions in the future. Although the Group does not expect any past transaction to be so challenged, the invalidation of any such transactions or imposition of any such liabilities could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group is subject to antimonopoly laws enforced by the Federal Antimonopoly Service, which may result in certain limitations being imposed on the Group's activities***

The Federal Law No. 135-FZ "On Protection of Competition", dated 26 July 2006, which came into force on 26 October 2006 (the "**Competition Law**"), generally prohibits any concerted action, agreement or coordination of business activities that results or may result in, among other things, fixing or maintaining of prices, discounts, surcharges or margins; coordination of auction bids; allocation of a market by territory, volume of sales or purchases, types of goods, customers or suppliers; refusal to enter into contracts with certain buyers (customers) in the absence of economic or technological justification therefor; imposing unfavorable contractual terms; fixing disparate prices for the same goods, for reasons other than economic or technological reasons; creation of barriers to entering or exiting a market; and restriction of competition in any other way. There is no uniform court practice on what concerted actions or coordination of business activity are and the regulator and courts interpret these concepts inconsistently. As a result, there is significant uncertainty as to what actions may be viewed as a violation of the Competition Law. In a number of court cases, Russian courts found concerted actions where market participants acted in a similar way within the same period of time, although, arguably, there have been legitimate economic reasons for such behavior and the behavior was not aimed at restriction of competition. Therefore, there is a risk that the Group can be found in violation of the Competition Law if its market behavior vis-à-vis its customers or suppliers is viewed as being similar to behavior of the Group's competitors and perceived by the Federal Antimonopoly Service (the "**FAS**") as a purported restriction of competition. See "*Regulatory Matters — Regulation of Competition*".

The Competition Law also prohibits any form of unfair competition, including, among other things, through defamation or otherwise. Such broad interpretations of the Competition Law may result in

the FAS imposing behavioral limitations on the Group's activities, may limit operational flexibility and may result in civil, administrative and even criminal liability.

If the Group's activities are found to be in violation of antimonopoly legislation, the Group could be subject to penalties or requested to change its business operations in a manner that may increase the Group's costs or reduce the Group's profit margin and revenues. Such factors could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The Group believes that the Group's operations are currently in compliance with Russian antimonopoly regulations. However, if the FAS undertakes an investigation into some aspect of the Group's operations or transactions and decides to impose penalties or other sanctions against the Group, such penalties or sanctions could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Legal uncertainties relating to privatization of the Group's assets may exist***

Some of the companies comprising the Group were formed on the basis of assets that had been privatized in the middle of the 1990s. Russian privatization laws at that time were vague, inconsistent or in conflict with other laws, including conflicts between federal and regional privatization laws, and consequently many Russian privatizations may be arguably deficient and, therefore, vulnerable to challenge. For example, a series of Presidential decrees issued in 1991 and 1992 that granted to the Moscow City government the right to adopt its own privatization procedures were subsequently invalidated by the Constitutional Court of the Russian Federation, ruling, in part, that the Presidential decrees addressed issues that were the subject of federal law. Although the statute of limitations for challenging transactions entered into in the course of privatizations is now only three years from the time when an affected party learned of the infringement on its rights and in any event not later than 10 years from the time of an alleged infringement, a residual risk still remains that privatization transactions of the Group may be vulnerable to challenge, including selective action by governmental authorities and inconsistent application of the statute of limitations by courts. Should the privatization of any relevant predecessor companies be challenged in court on the grounds that these companies or any of their assets have been improperly privatized, and should the court for any reason disapply the limitation periods, the Group may lose its rights to some of its assets, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group's acquisitions or title to, or other rights in, land that it owns or leases may be challenged***

The Group companies either own or lease the land plots on which their mines and other production facilities are located. Any challenge to the validity or enforceability of the Group companies' title to, or rights in, such land may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Group is beneficially controlled by a single shareholder***

The Group is beneficially controlled by Mr. Said Kerimov (the "**Principal Shareholder**"), who controls indirectly 100 per cent of the share capital of PGIL, which, as of the date of this Prospectus, owns 82.44 per cent of PJSC Polyus' shares. The Company is a wholly owned subsidiary of JSC Polyus, which is a wholly owned subsidiary of PJSC Polyus. As a result, the Principal Shareholder has the ability to exert control over certain actions in respect of the Company. While transactions with the Principal Shareholder and affiliates of the Principal Shareholder can benefit the Group and

the Company believes that such transactions have been conducted on an arm's-length basis, there can be no assurance that the Group could not have achieved more favorable terms had such transactions not been entered into with related parties. To the extent that the interests of the Principal Shareholder were to conflict with the interests of the Noteholders, the trading price of the Notes could be materially adversely affected.

## RISKS RELATING TO THE RUSSIAN FEDERATION

***Emerging markets are subject to greater risks than more developed markets, including significant legal, economic and political risks***

Investors in emerging markets such as Russia should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in debt or equity markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, including during the current global economic crisis, and the developments affecting the Russian economy in 2014, 2015, 2016 and 2017, including the current political and economic crisis in Ukraine and related sanctions imposed on certain Russian individuals and legal entities by the U.S. and the EU, as well as the sharp decrease in oil prices, financial problems or an increase in the perceived risks associated with investing in emerging economies may adversely affect the level of foreign investment, which may, in turn, adversely affect the economies in those countries. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. As a result, financial turmoil in Russia could result in a decrease in the trading price of the Notes. Companies operating in emerging markets may also be exposed to political risks. Investors should also note that an emerging economy such as that of Russia is subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Potential investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

***Instability in the Russian economy could materially adversely affect the Group's business***

Over the last two decades, the Russian economy has experienced or continues to experience at various times:

- significant declines in its GDP and rate of GDP growth;
- high levels of inflation;
- high and fast-growing interest rates;
- unstable credit conditions;
- instability of the rouble;
- pervasive capital flight;
- high levels of government debt relative to GDP;
- a weakly diversified economy which depends significantly on global prices of commodities;
- sudden price declines in commodities;
- a lack of reform in the banking sector and a weak banking system, providing limited liquidity to Russian enterprises;

- continued operation of loss-making enterprises due to the lack of effective bankruptcy proceedings;
- high levels of corruption and the penetration of organized crime into the economy;
- widespread tax evasion;
- significant increases in unemployment and underemployment;
- ethnic and religious tensions;
- low personal income levels of a significant part of the Russian population; and
- major deterioration of physical infrastructure.

In the past few years, the Russian economy has been characterized by significant volatility in the debt and equity markets, including the suspension of trading several times in 2014. The Russian economy has experienced significantly fluctuating growth rates over the last two decades, including recent significant declines (notwithstanding an increase in the twelve month period from 1 October 2016 to 30 September 2017). In 2014, Russia's GDP growth rate slowed to 0.6 per cent; in 2015, Russia's GDP declined by 3.7 per cent in real terms; in 2016, Russia's GDP declined by 0.2 per cent in real terms; and in the twelve month period from 1 October 2016 to 30 September 2017, Russia's GDP increased by 1.8 per cent in real terms.

As Russia produces and exports large quantities of crude oil, natural gas, petroleum products and other commodities, the Russian economy is particularly vulnerable to fluctuations in oil and gas prices, as well as other commodities prices, which historically have been subject to significant volatility over time, as illustrated by the recent decline in crude oil prices. The price of the global benchmark Brent crude has fallen from US$96 per barrel Brent in 2014 to US$57 per barrel Brent on 31 December 2016 and is widely predicted not to recover to its previous levels for some time to come. The international sanctions arising from the Ukraine crisis have also undercut confidence in the Russian economy and added to the cost of capital. The lack of confidence in the Russian economy led to a decline in the rouble/U.S. dollar exchange rate in late 2014, which continued in 2015. This has been accompanied by rising inflation and a declining trend in real average wages from 8.4 per cent growth in 2012, to 4.8 per cent in 2013, to 1.2 per cent in 2014, to a 9.0 per cent decline in 2015, to 0.7 per cent growth in 2016 and 3.5 per cent growth for the first 11 months of 2017. There can be no assurance that any measures adopted by the Russian Government to mitigate the effect of any financial and economic crisis will result in a sustainable recovery of the Russian economy. Russian banks, and the Russian economy generally, were also adversely affected by the global financial crisis. Current macroeconomic challenges, low or negative economic growth in the United States, China, Japan and/or Europe and market volatility may provoke or prolong any economic crisis. As an emerging economy, Russia remains particularly vulnerable to further external shocks. Events occurring in one geographic or financial market sometimes result in an entire region or class of investments being disfavored by international investors – so-called "contagion effects". Russia has been adversely affected by contagion effects in the past, and it is possible that the market for Russian investments will be similarly affected in the future by negative economic or financial developments in other countries. Economic volatility, or a future economic crisis, may undermine the confidence of investors in the Russian markets and the ability of Russian businesses to raise capital in international markets, which in turn could have a material adverse effect on the Russian economy and the Group's results of operations, financial condition and prospects. In addition, any further declines in oil and gas prices or other commodities pricing could disrupt the Russian economy and materially adversely affect the Group's business.

***The Group is subject to limitations imposed by Russian legislation that restricts the rights of foreign entities to invest in certain Russian companies and in the subsoil sector***

Under the Strategic Investment Laws of the Russian Federation, including the Foreign Investments Law (as defined in "*Regulatory Matters*"), the acquisition by a foreign investor, or a "group" of persons, as such term is defined under Russian law, including one or more foreign investors, of 25 per cent or more of the voting shares in a company undertaking operations at subsoil plots of federal importance (a "**Strategic Subsoil Company**"), requires the prior approval of the Foreign Investment Commission (as defined in "*Regulatory Matters*"). Furthermore, if a foreign investor, or a group of persons including one or more foreign investors, already exercises direct or indirect "control" (as defined in the Foreign Investments Law) of over 25 per cent (but less than 75 per cent) of the voting shares of a Strategic Subsoil Company, each subsequent acquisition of shares of the Strategic Subsoil Company by the foreign investor, or group of persons including a foreign investor, whether directly or indirectly, requires the prior approval of the Foreign Investment Commission (with the exception of transactions that do not result in the increase of the ownership percentage of a foreign investor of a group including a foreign investor in the charter capital of a Strategic Subsoil Company or by persons that are under control of the person which controls such Strategic Subsoil Company). Additional restrictions apply to foreign states, governmental organizations, companies incorporated in offshore jurisdictions determined by the Ministry of Finance of the Russian Federation and investors controlled by them, to which lower approval thresholds apply and which are generally prohibited from establishing control over strategic entities. Failure to obtain a prior approval renders the transaction void or may lead to limitations on the foreign investor's voting rights. As at the date of this Prospectus, gold mining subsidiaries within the Group, comprising subsidiaries of PJSC Polyus, including JSC Polyus, JSC Tonoda, JSC Matrosova Mine, LLC Amurskoye GRP, LLC Krasnoyarskoye GRP, LLC Magadanskoye GRP, JSC Polyus Verninskoye and SL Gold, hold licenses to subsoil plots of federal importance, as defined in the Russian Subsoil Law, which comprise in aggregate approximately 90 per cent of the Group's reserves. As a result, each of these subsidiaries is considered a Strategic Subsoil Company. Under a strict interpretation of the Strategic Investment Laws, the acquisition of 25 per cent or more of the voting shares in a direct or indirect holding company of a Strategic Subsoil Company, such as PJSC Polyus, is generally subject to similar limitations.

In addition to the above, some Russian subsidiaries of PJSC Polyus, which are not Strategic Subsoil Companies, are engaged in other types of activities considered strategic under the Foreign Investments Law, which technically include production of industrial explosives and activities in the sphere of securing air safety and providing airport services. On these grounds, members of the Group JSC Dalnyaya Taiga, JSC Sevzoto, JSC Svetlyi, JSC Marakan, JSC Aldanzoloto GRK, LLC Novyi Ugahan and CJSC Lensib are considered strategic companies. Acquisition of more than 50 per cent of shares in such companies by a foreign investor or a group comprising a foreign investor, directly or through acquisition of shares in their holding companies, including PJSC Polyus, is also subject to approval by the Foreign Investment Commission.

If shares of PJSC Polyus are acquired in circumstances where approval under the Foreign Investments Law is required but has not been obtained, there is a risk that action could be taken against PJSC Polyus to limit its voting rights in respect of the Group's Strategic Subsoil Companies, or to invalidate the corporate decisions and transactions of such Strategic Subsoil Companies that were made following the relevant acquisition of shares of PJSC Polyus without approval.

For a more detailed discussion of implications of the Strategic Investment Laws, see "*Regulatory Matters — Foreign Investment in Sectors that are of Strategic Importance for the National Security and Defense of the Russian Federation, including the Subsoil Sector*".

***Changes in Russian legislation aimed at the "deoffshorisation" of the Russian economy may negatively affect the Group's operations and financial position***

Russian government officials and representatives have increasingly made statements encouraging the deoffshorisation of businesses with predominantly Russian assets that are held through ownership structures outside of Russia. A corresponding piece of legislation, the "Foreign Companies Act", was signed by the Russian President in November 2014. The Russian Ministry of Finance has introduced significant amendments to Russian tax legislation as part of the "deoffshorisation" process and further measures, tax-related and otherwise, may be implemented in the future to support these initiatives. These amendments will remove tax breaks associated with foreign-based structures and disallow their access to state support, in particular, offshore companies are prohibited from participating in public procurement. As a result, companies registered under foreign jurisdictions, but which operate in Russia, may find that the Russian Government's deoffshorisation policies could lead to restrictions on contracts with state bodies, and limits being placed on state support and tax relief.

Changes in Russian law aimed at implementing "deoffshorisation" initiatives could increase the Group's taxes, or otherwise have a negative effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes. In particular, the Group, which is controlled by PGIL, an entity incorporated in Jersey, Channel Islands, may face:

- difficulties in obtaining relief on mining and income tax if restrictions are placed on such relief measures;
- an absence of state support or co-funding of infrastructure and power projects considered to be of local or federal importance; or
- an increased tax burden on the Group due to the implementation of new tax residency rules for corporations, which could lead to increased taxes payable by the Group and its subsidiaries.

Any such amendments to Russian laws could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes. See "*Risks relating to taxation — Risks relating to the Russian taxation system — The Russian taxation system is not fully developed and is subject to frequent changes, which could have an adverse effect on the Group*".

***Some of Russia's physical infrastructure requires significant on-going investment, and any disruption of normal business activity of the Group may lead to increased costs and efforts by the Russian Government to improve the country's infrastructure, and which may result in increased costs for the Group***

Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained since the dissolution of the Soviet Union. The rail and road networks, power generation and transmission, communications systems and building stock have been particularly affected. In the past, Russia has experienced electricity and heating shortages and blackouts, and the Russian railway system is subject to risks of disruption as a result of the declining physical condition of rail tracks and a shortage of rail cars. For example, in May 2005, an electricity blackout affected much of Moscow for one day, disrupting normal business activity, and in August 2009, an accident at the Sayano Shushenskaya hydroelectric facility resulted in power shortages for both residential and industrial consumers. The poor condition or further deterioration of the physical infrastructure in Russia may harm its national economy, disrupt the transportation of goods and supplies, increase the costs of doing business and interrupt business operations, each of which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Investments in Russia may be adversely affected by fluctuations in the global economy***

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Since Russia is one of the world's largest producers and exporters of oil, natural gas and metal products, the Russian economy is especially sensitive to commodity prices on the world markets. The sharp decrease in prices for natural resources in 2008 and 2014-2016 resulted in a significant decrease of governmental revenues, which had a negative effect on the Russian economy. Commodity prices, including gold, continue to be volatile, and future fluctuations in the global markets could substantially limit the Group's access to capital. These developments could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Potential political or social conflicts could create an uncertain operating environment hindering the Group's long-term planning ability and could have a material adverse effect on the value of investments in Russia, including the trading price of the Notes***

The Russian Federation is a federation of sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts, some of which have the right to manage their internal affairs pursuant to agreements with the federal government and in accordance with applicable laws. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in some instances, unclear. In practice, the division of authority and uncertainty could hinder the Group's long-term planning efforts and may create uncertainties in the Group's operating environment, which may prevent it from effectively carrying out its business strategy.

Emerging markets such as Russia are also subject to heightened volatility resulting from political and economic conflicts. Any disruption or reversal of the reform policies or any recurrence of political or governmental instability or significant terrorist attacks (to which Russia is potentially particularly exposed, given on-going ethnic and religious tensions, notably with peoples and regions from and in the Caucasus and Central Asia) may lead to a deterioration in Russia's investment climate and trading volatility, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, acts of terrorism (principally connected with the North Caucasus region) and military conflict, including the military conflict between the Russian Federation and Georgia in 2008, recent deterioration in relations between the Russian Federation and Turkey as a result of the shooting down of the Russian military jet by Turkish Air Forces along the Syrian-Turkish border in November 2015 and on-going participation of the armed forces of the Russian Federation in the Syrian conflict. If existing conflicts, tensions or terrorist activities, or threats thereof, remain unresolved, or new disturbances or hostilities arise, this could have significant political and economic consequences and the Group may be unable to access capital, or access capital on terms reasonably acceptable to it, and its sales may be impacted, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Political and governmental instability could adversely affect the value of investments in Russia, including the Notes***

Since 1991, Russia has been moving from a one-party state with a centrally planned economy to a federal republic with democratic institutions and a market-oriented economy. The Russian political system, though more stable than in the 1990s, remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has

in some respects been uneven, and the composition of the Russian Government has, at times, been unstable. However, over the period from 2000 to 2008, President Vladimir Putin achieved and generally maintained political and governmental stability in the country, which accelerated the reform process and made the political and economic situation in Russia more conducive to investment. In March 2008, Mr. Dmitry Medvedev was elected as the President of Russia, and a significant degree of continuity has been maintained, due in large part, to the appointment by President Medvedev of Vladimir Putin as the Russian Prime Minister, and, following Mr. Putin's election as President of Russia in March 2012, the subsequent appointment of Mr. Medvedev as Prime Minister. It is possible, however, that future presidents may take a different approach to reforms and to the state's foreign and domestic policies in the future. Moreover, in December 2011 and in 2012, there have been public protests alleging voting irregularities in federal parliamentary and presidential elections and demanding political reform. Any significant further increases in political instability, including as a result of the presidential elections in Russia in 2018, could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Changes in the Russian Government, the State Duma or the presidency, major policy shifts or eventual lack of consensus between the President, the Russian Government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading prices of the Notes.

***A reversal of government reforms or policies targeted at specific individuals or companies could have an adverse effect on the Group's business, as well as investments in Russia more generally***

From 2001 until 2013, the political situation in Russia became more stable and conducive to investment. Such stability, however, has been negatively affected by the global financial crisis and economic sanctions imposed in 2014 by the United States and the EU and the on-going economic recession. See "*— The on-going armed conflict in Eastern Ukraine and the international reaction to Russia's action in connection with Crimea resulting in the imposition of sanctions could further materially adversely affect the economic environment in Russia, including the business, results of operations and financial condition of the Group, and create significant political and economic uncertainty*" and "*— Investments in Russia may be adversely affected by fluctuations in the global economy*". Any significant struggle over the direction of future reforms, or a reversal of the reform process, could lead to another deterioration in Russia's investment climate, which might constrain the Group's ability to obtain financing in the international capital markets, limit its sales in Russia or otherwise have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In the past, Russian authorities have prosecuted some Russian companies, their executive officers and their shareholders on tax evasion and related charges. In some cases, the result of these prosecutions has been the imposition of prison sentences for individuals and significant claims for unpaid taxes. According to some commentators, such prosecutions have called into question the security of property and contractual rights, the independence of the judiciary and the progress of the market and political reforms in Russia. Any similar actions by governmental authorities could lead to further negative effect on investor confidence in Russia's business and legal environment and the Group's ability to raise equity and debt in the international markets, as well as the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The Russian banking system remains under on-going development***

Russia's banking and other financial systems are in a period of on-going development, and Russian legislation relating to banks and bank accounts is subject to interpretation and some inconsistent

applications. There are currently a limited number of creditworthy Russian banks (most of which are headquartered in Moscow) with the capacity to service companies of the size of those found in the Group. Another banking crisis in Russia or globally, or the expansion of international sanctions against Russia, could place severe liquidity constraints on the Russian banking system. Although the CBR has the mandate and authority to suspend banking licenses of insolvent banks, a number of insolvent banks still operate. Some banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Many Russian banks also do not meet international banking standards, and the transparency aspects of the disclosures of the Russian banking sector still do not follow all internationally accepted norms.

The CBR's supervisory/control mechanisms may be in certain cases insufficient to timely identify non-compliance with banking legislation. As part of a gradual consolidation process, which started in 2014, Russia's larger banks have acquired smaller banks and increased their market share, and banks with stronger credit profiles have merged with distressed banks. In connection with this consolidation, the CBR has revoked the banking licenses of a substantial number of Russian banks. The CBR's orders on revocation of such licenses state that the banks were in breach of banking laws and regulations and were found to have false statements in their reports. The revocations have raised some concerns about the stability of some of the smaller banks in the Russian banking system and their liquidity on the domestic market.

These deficiencies in the Russian banking sector may result in the banking sector being more susceptible to a deterioration of the current global macroeconomic situation. Due to the imposition of Ukraine-related sanctions and the recent oil price weakness, among other things, Russian banks experienced difficulties in recent years with funding on international markets. As a result, credit ratings of several banks were lowered. With the Russian economy experiencing a recession in 2015 and continuing slow growth in 2016 and 2017, the Russian banking sector has experienced renewed instability. For example, according to the United Credit Bureau, the level of non-performing loans in the Russian banking sector has increased from 15.66 per cent at the end of 2014 to 17.5 per cent at the end of 2016. In 2014, Trust Bank, Russia's then 22nd largest bank by assets, was bailed out for RUB 127 billion. In late 2017, the CBR announced its decision to implement measures aimed at improving the financial stability of several Russian banks. According to the CBR's preliminary estimates, the bail out of PJSC Bank Otkritie Financial Corporation, Russia's eighth largest bank by assets, PJSC B&N Bank, Russia's eleventh largest bank by assets, and Promsvyazbank, Russia's ninth largest bank by assets, may require RUB 250-400 billion, RUB 250-350 billion and RUB 100-200 billion, respectively. Risk management, corporate governance and transparency and disclosure often remain below international best practices. During the 2007-2008 global financial crisis, Russian banks were faced with a number of problems simultaneously, such as withdrawal of deposits by customers, payment defaults by borrowers, deteriorating asset values and rouble depreciation and currency mismatching (foreign currency denominated liabilities against rouble denominated assets), all of which could re-occur if another banking crisis were to occur. Russia's current economic circumstances are likely to continue to put stress on the Russian banking system.

In response to the situation in Ukraine and Crimea, sanctions have been imposed by a number of countries against certain Russian banks, financial institutions and companies, as well as certain Russian individuals who hold interests or positions in such entities. Among other measures, the United States and the European Union, among others, have recently imposed sectoral sanctions on certain major Russian financial institutions. These sectoral sanctions generally prohibit persons from engaging in transactions involving new equity or new debt (in the case of the United States) or transferable securities, money, market instruments, and loans or credit (in the case of the European Union) of greater than 14 days (in the case of the United States) or 30 days (in the case of the EU) maturity with the targeted entities and entities owned and/or controlled by such entities (including Bank of Moscow, VTB Bank, Vnesheconombank, Gazprombank, Russian Agricultural Bank and Sberbank), substantially cutting off these financial institutions from the U.S. and EU debt and equity markets. It is difficult to predict the full impact of the foregoing sanctions on the Russian banking sector over time; however, there is a risk that Russian banks could be unable to refinance their

existing debt or that such refinancing may become more expensive, and/or that Russian banks could be unable to issue loans in amounts necessary for borrowers, and/or that the cost of borrowing could increase significantly for borrowers. Moreover, over time, the above prohibitions could lead to a shortage of U.S. dollars or euros in the Russian markets, which may affect a borrower's performance under contracts with settlement occurring in such currencies. As the Group relies substantially on financing from Russian financial institutions, any of these risks could have a material adverse effect on its ability to raise new capital or refinance existing indebtedness.

A significant part of the Group's cash reserves are held at Russian state-owned banks. Various prominent Western politicians have already called for strengthening U.S. and EU Ukraine-related sanctions against certain Russian companies and state-owned financial institutions. For example, there have been proposals to cut off Russia from the international SWIFT payment system, which would disrupt ordinary banking services in Russia and any cross-border trade. More expansive sanctions targeting Russian banks, including Russian state-owned banks, where a significant part of the Group's cash reserves is held, could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

The on-going developments in the Russian banking sector, combined with the risk of deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to any worldwide credit market downturn and economic slowdown. A prolonged or serious banking crisis or the bankruptcy of a number of Russian banks could materially adversely affect the Group's business and its ability to complete banking transactions in Russia.

***The accession of the Russian Federation to the World Trade Organization may lead to changes in the business and legal environment in Russia***

The Russian Federation officially became a member of the World Trade Organization ("**WTO**") on 22 August 2012. The accession may lead to significant changes in Russian legislation including, among others, the regulation of foreign investments in Russian companies and competition laws, as well as changes in the taxation system and customs regulations in Russia. In addition, implementation of the WTO rules may result in an increase in competition in the markets where the Group operates. Although during 2012-2015, Russia adopted certain changes to its legislation related to its accession to the WTO (for example, for regulation of intellectual property), it is unclear yet if and when all necessary legislative changes related to the accession will take place. If further new legislation is implemented in Russia as a result of its accession to the WTO, such legislation could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Russia's property law is subject to uncertainty and contradiction, and title to some of the Group's mineral properties or production facilities may be challenged***

The legal framework relating to the ownership and use of land and other real property in the Russian Federation is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in some of the more developed market economies, such as those of North America and Western Europe. During the Russian Federation's transformation from a centrally planned economy to a market economy, legislation was enacted to protect private property against expropriation and nationalization. However, it is possible that, due to a lack of experience in enforcing these provisions and due to political changes, these protections would not be enforced in the event of an attempted expropriation or nationalization, or in the event that the Group's business is reorganized. It is often difficult to determine with certainty the validity and enforceability of title to land in the Russian Federation and the extent to which it is encumbered. Moreover, in order to use and develop real property in the Russian Federation, approvals, consents and registrations of various federal, regional and local governmental authorities are required, and this can be a lengthy and cumbersome process. Further, it is not always clear which governmental body or official has the right

to lease or otherwise regulate the use of real property. In addition, building and environmental regulations often contain requirements that are impossible to fully comply with in practice. Failure to obtain or comply with the required approvals, consents, registrations or other regulations may lead to severe consequences, including with regard to any current construction activities. If the real property owned or leased by the Group is found not to be in compliance with all applicable approvals, consents, registrations or other regulations, the Group may lose the use of such real property, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Negative publicity could harm the Group's business***

The local and international press has reported high levels of corruption and extortion in the Russian Federation, including selective investigations and prosecutions to further the personal or commercial interests of certain favored companies or individuals. There is also a tendency among the local and international press to generate speculative reports that contain allegations of criminal conduct or corruption on the part of Russian companies or individuals within Russian companies or the Russian government. In addition, the Russian press and other non-traditional media are suspected of publishing biased articles and reports in return for payment. Such negative publicity could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The on-going development of the Russian legal system and Russian legislation creates an uncertain environment for investment and for business activity***

Russia continues to develop its legal framework in accordance with international standards and the requirements of a market economy. Since 1991, new Russian domestic legislation has been put into place. Currently, this system includes the Constitution of the Russian Federation of 1993, the Civil Code of the Russian Federation and other federal laws, decrees, orders and regulations issued by the President, the Russian Government and federal ministries, which can be complemented by regional and local rules and regulations, and adopted in certain spheres of regulation. Several fundamental Russian laws have only recently become effective, including laws amending procedures for approval of interested party and major transactions, and there still remain gaps and inconsistencies in regulatory infrastructure. Consequently, certain areas of judicial practice are not yet fully settled, and are therefore sometimes difficult to predict.

Among the risks of the current Russian legal system are:

- inconsistencies among federal laws; decrees, orders and regulations issued by the President, the Russian Government, federal ministries and regulatory authorities; and regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- the relative inexperience of judges, courts and arbitration tribunals in interpreting new principles of Russian legislation, particularly business and corporate law;
- a lack of judicial independence from political, social and commercial forces;
- bankruptcy procedures that are still under development;
- difficulty in enforcing court judgments in practice;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation; and
- a high degree of unchecked discretion on the part of governmental and regulatory authorities.

Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions, and the expropriation of property. The possibility of unlawful, selective or arbitrary governmental action also enhances opportunities for official corruption and extortion, as well as the penetration of organized crime into the economy, all of which is widely reported to be high in Russia. Press reports have described instances in which governmental officials have engaged in selective investigations and prosecutions to further their personal interests. The Russian Government has pursued a campaign against corruption, which is generally not viewed as having yet achieved significant tangible results. See "*—Findings of failure to comply with existing laws or regulations, unlawful or arbitrary government action or increased governmental regulation of the Russian operations of the Group could result in substantial additional compliance costs or various sanctions*".

Even minor or immaterial breaches and violations of Russian legislation may result in claims to be brought by the Russian state authorities. Any such claims by the Russian state authorities could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

There are also legal uncertainties relating to property rights in Russia. During Russia's transformation to a market economy, the Russian Government has enacted legislation to protect property against expropriation and nationalization, and, if property is expropriated or nationalized, legislation provides for fair compensation. There is, however, no assurance that such protections would be enforced.

Russia is not party to any multilateral or bilateral treaties with most Western jurisdictions for the mutual enforcement of court judgments. Consequently, should a judgment be obtained from a court in any of such jurisdictions, it is difficult to predict whether a Russian court will give direct effect to such judgment. Russia (as successor to the Soviet Union) is a party to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). A foreign arbitral award obtained in a state that is party to the New York Convention should be recognized and enforced by a Russian court (subject to the qualifications provided for in the New York Convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation and non-violation of Russian public policy), but in practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian courts or other officials, thereby introducing delays and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in Russia. In addition, the Russian courts may, and in certain cases must, accept jurisdiction notwithstanding the submission by the parties to arbitration (*e.g.*, where a dispute is within the exclusive competence of the Russian courts or in insolvency of the Russian obligor). There is also a risk that Russian procedural legislation will be changed by way of introducing further grounds preventing foreign court judgments and arbitral awards from being recognized and enforced in Russia.

Notwithstanding recent reforms of the Russian court system, the transitional state of the Russian legal system could affect the Group's ability to enforce its rights under contracts, or to defend itself against claims by others, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The implementation of certain amendments to the Russian Civil Code may create an uncertain environment for business activities and investments***

The Russian parliament has recently implemented widespread amendments to the Russian Civil Code. Although many of them became effective in 2014 and 2015, some amendments will take effect only from June 2018. The scope of these amendments modify existing laws governing, among other things, regulation of legal entities, certain types of transactions, pledges, mortgages, other security arrangements and property rights. As of the date of this Prospectus, the potential interpretation of

these amendments by state authorities and the courts, along with their impact on the Group's business and corporate governance, remains unclear.

***Findings of failure to comply with existing laws or regulations, unlawful or arbitrary government action or increased governmental regulation of the Russian operations of the Group could result in substantial compliance costs or various sanctions***

The Group's operations and properties in Russia are subject to regulation by various government entities and agencies at both the federal and regional levels. Regulatory authorities often exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses and permits and in monitoring licensees' compliance with license terms, which may lead to inconsistencies in enforcement. Russian authorities have the right to, and frequently do, conduct periodic inspections of operations and properties of Russian companies throughout the year. Any such future inspections may conclude that the Group violated applicable laws, decrees or regulations. Findings that the Group failed to comply with existing laws or regulations or directions resulting from government inspections may result in the imposition of fines, penalties or more severe sanctions, including the suspension, amendment or termination of the Group's licenses or permits or in requirements that the Group cease certain business activities, or in criminal and administrative penalties being imposed on the Group's officers. Any such decisions, requirements or sanctions, or any increase in governmental regulation of the Russian operations of the Group, could increase the Group's costs and could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In addition, government officials have a high degree of discretion in Russia and at times act selectively or arbitrarily, without a hearing or prior notice, and sometimes in a manner that is contrary to law or is influenced by political or commercial considerations. Unlawful, selective or arbitrary actions of Russian government officials have reportedly included the denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. The Group's competitors may receive preferential treatment from Russian government officials, potentially giving them a competitive advantage over the Group. Unlawful, arbitrary or selective government actions directed against other Russian companies (or the consequences of such actions) may generally impact the Russian economy, including the securities markets. Any such actions, decisions, requirements or sanctions, or any increase in governmental regulation of the Russian operations of the Group, could increase the Group's costs and could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Shareholder liability under Russian legislation could cause PJSC Polyus to become liable for the obligations of its applicable subsidiaries***

Under Russian law, PJSC Polyus may be primarily liable for the obligations of its Russian subsidiaries jointly and severally with such entities if: (i) PJSC Polyus has the ability to make decisions for such Russian subsidiaries as a result of its ownership interest, the terms of a binding contract or in any other way; and (ii) the relevant Russian subsidiary concluded the transaction giving rise to the obligations pursuant to PJSC Polyus' instructions or with PJSC Polyus' consent. PJSC Polyus, if it is viewed as having the actual ability to determine its Russian subsidiaries' operations, may also be held liable for the losses incurred by such subsidiaries and caused by PJSC Polyus. In addition, PJSC Polyus may have secondary liability for the obligations of its Russian subsidiaries if the subsidiary becomes insolvent or bankrupt as a result of PJSC Polyus' action. This liability could result in significant losses, and could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In addition, some of PJSC Polyus' Russian subsidiaries do not comply with formal requirements of Russian law that provide that a shareholder of a wholly-owned subsidiary cannot itself be a wholly-owned company. In such circumstances, competent authorities could request that the existing breaches are rectified and, in case these are repeated or remain unrectified, bring a claim seeking liquidation of the company on the basis of gross or repeated breaches of law. The Group does not believe that its existing shareholding structure could result in any claims against its subsidiaries; however, if the Group's ownership structure was challenged and the challenge was successful, the Group would be forced to restructure its existing shareholding structure. Any such challenge or restructuring, if successful, could lead to additional costs and affect the relevant companies' operations.

***Protection provided by Russian legislation against expropriation and nationalization may not be adequately enforced***

The Russian Government has enacted legislation to protect foreign investment and other property against expropriation and nationalization. If property is expropriated or nationalized, legislation provides for fair compensation. However, there is no assurance that such protections would be enforced. This uncertainty is due to several factors, including weaknesses in the judiciary and insufficient mechanisms to enforce judgments, as well as reported corruption among state officials. In addition, it is possible that, due to a lack of experience in enforcing these provisions or due to political changes, legislative protections may not be enforced in the event of an attempted nationalization. Furthermore, there is little experience in enforcing legislation enacted to protect private property against nationalization. Although the Group does not believe that there is a legal basis for the expropriation or nationalization of any of its assets, any expropriation or nationalization of the Group's business could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Unlawful or arbitrary government actions may be directed at the Group***

State authorities have a high degree of discretion in Russia and at times exercise such discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes they illegally go beyond the limits of their discretion. There is a risk that state authorities may arbitrarily nullify or terminate contracts, withdraw licenses, conduct sudden and unexpected tax audits, initiate criminal prosecutions and civil actions and use common defects in documentation of financing activities, accounting or share issues and registration as pretexts for court claims and other demands to liquidate companies or invalidate such financing activities, share issues and registrations and/or to void transactions. Unlawful or arbitrary state action, if directed at the Group, could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***The limited independence and experience of the judiciary, the complexity of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Group from obtaining effective redress from a court or tribunal***

The court system in Russia is understaffed and under-funded and not immune to external influences. Judges and the courts in Russia can be inexperienced in interpreting and applying many aspects of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all court decisions are readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress subject to uncertainty. Additionally, court claims and prosecutions are sometimes influenced by, or used in furtherance of, private interests. The Group may be subject to such claims and may not be able to receive a fair trial.

***Publicly available data may be unreliable***

The Group has derived substantially all of the information contained in this Prospectus concerning its competitors and market share from publicly available information and has relied on the accuracy of this information without independent verification.

In addition, some of the information contained in this Prospectus has been derived from official data of Russian government agencies and the CBR. Some of the official data published by Russian federal, regional and local governments may not be complete or researched to the standard of Western countries. The veracity of some official data released by the Russian government may be inaccurate. Official statistics, including those produced by the CBR, may also be produced to a different standard than those used in Western countries. Any discussion of matters relating to the Russian Federation in this Prospectus must, therefore, be subject to uncertainty due to the potential inaccuracy of available official and public information.

## RISKS RELATING TO TAXATION

***Under certain circumstances, payments on the Notes may be subject to U.S. information reporting and withholding tax under FATCA***

Under the Foreign Account Tax Compliance Act provisions of the U.S. Internal Revenue Code ("**Code**") and related U.S. Treasury guidance ("**FATCA**"), a withholding tax of 30 per cent will be imposed in certain circumstances on (i) payments of certain U.S. source income (including interest and dividends) and gross proceeds from the sale or other disposition of property that can produce U.S. source interest or dividends ("**withholdable payments**") and (ii) payments by certain foreign financial institutions (such as banks, brokers, investment funds or certain holding companies) ("**FFIs**") that agree to comply with FATCA ("**participating FFIs**") that are attributable to withholdable payments ("**foreign passthru payments**"). It is uncertain at present when payments will be treated as "attributable" to withholdable payments. FATCA withholding on foreign passthru payments generally will not apply to debt obligations that are issued on or before the date that is six months after the date on which the final U.S. Treasury regulations that define "foreign passthru payments" ("**passthru payment regulations**") are filed unless such obligations are materially modified after that date.

It is possible that, in order to comply with FATCA, the Issuer or the Guarantor (or if the Notes are held through an FFI, such FFI) may be required, pursuant to an agreement with the United States (an "**FFI Agreement**") or under applicable non-U.S. law enacted in connection with an intergovernmental agreement between the United States and another jurisdiction (an "**IGA**") to request certain information and documentation from the holders or beneficial owners of the Notes, which may be provided to the IRS. In addition, if the terms of the Notes are materially modified on a date more than six months after the date on which the passthru payment regulations are filed, then it is possible that the Issuer, the Guarantor or such other financial institution through which the Notes are held may be required to apply the FATCA withholding tax to any payment with respect to the Notes treated as a foreign passthru payment made after the later of (a) 31 December 2018 and (b) the date on which the passthru payment regulations are published if any required information or documentation is not provided or if payments are made to certain FFIs that have not agreed to comply with an FFI Agreement (and are not subject to similar requirements under applicable non-U.S. law enacted in connection with an IGA).

Each non-U.S. person considering an investment in the Notes should consult its own tax advisor regarding the application of FATCA to the Notes.

***Payments of interest on the Notes may be subject to UK withholding tax unless an exemption is available***

The Issuer is incorporated in the UK and, as such, is treated as a UK resident for UK tax purposes. Accordingly, interest on the Notes will have a UK source and, as such, payments of interest on the Notes will be subject to UK withholding tax unless an exemption is available under UK domestic law or an applicable double tax treaty. In view of the fact that the Notes will be admitted to the Official List and to trading on the London Stock Exchange's regulated market, which is a "recognized stock exchange" for the purposes of UK domestic law, under current law the "quoted Eurobond" exemption should apply. In the event that the Notes are no longer determined to be listed on a "recognized stock exchange" for the purposes of UK domestic law, other exemptions may be available. If any withholding or deduction on account of UK tax is required to be made (see "*Taxation — United Kingdom — Payments on the Notes — Withholding Tax*"), the Issuer will generally be obliged, except in certain circumstances (see "*Terms and Conditions of the Notes — Taxation*"), to pay such additional amounts so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required.

There can be no assurance that the "quoted Eurobond" exemption will continue to apply to payments of interest on the Notes, or that individual Noteholders will be entitled to additional amounts under the Terms and Conditions of the Notes in the event that any UK withholding tax becomes applicable to payments of interest on the Notes.

## RISKS RELATING TO THE RUSSIAN TAXATION SYSTEM

***The Russian taxation system is continually evolving and is subject to frequent changes, which could have an adverse effect on the Group***

A significant part of the Group's assets and operations is located in Russia and, therefore, weaknesses in the Russian tax system could adversely affect the Group. The Russian subsidiaries of the Group are subject to a broad range of taxes and charges imposed at the federal, regional and local levels, including, but not limited to, corporate income tax, tax on mining, value added tax ("**VAT**"), property tax and payroll-related social security contributions.

The Tax Code of the Russian Federation (the "**Russian Tax Code**") has been in force for a short period relative to tax laws and regulations in more developed market economies. Moreover, provisions of the Russian tax law applicable to financial instruments (including, securities) may be subject to more rapid and unpredictable changes than similar tax laws in jurisdictions with more developed financial markets or more developed taxation systems. The implementation of Russian tax laws and regulations is often unclear or inconsistent.

Historically, the system of tax collection in Russia has been relatively ineffective, resulting in continual changes in the tax legislation, which sometimes occur on short notice and apply retrospectively. The interpretation and application of existing laws and regulations by various authorities is often unclear, unstable or non-existent. Although Russia's tax climate and the quality of Russian tax legislation have generally improved with the introduction of the Russian Tax Code, there can be no assurance that the Russian Tax Code will not be changed or interpreted in the future in a manner adverse to the stability and predictability of the Russian tax system. The possibility exists that Russia may impose arbitrary or onerous taxes, levies, fines and penalties in the future, which could adversely affect the Group's business.

Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Russian Tax Code relating to the aforementioned taxes are comparatively new, the interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax laws and regulations may exist both among and within government bodies at federal, regional and local levels, increasing the amount of

uncertainty and tax risks and leading to the inconsistent enforcement of these laws and regulations. Furthermore, taxpayers, the Russian Ministry of Finance and the Russian tax authorities often interpret tax laws and regulations differently. In some instances, the Russian tax authorities have applied new interpretations of tax laws and regulations retroactively. Private clarifications to specific taxpayers' queries in respect of particular situations issued by the Russian Ministry of Finance are not binding on the Russian tax authorities. There can be no assurance, therefore, that the representatives of the local Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Russian Ministry of Finance. Moreover, there can be no assurance that the Russian legislation and regulations will not be altered, in whole or in part, or that the Russian tax authorities and/or Russian courts or other regulatory authorities will not interpret these rules and regulations in such a way that the arrangements described in the Prospectus would be subject to different tax treatment than the treatment described in the Prospectus, whether retroactively or otherwise, or would be adversely affected in some other way.

In practice, taxpayers often have to resort to court proceedings to defend their position against the Russian tax authorities. In the absence of binding precedent or consistent court practice, rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

Despite the Russian Government having taken steps to reduce the overall tax burden in recent years in line with its objectives, the possibility exists that the Russian Federation would impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. These uncertainties could possibly expose the Group to significant fines and penalties and potentially severe enforcement measures despite its best efforts at compliance, and could result in a greater than expected tax burden, and could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

Tax declarations, together with related documentation, are subject to review and investigation by a number of Russian authorities, which are empowered by Russian law to impose fines and penalties on taxpayers. Generally, tax declarations, together with the related documentation, remain subject to inspection by the Russian tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a particular year has been reviewed by the Russian tax authorities does not prevent further review and investigation by the Russian tax authorities of any tax declarations and other documentation relating to that year during the three-year limitation period. In particular, a repeated tax audit may be conducted (i) by a higher-level tax authority as a measure of control over the activities of lower-level tax authorities, or (ii) in connection with the reorganization/liquidation of a taxpayer, or (iii) as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable to the revenue. Therefore, previous tax audits may not preclude subsequent claims relating to the audited period.

Additionally, the Russian Tax Code provides for possible extension of the three-year statute of limitations for liabilities for tax offences if the taxpayer has actively obstructed the performance of the tax audit and such obstruction has become an insurmountable obstacle for the tax audit. As the terms "obstructed" and "insurmountable obstacles" are not specifically defined in Russian tax law or any other branches of Russian law, the Russian tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax audit with obstruction by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three-year limitation period. Therefore, the statute of limitations is not entirely effective with respect to liability for tax offences in Russia. An extended tax audit, if it is concluded that the Group had significant tax underpayments relating to previous tax periods, may have a material adverse effect on

the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes. Tax audits may also impose additional administrative burden on the Group by diverting the attention of its management and financial personnel and requiring resources for defending the Group's tax-filing position, including for any tax litigation.

In its Decision No. 138-O of 25 July 2001, the Constitutional Court of the Russian Federation introduced the concept of "a taxpayer acting in bad faith" without clearly stipulating the criteria for its interpretation and application. Similarly, this concept is not defined in the Russian tax legislation or other branches of Russian legislation. Nevertheless, in practice, this concept has been used by the Russian tax authorities in order to deny, for instance, the taxpayer's right to rely on the letter of the tax law. Based on available practice, the Russian tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is at times unfavorable to taxpayers.

In October 2006, the Plenum of the Supreme *Arbitrazh* Court of the Russian Federation issued ruling No. 53 ("**Ruling No. 53**"), which introduced a concept of an "unjustified tax benefit" defined mainly by reference to specific examples of such tax benefits (for example, tax benefits obtained as a result of a transaction that has no reasonable business purpose) which may lead to disallowance of their application. Based on the available court practice relating to Ruling No. 53, it is apparent that the Russian tax authorities have been actively seeking to apply this concept when challenging tax positions taken by taxpayers. Although the explicit intention of Ruling No. 53 was to combat tax law abuses, based on the available judicial interpretations relating to Ruling No. 53, the Russian tax authorities have started to apply this concept in a broader sense than may have been intended by the Supreme *Arbitrazh* Court. Importantly, the Group is aware of cases where this concept has been applied by the Russian tax authorities in order to disallow benefits granted by double tax treaties. In many cases where this concept has been applied, the courts have ruled in favor of taxpayers, although recent trends demonstrate the tendency for the courts to support the position of tax authorities. General anti-avoidance rules were introduced into the Russian Tax Code in 2017. No assurance can currently be given as to the exact effect the above rules may have on taxpayers, including the Group.

The Group operates in various jurisdictions and includes companies incorporated outside of Russia. Russian tax laws currently in effect are not well developed as far as taxation of foreign companies in Russia or operations of Russian companies abroad are concerned. The Russian Tax Code contains a concept of permanent establishment in Russia as a means for taxing foreign legal entities which carry out regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities. However, the practical application of the concept of a permanent establishment under Russian law is not well developed, and foreign companies having even limited operations in Russia, which would not normally satisfy the conditions for creating a permanent establishment under international rules, may be at a risk of being treated as having a permanent establishment in Russia. It is possible that, with the evolution of these rules or changes in the approach of the Russian tax authorities and/or courts to their interpretation and application, the Group might become subject to additional taxation in Russia in respect of its operations outside Russia.

In addition, the Russian Tax Code contains the "controlled foreign companies" rules, the concept of tax residency for legal entities and the beneficial ownership concept, which came into force on 1 January 2015.

Introduction of these new rules and concepts is likely to impose additional administrative burden on the Group. No assurance can currently be given as to how the above concepts will be applied in practice, their potential interpretation by the Russian tax authorities and the possible impact (including additional tax liability, if any) on the Group. Therefore, it cannot be excluded that the Group might be subject to additional tax liabilities because of these changes being introduced and applied to transactions carried out by the Group, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

On 1 July 2015, the Convention on Mutual Administrative Assistance in Tax Matters developed by the Council of Europe and the OECD came into effect in Russia. On 12 May 2016, the Russian Federation signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (thereby joining the Standard for Automatic Exchange of Financial Account Information (Common Reporting Standard)) which enables the Russian tax authorities to automatically exchange certain financial information with foreign countries. The respective changes to the Russian Tax Code have been introduced in November 2017.

Each of the foregoing factors creates tax risks in Russia that may be substantially more significant than those typically found in countries with more developed tax systems. These tax risks impose additional burdens and costs on the Group's operations, including management resources. Although the Group undertakes measures aimed at minimising tax risks and strives to comply with Russian tax laws and regulations, there can be no assurance that the Group would not be required to make substantially larger tax payments in the future and that certain transactions and activities of the Group that have not been challenged in the past may be challenged in the future, resulting in a greater than expected tax burden. These risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, and could materially adversely affect the Group's business, results of operations or financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

In addition, on 7 June 2017, 68 jurisdictions, including Russia, signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the "**Multilateral Convention**"). Several additional jurisdictions have signed the Multilateral Convention since then, and a number of jurisdictions have expressed their intention to sign the Multilateral Convention. The Multilateral Convention sets forth additional requirements for the application of double taxation treaty benefits, including reduced tax rates. Currently, it is not entirely clear how each individual double tax treaty to which the Russian Federation is a party would be affected by the Multilateral Convention and what impact the Multilateral Convention may have with respect to taxation of payments under the Guarantee made by the Guarantor.

It is possible that new revenue-raising measures could be introduced. Although it is unclear how any new measures would operate, the introduction of such measures may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. No assurance can be given that no additional tax exposures will arise. Additional tax exposures could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Russian transfer pricing rules may adversely affect the Group's business, financial condition and results of operations***

The Russian transfer pricing legislation allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to "controlled" transactions. The list of "controlled" transactions under the transfer pricing legislation includes transactions performed with related parties and certain types of cross-border transactions. This legislation shifts the burden of proving market prices from the Russian tax authorities to the taxpayer. Although this legislation has been modelled on the basis of the transfer pricing principles developed by the OECD, there are some peculiarities as to how the OECD transfer pricing principles are reflected in the Russian rules. Special transfer pricing rules continue to apply to transactions with securities and derivatives.

Accordingly, due to uncertainties in the interpretation of Russian transfer pricing legislation and the absence of court practice, no assurance can be given that the Russian tax authorities will not challenge the Group's prices and make adjustments which could adversely affect the Group's tax position. The imposition of additional tax liabilities under the Russian transfer pricing legislation may have a

material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes or the trading price of the Notes.

***Payments under the Guarantee may be subject to Russian withholding tax or Russian personal income tax, as applicable***

Payments under the Guarantee to be made by the Guarantor to the Trustee (acting on behalf of the Noteholders) might be characterized as Russian source income that would be subject to the Russian withholding tax at a rate of 20 per cent for the Non-Resident Noteholder–Legal Entity or 30 per cent for the Non-Resident Noteholder–Individual, or such other rate as may be in force at the time of payment, unless the Russian withholding tax is reduced or eliminated, based on the applicable double tax treaty, or the Russian tax exemption relating to such payments is applied. However, obtaining advance relief or a refund of the tax withheld by the Non-Resident Noteholder–Individual may be extremely difficult. See "*Taxation — Russian Federation*".

If payments under the Guarantee become subject to Russian withholding tax, the Guarantor will be obliged (subject to certain conditions) to pay additional amounts so as to result in the receipt by the Noteholders (or the Trustee acting on behalf of the Noteholders) of such amounts as would have been received by them if no such tax withholding or deduction had been required. See "*Terms and Conditions of the Notes — Taxation*".

Recently, the Russian tax legislation has been amended to explicitly permit settlement of a taxpayer's obligations by other parties. Under the previous tax regime, the absence of such provision was perceived as being one of the key obstacles for the enforceability of gross-up provisions in Russia. Notwithstanding this recent change to the legislation, there is still a risk that gross-up for withholding tax may not take place and that the payments made by the Guarantor under the Guarantee will be reduced by the amount of the Russian income tax withheld by the Guarantor at the rate of 20 per cent (in the case of applicability of the rate established for Non-Resident Noteholders–Legal Entities) or at a rate of 30 per cent (in the case of applicability of the rate established for Non-Resident Noteholders–Individuals), or such other rate as may be in force at the time of payment.

If the tax is not withheld by the Guarantor at source, the Non-Resident Noteholder-Individuals may be required to pay personal income tax as part of their personal income tax returns, which would not be indemnified by the Issuer and/or the Guarantor.

***Tax might be withheld on proceeds received from a source within Russia upon disposals of the Notes reducing their value***

Generally, there should be no Russian withholding tax on gains from sale or other disposal of the Notes imposed on Non-Resident Noteholder–Legal Entity. There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the Notes (*i.e.*, debt obligations) where proceeds from sale or other disposal of the Notes are received from a source within Russia by a Non-Resident Noteholder–Legal Entity, which is caused by isolated precedents in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the Notes. Although the Russian Ministry of Finance in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest on the Notes paid to a non-Russian organization should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having a registered tax presence in Russia which purchases the Notes or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20 per cent (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds.

Where the proceeds from the sale (or other disposal) of the Notes are deemed to be received from a source within Russia by a Non-Resident Noteholder–Individual (as defined in "*Taxation – Russian Federation*"), Russian personal income tax at the rate of 30 per cent (or such other tax rate as could be effective at the time of such sale or other disposal) will apply to the gross amount of proceeds from the sale or other proceeds from the disposal of the Notes decreased by any available duly documented cost deductions (including the acquisition cost of the Notes and other documented expenses related to the acquisition, holding and sale or other disposal of the Notes), provided that the duly executed documentation supporting cost deductions is provided to the tax agent obliged to calculate and withhold Russian personal income tax in a timely manner. Although technically Russian personal income tax due on proceeds from the disposal of the Notes may be reduced or eliminated under provisions of an applicable double tax treaty concluded between Russia and the country of tax residency of a particular Non-Resident Noteholder–Individual, subject to timely compliance by that Noteholder with the treaty clearance procedures, in practice such Non-Resident Noteholder–Individuals might not be able to obtain advance treaty relief on receipt of proceeds, as may be relevant, received from a source within Russia, while obtaining a refund of Russian personal income tax that was excessively withheld at source could be extremely difficult, if not impossible.

Further, even though the Russian Tax Code required only a Russian professional asset manager or broker acting under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or a commercial mandate agreement to withhold the tax from payment to an individual associated with the disposal of securities, there is no guarantee that other Russian companies or foreign companies operating in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax.

The imposition or possibility of the imposition of the above tax liabilities in the Russian Federation, as applicable, could adversely affect the value of the Notes. See "*Taxation — Russian Federation*". In addition, while some Noteholders might be eligible for an exemption from or a reduction in Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice.

## RISKS RELATING TO THE NOTES

### *If PJSC Polyus fails to execute and deliver the Additional Guarantee, the Noteholders may require the Issuer to redeem the Notes*

The issuance of the Additional Guarantee constitutes an interested party transaction for PJSC Polyus under the Russian Joint Stock Companies Law and, as such, is expected to be approved by the board of directors of PJSC Polyus. There can be no assurance that the board of directors of PJSC Polyus will approve the issuance of any such Additional Guarantee. If PJSC Polyus fails to execute and deliver the Additional Guarantee, the Noteholders may, at their option, require the Issuer to redeem the Notes at a price per Note equal to 101 per cent of the principal amount thereof plus accrued and unpaid interest and additional amounts, if any, up to but excluding the date of redemption. See "*Overview—Overview of the Offering*".

### *The financial and other information included in this Prospectus has been derived from the Financial Statements of the Group and not from the financial statements of the Guarantor. If PJSC Polyus fails to execute and deliver the Additional Guarantee, investors will have no recourse to PJSC Polyus and such Financial Statements may not be wholly representative of the business, financial condition, results of operations or assets and liabilities of the Issuer and the Guarantor*

The financial and other information included in this Prospectus has been derived from the Financial Statements of the Group (being PJSC Polyus and its consolidated subsidiaries (including the Guarantor) taken as a whole) and not from the financial statements of the Guarantor. Furthermore, Condition 4.5 of the Notes obligates the Issuer, failing whom the Guarantor, to furnish to Noteholders

and the Trustee the Financial Statements of the Group, but not the financial statements of the Guarantor. Therefore, if PJSC Polyus fails to execute and deliver the Additional Guarantee, investors will have no recourse to PJSC Polyus and, while PJSC Polyus does not hold any businesses other than the Guarantor and its subsidiaries, such Financial Statements may not be wholly representative of the business, financial condition, results of operations or assets and liabilities of the Issuer and the Guarantor.

***The Notes may be redeemed at the option of the Issuer in certain circumstances***

The Issuer may at its option redeem the Notes if, as a result of certain changes affecting taxation in any Relevant Jurisdiction (as defined in "*Terms and Conditions of the Notes*"), which are announced, enacted or become effective on or after the date of this Prospectus, the Issuer or the Guarantor becomes obliged to pay additional amounts so that the net amount received by the Noteholder after deduction or withholding for any taxes imposed by any Relevant Jurisdiction is not less than the full amount then due and payable. If the Issuer redeems the Notes in such circumstances, the redemption price will be equal to 100 per cent of the principal amount of the Notes plus any interest and additional amounts (if any) due.

***The Notes may not have an active trading market, which may have an adverse impact on the value of the Notes***

An active trading market for the Notes may not develop. The Notes are subject to restrictions on transfer (see "*Transfer Restrictions*") and have not been registered under the Securities Act or any U.S. state securities laws and, unless so registered, may not be offered or sold except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. Application has been made for admission to trading of the Notes on the Official List. However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes or that such holders will be able to sell their Notes for a price that reflects their value. Liquidity may be further limited if the Issuer makes a large allocation of the Notes to a limited number of investors.

In addition, the market for emerging market debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. There can be no assurance that the market for the Notes will not be subject to similar disruptions. Any such disruptions may affect the market price of the Notes.

***The market price of the Notes may be volatile***

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Group's and its competitors' operating results, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts, the actual or anticipated sale of a large number of Notes or other securities and other factors. In addition, securities markets, in recent periods, have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities are traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

***The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited***

Except in limited circumstances, the Notes will be issued only in global form with interests therein held through the facilities of Euroclear and Clearstream, Luxembourg and DTC. Ownership of beneficial interests in the Notes will be shown on, and the transfer of that ownership will be effected

only through, records maintained by Euroclear and Clearstream, Luxembourg and DTC or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because Euroclear and Clearstream, Luxembourg and DTC can only act on behalf of their participants, which in turn act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a Note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear or Clearstream, Luxembourg or DTC systems may be impaired.

***The Notes are subject to risks relating to exchange rate and exchange controls***

The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or current unit (the "**Investor's Currency**") other than the U.S. dollar. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease (i) the Investor's Currency's equivalent yield on the Notes; (ii) the Investor's Currency's equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency's equivalent market value of the Notes.

***Changes to the credit ratings of the Group or the Notes may adversely affect the value of the Notes***

The Notes are expected to be rated "Ba1" (outlook negative) by Moody's, "BB-" (outlook positive) by Fitch, and "BB-" (outlook positive) by Standard & Poor's. The foregoing credit ratings do not mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. The significance of each rating should be analysed independently from any other rating. Ratings provided by other rating agencies may be different. On 27 May 2016, upon request of PJSC Polyus, Fitch withdrew the ratings of PJSC Polyus, although the ratings of PGIL are unaffected by the withdrawal. Any changes in the credit ratings of the Group or the Notes could adversely affect the value of the Notes and the price that a subsequent purchaser will be willing to pay for the Notes.

***The right of Noteholders to receive payments under the Notes and the Guarantee is effectively subordinated to any liabilities of JSC Polyus' subsidiaries***

The Issuer is a wholly owned subsidiary of JSC Polyus, and while JSC Polyus is the principal operating subsidiary of the Group, some of the Group's operations are conducted through JSC Polyus' subsidiaries. To a certain extent, the Issuer and the Guarantor may depend on the earnings and cash flows of these subsidiaries to meet their respective obligations, including their obligations under the Notes and the Guarantee. Since these subsidiaries do not guarantee the Issuer's payment obligations under the Notes, Noteholders will not have any direct claim on the subsidiaries' cash flows or assets. In the event of a bankruptcy, liquidation or reorganisation of any of JSC Polyus' subsidiaries, their creditors will generally be entitled to payment of their claims from the cash flows and assets of those subsidiaries before any cash flows or assets are made available for distribution to JSC Polyus as a shareholder. This may adversely affect the Issuer's and the Guarantor's ability to service their payment obligations under the Notes and the Guarantee.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to investment laws and regulations, or to the review by, or regulation of, certain authorities. Each potential investor should consult its legal advisors to determine whether and to what extent (i) the Notes are legal investments to it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

***Further Issues of Notes***

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest, the date of issue and the amount of principal) so as to be consolidated and form a single series with the Notes. Even if such additional securities are treated for non-tax purposes as part of the same series as the Notes, such additional securities may in some cases be treated as a separate series for U.S. federal income tax purposes. In such case, such additional securities may be considered to have been issued with original issue discount ("**OID**") even if the Notes were not issued with OID for U.S. federal income tax purposes. These differences may affect the market value of the Notes if such additional securities are not otherwise distinguishable from the Notes.

# USE OF PROCEEDS

The Company intends to use the net proceeds from the issue of the Notes primarily for debt refinancing and other general corporate purposes of the Group.

# CAPITALIZATION

The following table sets forth PJSC Polyus' consolidated cash and cash equivalents and capitalization as of 30 September 2017, derived from the Interim Financial Statements included elsewhere in this Prospectus. The following table should be read in conjunction with "*Selected Consolidated Financial and Operating Information*", "*Operating and Financial Review*" and the Financial Statements included elsewhere in this Prospectus.

| *(in millions of U.S. dollars)* | As of 30 September 2017 |
|---|---|
| **Cash and cash equivalents** | **1,121** |
| Current borrowings | 10 |
| Non-current borrowings | 4,262 |
| **Total borrowings** | **4,272** |
| **Capital and reserves** | |
| Share capital | 5 |
| Additional paid-in capital | 1,945 |
| Treasury shares | (89) |
| Translation reserve | (2,729) |
| Retained earnings | 1,154 |
| **Equity attributable to shareholders of PJSC Polyus** | **286** |
| Non-controlling interests | 100 |
| **Total Equity** | **386** |
| **Capitalization (total borrowings and equity attributable to shareholders of PJSC Polyus)** | **4,658** |

There have been no material changes in the consolidated capitalization of PJSC Polyus and its subsidiaries since 30 September 2017.

# SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

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

*The financial information as of and for the years ended 31 December 2016, 2015 and 2014 has been derived from the Annual Financial Statements included elsewhere in this Prospectus. The financial data set forth as of and for the year ended 31 December 2013 are unaudited and have been extracted without material adjustment from the Company financial statements prepared in accordance with IFRS for such year. The financial information as of 30 September 2017 and for the nine months ended 30 September 2017 and 2016 set forth below has been derived from the Interim Financial Statements included elsewhere in this Prospectus. Prospective investors should not rely on interim results as being indicative of results the Group may expect for the full year.*

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

| ***(in millions of U.S. dollars, unless otherwise indicated)*** | ***Year ended 31 December*** | | | | ***Nine months ended 30 September*** | |
|---|---|---|---|---|---|---|
| | ***2016*** | ***2015*** | ***2014*** | ***2013*** | ***2017*** | ***2016*** |
| Gold production (koz) | 1,968 | 1,763 | 1,696 | 1,652 | 1,580 | 1,395 |
| Gold sold (koz) | 1,915 | 1,768 | 1,691 | 1,631 | 1,561 | 1,365 |
| Average realized refined gold price (excluding effect of SPPP) (US$/oz) | 1,250 | 1,159 | 1,277 | 1,385 | 1,254 | 1,265 |
| Average realized refined gold price (including effect of SPPP) (US$/oz) | 1,287 | 1,225 | 1,302 | 1,385 | 1,269 | 1,302 |
| **Consolidated statement of profit or loss information** | | | | | | |
| Gold sales | 2,429 | 2,159 | 2,197 | 2,259 | 1,950 | 1,769 |
| Other sales | 29 | 29 | 42 | 68 | 28 | 19 |
| **Total revenue** | **2,458** | **2,188** | **2,239** | **2,327** | **1,978** | **1,788** |
| Cost of gold sales | (891) | (876) | (1,174) | (1,347) | (719) | (632) |
| Cost of other sales | (28) | (25) | (33) | (47) | (23) | (19) |
| **Gross profit** | **1,539** | **1,287** | **1,032** | **933** | **1,236** | **1,137** |
| Selling, general and administrative expenses | (151) | (143) | (174) | (216) | (140) | (98) |
| Other (expenses) / income, net | (27) | 20 | (5) | (488) | (32) | (20) |
| **Operating profit** | **1,361** | **1,164** | **853** | **229** | **1,064** | **1,019** |
| Finance costs, net | (145) | (45) | (26) | (9) | (151) | (105) |
| Interest income | 40 | 69 | 31 | 25 | 23 | 30 |
| Gain / (loss) on derivative financial instruments and investments, net | 119 | (125) | (934) | – | 98 | (77) |
| Foreign exchange gain, net | 396 | 149 | 123 | 1 | 112 | 291 |
| **Profit before income tax** | **1,771** | **1,212** | **47** | **246** | **1,146** | **1,158** |
| Income tax expense | (326) | (191) | (222) | (98) | (172) | (269) |
| **Profit / (loss) for the period** | **1,445** | **1,021** | **(175)** | **148** | **974** | **889** |
| Profit / (loss) for the period attributable to: | | | | | | |
| Shareholders of PJSC Polyus | 1,420 | 987 | (216) | 135 | 969 | 863 |
| Non-controlling interests | 25 | 34 | 41 | 13 | 5 | 26 |
| Earnings / (loss) per share (U.S. Cents), basic and diluted | 10.09 | 5.18 | (1.16) | 0.73 | 7.60 | 5.92 |

| *(in millions of U.S. dollars)* | *As of 31 December* 2016 | 2015 | 2014 | 2013 | *As of 30 September* 2017 |
|---|---|---|---|---|---|
| **Consolidated statement of financial position information** | | | | | |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 2,938 | 2,023 | 2,351 | 3,527 | 3,701 |
| Derivative financial instruments and investments | 57 | 411 | 172 | 2 | 30 |
| Inventories | 264 | 184 | 227 | 295 | 300 |
| Deferred tax assets | 75 | 46 | 47 | – | 77 |
| Assets classified as held for sale | – | – | – | – | 98 |
| Other non-current assets | 37 | 8 | 3 | – | 44 |
| **Total non-current assets** | **3,371** | **2,672** | **2,800** | **3,824** | **4,250** |
| **Current assets** | | | | | |
| Inventories | 369 | 296 | 440 | 702 | 427 |
| Derivative financial instruments and investments | 10 | 205 | 193 | – | – |
| Deferred expenditures | 10 | 13 | 13 | 16 | 12 |
| Trade and other receivables | 58 | 23 | 10 | 24 | 40 |
| Advances paid to suppliers and prepaid expenses | 19 | 17 | 16 | 28 | 24 |
| Taxes receivable | 89 | 59 | 47 | 248 | 119 |
| Bank deposits | – | – | 269 | 48 | – |
| Assets classified as held for sale | – | – | – | – | 47 |
| Cash and cash equivalents | 1,740 | 1,825 | 1,213 | 792 | 1,121 |
| **Total current assets** | **2,295** | **2,438** | **2,201** | **1,858** | **1,790** |
| **TOTAL ASSETS** | **5,666** | **5,110** | **5,001** | **5,682** | **6,040** |
| | | | | | |
| **EQUITY AND LIABILITIES** | | | | | |
| Equity attributable to shareholders of PJSC Polyus[1] | (508) | 1,976 | 1,716 | 3,910 | 286 |
| Non-controlling interests | 94 | 71 | 83 | 78 | 100 |
| **TOTAL EQUITY** | **(414)** | **2,047** | **1,799** | **3,988** | **386** |
| **Non-current liabilities** | | | | | |
| Site restoration, decommissioning and environmental obligations | 38 | 32 | 49 | 69 | 47 |
| Borrowings | 4,698 | 2,151 | 1,728 | 923 | 4,262 |
| Derivative financial instruments | 456 | 509 | 423 | – | 456 |
| Deferred revenue | 76 | – | – | – | 79 |
| Deferred consideration | – | – | – | – | 214 |
| Deferred tax liabilities | 182 | 133 | 150 | 134 | 192 |
| Other non-current liabilities | 32 | 20 | 21 | 32 | 39 |
| **Total non-current liabilities** | **5,482** | **2,845** | **2,371** | **1,158** | **5,289** |
| **Current liabilities** | | | | | |
| Borrowings | 283 | 38 | 90 | 221 | 10 |
| Derivative financial instruments | – | – | 547 | – | – |
| Trade and other payables | 222 | 151 | 158 | 262 | 299 |
| Taxes payable | 93 | 29 | 36 | 53 | 56 |
| **Total current liabilities** | **598** | **218** | **831** | **536** | **365** |
| **TOTAL LIABILITIES** | **6,080** | **3,063** | **3,202** | **1,694** | **5,654** |
| **TOTAL EQUITY AND LIABILITIES** | **5,666** | **5,110** | **5,001** | **5,682** | **6,040** |

**Note:**

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

| *(in millions of U.S. dollars)* | *Year ended 31 December* 2016 | 2015 | 2014 | 2013 | *Nine months ended 30 September* 2017 | 2016 |
|---|---|---|---|---|---|---|
| **Selected consolidated cash flow information** | | | | | | |
| Net cash generated from operating activities | 1,178 | 1,103 | 871 | 443 | 948 | 872 |
| Net cash utilized in investing activities | (280) | (676) | (1,727) | (1,119) | (423) | (84) |
| Net cash (utilized in) / generated from financing activities | (1,015) | 220 | 1,353 | 586 | (1,156) | (932) |
| **Net (decrease) / increase in cash and cash equivalents** | **(117)** | **647** | **497** | **(90)** | **(631)** | **(144)** |
| Cash and cash equivalents at beginning of the period | 1,825 | 1,213 | 792 | 890 | 1,740 | 1,825 |
| Effect of foreign exchange rates on cash and cash equivalents | 32 | (35) | (76) | (8) | 12 | 29 |
| **Cash and cash equivalents at end of the period** | **1,740** | **1,825** | **1,213** | **792** | **1,121** | **1,710** |

| *(in millions of U.S. dollars, unless otherwise indicated)* | *Year ended 31 December* 2016 | 2015 | 2014 | 2013 | *As of 30 September* 2017 | 2016 |
|---|---|---|---|---|---|---|
| **Non-IFRS measures** | | | | | | |
| Adjusted EBITDA | 1,536 | 1,278 | 1,018 | 917 | 1,237 | 1,135 |
| Adjusted EBITDA margin (%) | 62 | 58 | 45 | 39 | 63 | 63 |
| Net debt | 3,241 | 364 | 336 | 304 | 3,151 | 3,240 |
| Net debt / Adjusted EBITDA (last 12 months) (x)[1] | 2.1 | 0.3 | 0.3 | 0.3 | 1.9 | 2.3 |
| Adjusted net profit | 952 | 937 | 622 | 568 | 773 | 700 |
| Adjusted net profit margin (%) | 39 | 43 | 28 | 24 | 39 | 39 |

**Note:**

1. Net debt to Adjusted EBITDA ratio is calculated as net debt as at the end of the relevant period divided by Adjusted EBITDA for the relevant period. For the purposes of the net debt to Adjusted EBITDA ratio as of 30 September 2017, Adjusted EBITDA is calculated as the trailing twelve months ended on 30 September 2017 (being Adjusted EBITDA for 2016 less Adjusted EBITDA for the nine months ended 30 September 2016 plus Adjusted EBITDA for the nine months ended 30 September 2017).

### *Adjusted EBITDA*

Adjusted EBITDA has been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*". The following table sets out a reconciliation of the Group's Adjusted EBITDA for the nine months ended 30 September 2017 and 2016.

| *(in millions of U.S. dollars, unless otherwise indicated)* | ***Nine months ended 30 September*** *2017* | *2016* | *Change (%)* |
|---|---|---|---|
| **Profit for the period** | **974** | **889** | **10** |
| Income tax expense | 172 | 269 | (36) |
| Depreciation and amortisation | 129 | 107 | 21 |
| (Gain) / loss on derivative financial instruments and investments, net | (98) | 77 | N.A.[1] |
| Finance costs, net | 151 | 105 | 44 |
| Equity-settled share-based payment plan | 13 | 10 | 30 |
| Foreign exchange gain, net | (112) | (291) | (62) |
| Interest income | (23) | (30) | (23) |
| Impairment / (reversal of impairment) | 6 | (2) | N.A.[1] |
| Special charitable contributions | 29 | – | N.A.[1] |
| (Gain) / loss on property, plant and equipment disposal | (4) | 1 | N.A.[1] |
| **Adjusted EBITDA** | **1,237** | **1,135** | **9** |
| Total revenue | 1,978 | 1,788 | 11 |
| **Adjusted EBITDA margin (%)** | **63** | **63** | – |

**Note:**

1. Not applicable.

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

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

**Note:**

1. Not applicable.

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

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

**Note:**

1. Not applicable.

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

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

**Note:**

1. Not applicable.

### *Net Debt*

Net debt has been calculated by management based on the information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*".

The following table sets out a reconciliation of the Group's net debt as at 30 September 2017 and 31 December 2016.

| *(in millions of U.S. dollars, unless otherwise indicated)* | ***As at 30 September 2017*** | ***As at 31 December 2016*** | ***Change (%)*** |
|---|---|---|---|
| **Non-current borrowings** | **4,262** | **4,698** | **(9)** |
| + current borrowings | 10 | 283 | (96) |
| – cash and cash equivalents | (1,121) | (1,740) | (36) |
| **Net debt** | **3,151** | **3,241** | **(3)** |

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

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

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

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

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

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

### *Adjusted Net Profit*

Adjusted net profit has been calculated by management based on the information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*".

The following table sets out a reconciliation of the Group adjusted net profit for the nine months ended 30 September 2017 and 2016.

| *(in millions of U.S. dollars, unless otherwise indicated)* | ***Nine months ended 30 September*** | | |
|---|---|---|---|
| | ***2017*** | ***2016*** | ***Change (%)*** |
| **Profit for the period** | **974** | **889** | **10** |
| +/– impairment / (reversal of impairment) | 6 | (2) | N.A.[1] |
| –/+ (gain) / loss on derivative financial instruments and investments, net | (98) | 77 | N.A.[1] |
| – foreign exchange gain, net | (112) | (291) | (62) |
| – income tax related to abovementioned items | 3 | 27 | (89) |
| **Adjusted net profit** | **773** | **700** | **10** |
| Total revenue | 1,978 | 1,788 | 11 |
| **Adjusted net profit margin (%)** | **39** | **39** | **–** |

**Note:**

1. Not applicable.

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

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

**Note:**

1. Not applicable.

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

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

**Note:**

1. Not applicable.

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

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

**Note:**

1. Not applicable.

*Total Cash Costs ("TCC")*

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

The following table shows the Group's TCC and TCC per ounce sold for the nine months ended 30 September 2017 and 2016.

| | *Nine months ended 30 September* | | |
|---|---|---|---|
| *(in millions of U.S. dollars, unless otherwise indicated)* | *2017* | *2016* | *Change (%)* |
| **Cost of gold sales** | **719** | **632** | **14** |
| – property, plant and equipment depreciation | (134) | (103) | 30 |
| –/+ provision for annual vacation payment | (5) | 2 | N.A.[1] |
| +/– employee benefit obligations cost | 1 | (1) | N.A.[1] |
| – change in allowance for obsolescence of inventory | – | (1) | N.A.[1] |
| + non-monetary changes in inventories[2] | 11 | 1 | N.A.[1] |
| **TCC** | **592** | **530** | **12** |
| Gold sales ('000 ounces) | 1,561 | 1,365 | 14 |
| **TCC (US$ per ounce sold)** | **380** | **387** | **(2)** |

**Notes:**

1. Not applicable.

2. "Non-monetary changes in inventories" is a calculation of the non-cash portion of costs included in the change in the amount of inventory, representing depreciation and amortisation.

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

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

**Notes:**

1. Not applicable.

2. "Non-monetary changes in inventories" is a calculation of the non-cash portion of costs included in the change in the amount of inventory, representing depreciation and amortisation.

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

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

**Notes:**

1. Not applicable.

2. "Non-monetary changes in inventories" is a calculation of the non-cash portion of costs included in the change in the amount of inventory, representing depreciation and amortisation.

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

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

**Notes:**

1. Not applicable.

2. "Non-monetary changes in inventories" is a calculation of the non-cash portion of costs included in the change in the amount of inventory, representing depreciation and amortisation.

The following table shows the reconciliation of the TCC and TCC per ounce sold for the Group's gold production facilities located in the Krasnoyarsk region (the Olimpiada and Blagodatnoye business units) for the years ended 31 December 2016 and 2015.

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

**Notes:**

1. All Other Segments consist of Irkutsk alluvial, Irkutsk ore, Yakutia Kuranakh, Magadan, Exploration, Capital construction, Unallocated and Sukhoi Log.

2. "Non-monetary changes in inventories" is a calculation of the non-cash portion of costs included in the change in the amount of inventory, representing depreciation and amortisation.

The following table shows the reconciliation of the TCC and TCC per ounce sold for the Group's gold production facilities located in the Krasnoyarsk region (the Olimpiada and Blagodatnoye business units) for the years ended 31 December 2015 and 2014.

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

**Notes:**

1. All Other Segments consist of Irkutsk alluvial, Irkutsk ore, Yakutia Kuranakh, Magadan, Exploration, Capital construction, Unallocated and Sukhoi Log.

2. "Non-monetary changes in inventories" is a calculation of the non-cash portion of costs included in the change in the amount of inventory, representing depreciation and amortisation.

*All-In Sustaining Costs ("AISC")*

The following table shows the Group's AISC per ounce sold for the nine months ended 30 September 2017 and 2016.

| *(in millions of U.S. dollars, unless otherwise indicated)* | ***Nine months ended 30 September*** | | |
|---|---|---|---|
| | ***2017*** | ***2016*** | ***Change (%)*** |
| **Total TCC** | **592** | **530** | **12** |
| + Selling, general and administrative expenses | 140 | 98 | 43 |
| Less: amortisation and depreciation included in selling, general and administrative expenses | (5) | (2) | 150 |
| + stripping activity asset additions | 111 | 44 | 152 |
| + sustaining capital expenditures[2] | 102 | 89 | 15 |
| + unwinding of discounts on decommissioning liabilities | 2 | 2 | – |
| **adding back expenses excluded from cost of gold sales** | | | |
| + provision for annual vacation payment | 5 | (2) | N.A.[1] |
| + employee benefit obligations cost | (1) | 1 | N.A.[1] |
| + change in allowance for obsolescence of inventory | – | 1 | (100) |
| **Total AISC** | **946** | **761** | **24** |
| Gold sold ('000 ounces) | 1,561 | 1,365 | 14 |
| **AISC (US$ per ounce sold)** | **606** | **557** | **9** |

**Notes:**

1. Not applicable.

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

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

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

**Notes:**

1. Not applicable.

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

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

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

**Notes:**

1. Not applicable.

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

### *Free Cash Flow ("FCF")*

FCF has been calculated by management based on information derived from the Financial Statements and other relevant information contained in "*Selected Consolidated Financial and Operating Information*".

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

| *(in millions of U.S. dollars)* | *Year ended 31 December* | | | | *Nine months ended 30 September* | |
|---|---|---|---|---|---|---|
| | ***2016*** | ***2015*** | ***2014*** | ***2013*** | ***2017*** | ***2016*** |
| **Net cash generated from operating activities** | **1,178** | **1,103** | **871** | **443** | **948** | **872** |
| – purchases of property, plant and equipment | (405) | (326) | (570) | (1,384)[1] | (510) | (255) |
| + interest received | 50 | 62 | 30 | 29 | 26 | 37 |
| – payment for currency collars | – | (494) | (55) | – | – | – |
| + other cash flows from investing activities | 3 | 6 | 6 | 4 | (3) | – |
| **FCF** | **826** | **351** | **282** | **(908)** | **461** | **654** |

**Note:**

1. Purchases of property, plant and equipment for the year ended 31 December 2013 consists of US$1,347 million for purchases of property, plant and equipment and US$37 million for payment for capitalized deferred stipping cost.

### *Adjusted Net Working Capital*

The following table shows the Group's adjusted net working capital as of 30 September 2017 and as of 31 December 2016, 2015, 2014 and 2013.

| *(in millions of U.S. dollars)* | *As at 31 December* 2016 | 2015 | 2014 | 2013 | *As at 30 September* 2017 |
|---|---|---|---|---|---|
| + inventories | 633 | 480 | 667 | 997 | 727 |
| + deferred expenditures | 10 | 13 | 13 | 16 | 12 |
| + trade and other receivables | 58 | 23 | 10 | 24 | 40 |
| + advances paid to suppliers and prepaid expenses | 19 | 17 | 16 | 28 | 24 |
| + taxes receivable | 89 | 59 | 47 | 248 | 119 |
| – trade and other payables | (222) | (151) | (158) | (262) | (299) |
| – taxes payable | (93) | (29) | (36) | (53) | (56) |
| **Adjusted net working capital** | **494** | **412** | **559** | **998** | **567** |

| *(in millions of U.S. dollars)* | *As at 31 December* 2016 | 2015 | 2014 | 2013 | *As at 30 September* 2017 |
|---|---|---|---|---|---|
| **Current assets** | **2,295** | **2,438** | **2,201** | **1,858** | **1,790** |
| **– Current liabilities** | **(598)** | **(218)** | **(831)** | **(536)** | **(365)** |
| **Net working capital** | **1,697** | **2,220** | **1,370** | **1,322** | **1,425** |
| **Adjusted for:** | | | | | |
| – cash and cash equivalents | (1,740) | (1,825) | (1,213) | (792) | (1,121) |
| – current bank deposits | – | – | (269) | (48) | – |
| – current assets derivative financial instruments and investments | (10) | (205) | (193) | – | – |
| – current assets classified as held for sale | – | – | – | – | (47) |
| + non-current inventories | 264 | 184 | 227 | 295 | 300 |
| + current liabilities derivative financial instruments | – | – | 547 | – | – |
| + short-term borrowings and current portion of non-current borrowings | 283 | 38 | 90 | 221 | 10 |
| **Adjusted net working capital** | **494** | **412** | **559** | **998** | **567** |

# OPERATING AND FINANCIAL REVIEW

*The following Operating and Financial Review includes forward-looking statements that involve risks and uncertainties. See "Risk Factors" and "Forward-Looking Statements" for a discussion of important factors that could cause the actual results to differ materially from the results described in the forward-looking statements contained in this Prospectus. The financial information as of and for the years ended 31 December 2016, 2015 and 2014 has been derived from the Annual Financial Statements included elsewhere in this Prospectus, and the financial information as of and for the nine months ended 30 September 2017 and 2016 has been derived from the Interim Financial Statements included elsewhere in this Prospectus. The following should be read in conjunction with the Financial Statements and the related notes included in this Prospectus. Investors should not rely solely on the information contained in this section.*

## Overview

The Group is the largest gold mining group in Russia based on ounces of gold produced, according to the Russian Union of Gold Miners, and with 71 million ounces of gold in JORC Proved and Probable Ore Reserves, has the second largest gold reserves in the world based on the latest reserves and resources statements of other gold mining companies. The Group develops and mines hard rock gold and alluvial gold deposits, with its principal deposits in the Krasnoyarsk, Irkutsk, Magadan and Republic of Sakha (Yakutia) regions of Russia. The Group's total gold production in 2016 reached 1,968 thousand ounces, surpassing the production guidance for 2016 by 11 per cent. For the year ended 31 December 2016, the Group had total gold sales of US$2,429 million, total revenue of US$2,458 million, cost of gold sales of US$891 million and profit for the year of US$1,445 million, and, as of 31 December 2016, total assets of US$5,666 million and total equity deficit of US$414 million. The Group's net debt as of 31 December 2016 was US$3,241 million. The Group's Adjusted EBITDA was US$1,536 million in 2016. TCC was US$389 per ounce in 2016, and AISC was US$572 per ounce in 2016. For the nine months ended 30 September 2017, the Group had total gold sales of US$1,950 million, total revenue of US$1,978 million, cost of gold sales of US$719 million and profit for the period of US$974 million, and, as of 30 September 2017, total assets of US$6,040 million and total equity of US$386 million. The Group's net debt as of 30 September 2017 was US$3,151 million. The Group's Adjusted EBITDA was US$1,237 million in the first nine months of 2017. TCC was US$380 per ounce in the first nine months of 2017, and AISC was US$606 per ounce in the first nine months of 2017.

## Significant Factors Affecting the Group's Financial Results

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

The table below shows the gold price and average and period end RUB/US$ rates for the periods indicated:

| | ***Year ended 31 December*** | | | ***Nine months ended 30 September*** | |
|---|---|---|---|---|---|
| ***Average price / rate*** | ***2016*** | ***2015*** | ***2014*** | ***2017*** | ***2016*** |
| Average London afternoon gold price fixing (US$ per ounce)[1] | 1,251 | 1,160 | 1,266 | 1,251 | 1,260 |
| Average US$/RUB rate[2] | 66.83 | 61.32 | 38.60 | 58.26 | 68.20 |
| Period end US$/RUB rate[2] | 60.66 | 72.88 | 56.26 | 58.02 | 63.16 |

**Notes:**

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

### *Gold Prices*

The market price of gold is the most significant factor influencing the revenues, profitability and operating cash flow of the Group. The global gold price has declined significantly since 2012, and has been subject to volatile movements over short periods of time. In 2015, the average London afternoon gold pricing fixing was US$1,160 per ounce, 8 per cent lower than in 2014, when it averaged US$1,266 per ounce. In 2016, the gold price was volatile and traded in the range US$1,077 per ounce to US$1,366 per ounce and averaged US$1,251 per ounce, 8 per cent higher than in 2015, when it averaged US$1,160 per ounce. Gold in 2017 averaged US$1,257 per ounce and was US$1,354 per ounce on 24 January 2018. The Group initiated the SPPP in 2014, comprised of a series of zero cost Asian gold collars and gold forward contracts, aimed at increasing the certainty of a material proportion of the Group's cash flow in light of gold price volatility. In 2015, the SPPP covered 575 thousand ounces of gold sold during the year (33 per cent of total gold sold in 2015) and mitigated the decrease in gold price in 2015. In 2016, the SPPP covered 852.5 thousand ounces of gold sold during the year (45 per cent of total gold sold in 2016). See note 13 to the 2016 Financial Statements. In the nine months ended 30 September 2017, the SPPP covered 720 thousand ounces of gold sold during the period (46 per cent of total gold sold in the nine months ended 30 September 2017).

### *Foreign Currency Exchange Rates*

The Group's revenue from gold sales is denominated in U.S. dollars, whereas most of the Group's operating expenses and capital expenditures are denominated in roubles. Accordingly, an appreciation of the rouble against the U.S. dollar may negatively affect the Group's margins by increasing the U.S. dollar value of its rouble-denominated costs. Conversely, an appreciation of the U.S. dollar may positively affect the Group's margins by decreasing the U.S. dollar value of its rouble-denominated costs. The combination of sanctions imposed on the Russian economy (related to the Ukrainian conflict), combined with a steep fall in the oil price from US$96 per barrel Brent in 2014 to US$67 per barrel Brent on 31 December 2017, caused a sharp decline in the value of the rouble. In 2015, the average US$/RUB exchange rate was 61.32, compared to 38.60 in 2014, representing a 59 per cent year-on-year rouble decrease, and was 72.88 at year-end. In 2016, the average US$/RUB exchange rate was 66.83, compared to 61.32 in 2015, representing a 9 per cent year-on-year rouble decrease, and was 60.66 at year-end. In the first nine months ended 30 September 2017, the average US$/RUB exchange rate was 58.26, compared to 68.20 in the nine months ended 30 September 2016. The rouble started strengthening in the second half of February 2016, moving from RUB 77.78 / US$1.00 on 16 February 2016 to RUB 57.60 / US$1.00 on 31 December 2017. This fall in the rouble positively affected the Group's operating margins in 2014, 2015 and 2016 and the first nine months of 2017, though it reduced the value of the Group's net assets shown in its financial statements due to the use of the rouble as the functional currency of the Group's production subsidiaries.

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

***Seasonality***

The Group's sales volumes of gold are typically higher in the summer months, primarily as a result of the seasonal nature of the Group's alluvial operations. Due to the cold temperatures of the winter months in the Irkutsk region, production of gold at the Group's alluvial operations is limited mainly to the period of May to October. In 2016, gold production at alluvial operations comprised 9 per cent of the Group's total gold production (7 per cent in the first nine months of 2017). In addition, the more favorable weather conditions of the summer months enable the Olimpiada and Blagodatnoye business units to produce and sell higher volumes of gold as compared to the winter period. See "*Risk Factors — The Group's principal operations are located in remote areas with harsh climates, which requires limiting production operations in the Irkutsk region to specific times of year, and the delivery of supplies to the areas where it operates may be disrupted or transportation costs may increase*".

## Discussion of Results of Operations for the Nine Months Ended 30 September 2017 and 2016

The following table shows a summary of the Group's condensed consolidated interim statement of profit or loss and the percentage change in the nine months ended 30 September 2017 as compared to the nine months ended 30 September 2016.

| *(in millions of U.S. dollars, unless otherwise indicated)* | ***Nine months ended 30 September*** | | |
|---|---|---|---|
| | ***2017*** | ***2016*** | ***Change (%)*** |
| Gold sales | 1,950 | 1,769 | 10 |
| Other sales | 28 | 19 | 47 |
| **Total revenue** | **1,978** | **1,788** | **11** |
| Cost of gold sales | (719) | (632) | 14 |
| Cost of other sales | (23) | (19) | 21 |
| **Gross profit** | **1,236** | **1,137** | **9** |
| Gross profit margin | 62% | 64% | (2) ppts |
| Selling, general and administrative expenses | (140) | (98) | 43 |
| Other expenses, net | (32) | (20) | 60 |
| **Operating profit** | **1,064** | **1,019** | **4** |
| Finance costs, net | (151) | (105) | 44 |
| Interest income | 23 | 30 | (23) |
| Gain / (loss) on derivative financial instruments and investments, net | 98 | (77) | N.A.[(1)] |
| Foreign exchange gain, net | 112 | 291 | (62) |
| **Profit before income tax** | **1,146** | **1,158** | **(1)** |
| Income tax expense | (172) | (269) | (36) |
| **Profit for the period** | **974** | **889** | **10** |
| Profit attributable to: | | | |
| Shareholders of PJSC Polyus | 969 | 863 | 12 |
| Non-controlling interests | 5 | 26 | (81) |
| Earnings per share (U.S. Cents), basic and diluted | 8 | 6 | 33 |

**Note:**

1. Not applicable.

### *Adjusted EBITDA*

Adjusted EBITDA has been calculated by management based on information derived from the Financial Statements. The following table sets out a reconciliation of the Group's Adjusted EBITDA in the nine months ended 30 September 2017 as compared to the nine months ended 30 September 2016.

| *(in millions of U.S. dollars, unless otherwise indicated)* | ***Nine months ended 30 September*** | | |
|---|---|---|---|
| | ***2017*** | ***2016*** | ***Change (%)*** |
| **Profit for the period** | **974** | **889** | **10** |
| Income tax expense | 172 | 269 | (36) |
| Depreciation and amortisation | 129 | 107 | 21 |
| (Gain) / loss on derivative financial instruments and investments, net | (98) | 77 | N.A.[(1)] |
| Finance costs, net | 151 | 105 | 44 |
| Equity-settled share-based payment plan | 13 | 10 | 30 |
| Foreign exchange gain, net | (112) | (291) | (62) |
| Interest income | (23) | (30) | (23) |
| Impairment / (reversal of impairment) | 6 | (2) | N.A.[(1)] |
| Special charitable contributions | 29 | – | N.A.[(1)] |
| (Gain) / loss on property, plant and equipment disposal | (4) | 1 | N.A.[(1)] |
| **Adjusted EBITDA** | **1,237** | **1,135** | **9** |
| Total revenue | 1,978 | 1,788 | 11 |
| **Adjusted EBITDA margin (%)** | **63** | **63** | – |

**Notes:**

1. Not applicable.

The Group's Adjusted EBITDA increased by 9 per cent to US$1,237 million for the nine months ended 30 September 2017, as compared to US$1,135 million for the nine months ended 30 September 2016, while the Adjusted EBITDA margin remained flat at 63 per cent for the nine months ended 30 September 2017 as compared to the nine months ended 30 September 2016.

Adjusted EBITDA growth was predominantly driven by Olimpiada, which achieved double digit growth of its gold sales volumes (including sales of flotation concentrate). Olimpiada generated 53 per cent of the Group's Adjusted EBITDA for the nine months ended 30 September 2017.

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

***Total Cash Costs***

The following table shows the Group's TCC and TCC per ounce sold in the nine months ended 30 September 2017 as compared to the nine months ended 30 September 2016. TCC and TCC per ounce sold have been calculated by management based on information derived from the Financial Statements.

| | ***Nine months ended 30 September*** | | |
|---|---|---|---|
| ***(in millions of U.S. dollars, unless otherwise indicated)*** | ***2017*** | ***2016*** | ***Change (%)*** |
| **Cost of gold sales** | **719** | **632** | **14** |
| – property, plant and equipment depreciation | (134) | (103) | 30 |
| –/+ provision for annual vacation payment | (5) | 2 | N.A.[1] |
| +/– employee benefit obligations cost | 1 | (1) | N.A.[1] |
| – change in allowance for obsolescence of inventory | – | (1) | N.A.[1] |
| + non-monetary changes in inventories[2] | 11 | 1 | N.A.[1] |
| **TCC** | **592** | **530** | **12** |
| | | | |
| Gold sales ('000 ounces) | 1,561 | 1,365 | 14 |
| **TCC (US$ per ounce sold)** | **380** | **387** | **(2)** |

**Notes:**

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

The Group's TCC decreased by 2 per cent to US$380/oz for the nine months ended 30 September 2017, as compared to US$387/oz for the nine months ended 30 September 2016, despite appreciation of the rouble by 15 per cent against the U.S. dollar for the nine months ended 30 September 2017 as compared to the nine months ended 30 September 2016. This increase was fully offset by strong operational results during the nine months ended 30 September 2017, such as the increased hourly throughput at Olimpiada and Kuranakh and higher grade in ore processed at Olimpiada, as well as other operational efficiency initiatives.

TCC at Olimpiada decreased by 14 per cent to US$361/oz for the nine months ended 30 September 2017, as compared to the nine months ended 30 September 2016, despite the appreciation of the rouble and an increase in labor expenses. This decrease was mainly attributable to higher grades in ore processed (3.93 g/t for the nine months ended 30 September 2017 as compared to 3.43 g/t for the nine months ended 30 September 2016), improved performance at Olimpiada's Mill No. 1 and Mill No. 3 following reconfiguration and reduction in feed size, respectively, and as a result of the Group stopping the processing of higher cost Veduga ore.

At Blagodatnoye, TCC increased by 9 per cent to US$312/oz for the nine months ended 30 September 2017, as compared to the nine months ended 30 September 2016, primarily as a result of the appreciation of the rouble, as well as an increase in labor expenses and lower grade of ore processed. This was partially offset by operational improvements, including increased hourly throughput, following the upgrade of the first grinding line, and processing of lower cost stockpiled ore.

At Verninskoye, TCC increased by 1 per cent to US$403/oz for the nine months ended 30 September 2017, as compared to the nine months ended 30 September 2016, as a result of the appreciation of the rouble. Increases in labor expenses and higher costs for consumables and fuel were offset by operational improvements, including the gradual increase in hourly throughput and recoveries following improvements at the flotation, CIL and cyanidation circuits.

At Kuranakh, TCC increased by 9 per cent to US$538/oz for the nine months ended 30 September 2017, as compared to the nine months ended 30 September 2016, primarily due to the appreciation of the rouble. This increase was partially offset by improvements to the throughput capacity at Kuranakh, as a result of increased productivity of grinding equipment, and a decrease in power expenses due to the enactment of the federal decree on power tariffs in the Far Eastern Federal District, resulting in a downward adjustment.

At Alluvials, TCC increased by 35 per cent to US$705/oz for the nine months ended 30 September 2017, as compared to the nine months ended 30 September 2016. This was primarily due to a decrease in the alluvial gold grade (0.55 $g/m^3$ for the nine months ended 30 September 2017 as compared to 0.61 $g/m^3$ for the nine months ended 30 September 2016), as well as the appreciation of the rouble and a decrease in sand washing volumes.

***All-In Sustaining Costs***

The following table shows the Group's AISC and AISC per ounce sold in the nine months ended 30 September 2017 as compared to the nine months ended 30 September 2016.

| | ***Nine months ended 30 September*** | | |
|---|---|---|---|
| ***(in millions of U.S. dollars, unless otherwise indicated)*** | ***2017*** | ***2016*** | ***Change (%)*** |
| **Total TCC** | **592** | **530** | **12** |
| + Selling, general and administrative expenses | 140 | 98 | 43 |
| Less: amortisation and depreciation included in selling, general and administrative expenses | (5) | (2) | 150 |
| + stripping activity asset additions | 111 | 44 | 152 |
| + sustaining capital expenditures[2] | 102 | 89 | 15 |
| + unwinding of discounts on decommissioning liabilities | 2 | 2 | – |
| **adding back expenses excluded from cost of gold sales** | | | |
| + provision for annual vacation payment | 5 | (2) | N.A.[1] |
| + employee benefit obligations cost | (1) | 1 | N.A.[1] |
| + change in allowance for obsolescence of inventory | – | 1 | N.A.[1] |
| **Total AISC** | **946** | **761** | **24** |
| Gold sold ('000 ounces) | 1,561 | 1,365 | 14 |
| **AISC (US$ per ounce sold)** | **606** | **557** | **9** |

**Notes:**

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

The Group's AISC/oz increased by 9 per cent to US$606/oz for the nine months ended 30 September 2017, as compared to US$557/oz for the nine months ended 30 September 2016. This increase was primarily due to increased maintenance and stripping expenses.

The individual mine AISC/oz performance similarly reflected the individual mine TCC/oz performance, with AISC at Olimpiada decreasing by 6 per cent to US$558/oz for the nine months ended 30 September 2017 as compared to the nine months ended 30 September 2016, while AISC at Blagodatnoye increased by 33 per cent to US$542/oz for the nine months ended 30 September 2017 as compared to the nine months ended 30 September 2016, due to the increased mining works in line with the mine plan (rock moved volumes increased by 44 per cent for the nine months ended 30 September 2017 as compared to the nine months ended 30 September 2016). At Verninskoye, AISC increased by 26 per cent for the nine months ended 30 September 2017 as compared to the nine months ended 30 September 2016, due to increased selling, general and administrative expenses, as well as sustaining capital expenditure. At Kuranakh, AISC increased by 5 per cent to US$762/oz for the nine months ended 30 September 2017 as compared to the nine months ended 30 September 2016, despite the decrease in TCC.

### *Gold Sales*

The following table shows the results and breakdown of the Group's gold sales in the nine months ended 30 September 2017 as compared to the nine months ended 30 September 2016.

| | ***Nine months ended 30 September*** | | |
|---|---|---|---|
| ***Gold Sales*** | ***2017*** | ***2016*** | ***Change (%)*** |
| Gold sales (US$ millions) | 1,950 | 1,769 | 10 |
| Gold sales ('000 ounces) | 1,561 | 1,365 | 14 |
| Average realized refined gold price (excluding effect of SPPP) (US$ per ounce) | 1,254 | 1,265 | (1) |
| Average realized refined gold price (including effect of SPPP) (US$ per ounce) | 1,269 | 1,302 | (3) |
| Average London afternoon gold price fixing (US$ per ounce)[1] | 1,251 | 1,260 | (1) |
| Premium of average selling price (including effect of SPPP) over average London afternoon gold price fixing (US$ per ounce) | 18 | 42 | (57) |

**Note:**

1. Source: London Bullion Market Association.

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

| | ***Nine months ended 30 September*** | | |
|---|---|---|---|
| ***Production of Gold ('000 ounces)*** | ***2017*** | ***2016*** | ***Change (%)*** |
| Refined Gold Production | | | |
| **Krasnoyarsk region** | | | |
| Olimpiada mine[1] | 709 | 545 | 30 |
| Blagodatnoye mine | 330 | 337 | (2) |
| Titimukhta[1] | – | 40 | (100) |
| Poputninskoye | – | 7 | (100) |
| **Irkutsk region** | | | |
| Verninskoye | 160 | 143 | 12 |
| Alluvials | 116 | 129 | (10) |
| **Republic of Sakha (Yakutia) region** | | | |
| Kuranakh | 123 | 118 | 5 |
| **Refined gold** | **1,438** | **1,323**[2] | **9** |
| Gold in flotation concentrate | 142 | 71 | 99 |
| **Total gold produced** | **1,580** | **1,395** | **13** |

**Notes:**

1. Including refined gold produced from ore purchased from the third-party-owned Veduga mine under an off-take agreement.
2. Including 4.4 koz produced at Natalka.

For the nine months ended 30 September 2017, the Group's revenue from gold sales increased by 10 per cent to US$1,950 million, as compared to US$1,769 million for the nine months ended 30 September 2016, primarily due to increased gold sales volumes. The average realized refined gold price remained largely flat at US$1,254/oz for the nine months ended 30 September 2017, as compared to US$1,265/oz for the nine months ended 30 September 2016, while gold sales increased by 14 per cent to 1,561 thousand ounces for the nine months ended 30 September 2017, as compared to 1,365 thousand ounces for the nine months ended 30 September 2016. The average LBMA gold price decreased by 1 per cent to US$1,251/oz for the nine months ended 30 September 2017, as compared to US$1,260/oz for the nine months ended 30 September 2016. The Group's SPPP further supported revenue generation by improving the average selling price for the nine months ended 30 September 2017 by US$18/oz (as compared to the improvement in the average selling price of US$42/oz for the nine months ended 30 September 2016). The SPPP covered 720 koz of gold sold in the nine months ended 30 September 2017 and generated US$22 million of revenue in the nine months ended 30 September 2017.

### *Cost of Gold Sales*

The following tables shows the components of the Group's cost of gold sales for the nine months ended 30 September 2017 and 2016.

| | ***Nine months ended 30 September*** | | |
|---|---|---|---|
| ***(in millions of U.S. dollars)*** | ***2017*** | ***2016*** | ***Change (%)*** |
| Labor | 206 | 158 | 30 |
| Consumables and spares | 163 | 183 | (11) |
| Tax on mining | 106 | 99 | 7 |
| Fuel | 56 | 51 | 10 |
| Power | 21 | 15 | 40 |
| Outsourced mining services | 6 | 8 | (25) |
| Other | 42 | 35 | 20 |
| **Cash operating costs** | **600** | **549** | **9** |
| Depreciation and amortisation of operating assets | 134 | 107 | 25 |
| Increase in gold-in-process and refined gold inventories | (15) | (24) | (38) |
| **Cost of gold sales** | **719** | **632** | **14** |

**Note:**

1. Not applicable.

The Group's cash operating costs increased by 9 per cent to US$600 million for the nine months ended 30 September 2017, as compared to US$549 million for the nine months ended 30 September 2016, mainly due to the rouble appreciating by 15 per cent against the U.S. dollar for the nine months ended 30 September 2017 as compared to the nine months ended 30 September 2016. The Group remains focused on operational optimization and improving efficiency.

Labor expenses increased by 30 per cent to US$206 million for the nine months ended 30 September 2017 from US$158 million for the nine months ended 30 September 2016. This was partially due to the appreciation of the rouble as all of the Group's labor expenses are denominated in roubles. The Group's labor expenses comprise 34 per cent of the Group's total cash operating costs. The negative impact of annual salary indexation and a headcount increase at Olimpiada, Blagodatnoye and Kuranakh also contributed to the increase.

Consumables and spares expenses decreased by 11 per cent to US$163 million for the nine months ended 30 September 2017 from US$183 million for the nine months ended 30 September 2016, primarily due to a decrease in ore input costs at Olimpiada as a result of the Group stopping the processing of higher cost Veduga ore (the Group processed 445 thousand tonnes of Veduga ore in the nine months ended 30 September 2016). This decrease was offset by increased processing volumes at

the majority of the Group's mining operations. Consumables and spares expenses comprise 27 per cent of the Group's cash operating costs.

Tax on mining payments, which comprise 18 per cent of the Group's cash operating costs, increased by 7 per cent to US$106 million in the nine months ended 30 September 2017 from US$99 million in the nine months ended 30 September 2016, primarily as a result of a 13 per cent increase in production volumes for the nine months ended 30 September 2017 as compared to the nine months ended 30 September 2016, which was partially offset by a decrease in the average realized gold price (excluding the effect of the SPPP).

Fuel costs increased by 10 per cent to US$56 million in the nine months ended 30 September 2017 from US$51 million in the nine months ended 30 September 2016, primarily as a result of an increase in haulage volumes and an increase in mining activity at all of the Group's hard rock deposits.

The Group's power costs increased by 40 per cent to US$21 million in the nine months ended 30 September 2017 from US$15 million in the nine months ended 30 September 2016, primarily as a result of the appreciation of the rouble, as well as an increase in energy consumption. This was partially mitigated by a decrease in energy costs at Kuranakh due to the enactment of the federal decree on power tariffs in the Far Eastern Federal District, which resulted in a downward adjustment.

Other costs increased by 20 per cent to US$42 million in the nine months ended 30 September 2017 from US$35 million in the nine months ended 30 September 2016, mainly as a result of higher transportation expenses.

***Selling, general and administrative expenses***

The following table sets forth the selling, general and administrative expenses of the Group for the nine months ended 30 September 2017 and 2016 and the percentage change.

| | ***Nine months ended 30 September*** | | |
|---|---|---|---|
| ***(in millions of U.S. dollars)*** | ***2017*** | ***2016*** | ***Change (%)*** |
| Salaries | 93 | 69 | 35 |
| Distribution expenses related to gold-bearing products | 7 | – | N.A.[1] |
| Taxes other than mining and income taxes | 9 | 8 | 13 |
| Professional services | 11 | 8 | 38 |
| Amortisation and depreciation | 5 | 2 | 150 |
| Other | 15 | 11 | 36 |
| **Total** | **140** | **98** | **43** |

**Note:**

1. Not applicable.

The Group's selling, general, and administrative expenses increased by 43 per cent to US$140 million for the nine months ended 30 September 2017, as compared to US$98 million for the nine months ended 30 September 2016, mainly due to the appreciation of the rouble and an increase in labor costs as a result of the recognition of expenses under the LTIP (as defined below) and salary indexation.

*Equity-settled share-based payment plans*

On 22 December 2016, the board of directors of PJSC Polyus approved a new long term incentive plan (the "**LTIP**"), according to which the members of top management of the Group are entitled to a conditional award in the form of PJSC Polyus' ordinary shares linked to the achievement of a combination of financial and non-financial performance targets. The LTIP stipulates three rolling performance periods (*i.e.*, 2016-2017, 2016-2018 and 2017-2019). The total number of shares that may be distributed under the LTIP is up to 1,913,200 shares (approximately 1.43 per cent of PJSC

Polyus' total share capital), which can be granted from newly issued ordinary shares, treasury shares, or otherwise.

For the nine months ended 30 September 2017, the total expense for the reporting period arising from the LTIP was recognized within salaries in the Group's selling, general and administrative expenses in the amount of US$13 million as compared to US$10 million for the nine months ended 30 September 2016.

### *Finance costs and interest income*

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

| | *Nine months ended 30 September* | | |
|---|---|---|---|
| ***(in millions of U.S. dollars)*** | ***2017*** | ***2016*** | ***Change (%)*** |
| Interest on borrowings | 241 | 198 | 22 |
| Gain on exchange of interest payments under cross currency and interest rate swaps | (30) | (28) | 7 |
| Bank commissions and write-off of unamortised debt cost due to early extinguishment of debt | 17 | – | N.A.[(1)] |
| Unwinding of discounts | 8 | 2 | 300 |
| Other | – | 1 | (100) |
| **Sub-total finance cost** | **236** | **173** | **36** |
| Interest included in the cost of qualifying assets | (85) | (68) | 25 |
| **Total finance cost expensed** | **151** | **105** | **44** |

**Note:**

1. Not applicable.

The Group's total finance costs were US$151 million in the nine months ended 30 September 2017, as compared to US$105 million in the nine months ended 30 September 2016. This increase was mainly due to the Group's continued interest capitalization with regards to the Natalka development project, where construction works are on-going. The capitalized interest relating to the Natalka project and Sukhoi Log amounted to US$83 million for the nine months ended 30 September 2017, a 28 per cent increase as compared to the nine months ended 30 September 2016, as a result of the acceleration of construction at Natalka. Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps) increased to US$211 million for the nine months ended 30 September 2017, as compared to US$170 million for the nine months ended 30 September 2016, driven primarily by an increase in floating interest rates. This was partially offset by a decrease in the Group's total debt and a decrease of the portion of the Group's debt instruments with floating interest rates to 31 per cent as at 30 September 2017 (as compared to 82 per cent as at 30 September 2016).

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

Net gain on derivative financial instruments and investments was US$98 million for the nine months ended 30 September 2017, as compared to a net loss amounting to US$77 million for the nine months ended 30 September 2016.

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

| | *Nine months ended 30 September* | | |
|---|---|---|---|
| ***(in millions of U.S. dollars)*** | ***2017*** | ***2016*** | ***Change (%)*** |
| Revaluation gain on cross currency swaps | 73 | 132 | (45) |
| Revaluation loss on ineffective part of the revenue stabilizer under Tranches 1 and 2 | (27) | (57) | (53) |
| Revaluation loss on revenue stabilizer under Tranches 3 and 4 | (38) | (173) | (78) |
| Revaluation (loss) / gain on interest rate swap | (2) | 5 | N.A.[1] |
| Gain on disposal of joint venture | 92 | – | N.A.[1] |
| Gain on disposal of subsidiary | – | 16 | (100) |
| **Total** | **98** | **(77)** | **N.A.[1]** |

**Note:**

1. Not applicable.

Revenue stabilizer

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

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

From 1 July 2017, remaining outstanding options of Tranches 1 and 2 are accounted at fair value through profit or loss. Since Tranches 1 and 2 of the revenue stabilizer arrangements were designated as a cash flow hedge until 30 June 2017, any change in the intrinsic value of the collars is recognized in the cash flow hedge revaluation reserve within the condensed consolidated interim statement of comprehensive income and then accumulated within the condensed consolidated interim statement of changes in equity. During the nine months ended 30 September 2017, under Tranches 1 and 2, a gain of US$4 million was recognized in the cash flow hedge revaluation reserve within the consolidated interim statement of changes in equity and following the sale of the hedged volume of gold and the exercise of certain options US$19 million was subsequently reclassified to gold sales within the condensed consolidated interim statement of profit or loss.

Tranches 3 and 4 are accounted at fair value. During the nine months ended 30 September 2017, loss resulting from the change in fair value totaled US$38 million. Following the sale of the hedged volume of gold and the exercise of certain options, US$3 million was subsequently reclassified to gold sales in the condensed consolidated interim statement of profit or loss.

For the nine months ended 30 September 2017, the positive effect on revenue from the revenue stabilizer program amounted to US$22 million as compared to US$41 million for the nine months ended 30 September 2016.

*Disposal of Nezhdaninskoye*

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

- cash consideration of US$100 million was paid on the completion of the transaction in March 2017;

- contingent cash consideration of US$58 million, which could be adjusted upon the achievement by the Nezhdaninskoye project of certain operational and financial criteria payable upon the commissioning of the Nezhdaninskoye deposit and construction of the processing plant.

The difference between the cash consideration received and the carrying value of the Group's investment in the joint venture at the date of sale resulted in a gain of US$92 million and has been recognized in the condensed consolidated interim statement of profit or loss. The fair value of the contingent consideration is linked to the achievement of certain operational and financial parameters, which cannot be yet properly assessed and evaluated given the project stage. The Group will assess the fair value once such operational and financial parameters can be reliably estimated.

**Cross currency swaps**

***Rouble-denominated credit facilities with fixed interest rate***

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

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

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

- the Group quarterly pays to the banks 3.94 per cent in U.S. dollars and receives from the banks 10.35 per cent in roubles; and at maturity (9 April 2019) the Group exchanges principal amounts by paying US$808 million and receiving RUB 28,443 million (amended terms of cross currency swap agreements with the same banks dated to 2014);
- the Group quarterly pays to the banks 3.98 per cent in U.S. dollars and receives from the banks 10.35 per cent in roubles; and at maturity (9 April 2019) the Group exchanges principal amounts by paying US$215 million and receiving RUB 7,557 million. These terms were achieved by keeping unchanged previous cross currency contracts and entering into new fixed rate swaps.

No premium was paid or received on modification of original swaps and entering into the new interest rate swap.

***Russian bonds***

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

Changes in the fair value of the cross currency swaps are recognized in the consolidated statement of profit or loss. The gain or loss on the exchange of interest payments is recognized within finance cost.

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

**Interest rate swaps**

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

Certain of the new interest rate swap agreements were concluded with the same counterparties and will settle on a net basis. Those swaps are presented on a net basis. No premium was paid or received on entering into the offsetting swap agreements. The Group accounts for it at fair value, which was determined using a discounted cash flow valuation technique.

Changes in the fair value of the interest rate swaps are recognized in the consolidated statement of profit or loss. The gain or loss on the exchange of interest payments is recognized within finance cost.

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

***Foreign exchange gain***

The Group's foreign exchange gain in the nine months ended 30 September 2017 amounted to US$112 million, as compared to a US$291 million gain in the nine months ended 30 September 2016. The decrease reflects the revaluation of U.S. dollar-denominated liabilities and bank deposits as the functional currency of the subsidiaries of the Group is roubles.

***Income tax expense***

The Group's income tax amounted to US$172 million in the nine months ended 30 September 2017. The current income tax expense for the nine months ended 30 September 2017 decreased by 36 per cent as compared to the nine month period ended 30 September 2016, partially due to a decrease in profit before tax.

**Summary of performance results by business units for the nine months ended 30 September 2017 and 2016**

The following tables show the Group's performance results by business unit in the nine months ended 30 September 2017 and 2016.

| | *Nine months ended 30 September 2017* | | | | | | |
|---|---|---|---|---|---|---|---|
| *(in millions of U.S. dollars, unless otherwise indicated)* | *Gold sales* | *Gold sold ('000 ounces)* | *Production ('000 ounces)* | *Adjusted EBITDA* | *TCC per ounce of gold sold (US$ per ounce)* | *AISC per ounce of gold sold (US$ per ounce)* | *Capital expenditures* |
| Olimpiada | 1,006 | 816 | 710 | 654 | 361 | 558 | 93 |
| Blagodatnoye | 440 | 346 | 330 | 311 | 312 | 542 | 30 |
| Irkutsk alluvial | 148 | 116 | 116 | 52 | 705 | 879 | 17 |
| Irkutsk ore | 201 | 160 | 160 | 120 | 403 | 645 | 23 |
| Yakutia Kuranakh | 155 | 123 | 123 | 79 | 538 | 762 | 39 |
| Magadan | – | – | – | 3 | – | – | 305 |
| Sukhoi Log | – | – | – | – | – | – | 276 |
| Exploration | – | – | – | – | – | – | 4 |
| Capital construction | – | – | – | 1 | – | – | 13 |
| Unallocated | – | – | – | 17 | – | – | 13 |
| **Total** | **1,950** | **1,561** | **1,439** | **1,237** | **380** | **606** | **813** |

| | *Nine months ended 30 September 2016* | | | | | | |
|---|---|---|---|---|---|---|---|
| *(in millions of U.S. dollars, unless otherwise indicated)* | *Gold sales* | *Gold sold ('000 ounces)* | *Production ('000 ounces)* | *Adjusted EBITDA* | *TCC per ounce of gold sold (US$ per ounce)* | *AISC per ounce of gold sold (US$ per ounce)* | *Capital expenditures* |
| Olimpiada | 817 | 620 | 585 | 527 | 419 | 591 | 50 |
| Blagodatnoye | 446 | 347 | 337 | 326 | 286 | 407 | 14 |
| Irkutsk alluvial | 174 | 133 | 129 | 83 | 522 | 735 | 16 |
| Irkutsk ore | 179 | 143 | 143 | 111 | 399 | 512 | 14 |
| Yakutia Kuranakh | 148 | 118 | 118 | 85 | 495 | 724 | 18 |
| Magadan | – | – | 4 | (1) | – | – | 129 |
| Exploration | 5 | 4 | 7 | 1 | 1,010 | 1,059 | 7 |
| Capital construction | – | – | – | – | – | – | 33 |
| Unallocated | – | – | – | 3 | – | – | 14 |
| **Total** | **1,769** | **1,365** | **1,323** | **1,135** | **387** | **557** | **295** |

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales in the nine months ended 30 September 2017 and 2016.

***Olimpiada and Blagodatnoye business units***

In the nine months ended 30 September 2017, the Olimpiada and Blagodatnoye business units sold 1,162 thousand ounces of gold, as compared to 967 thousand ounces of gold sold in the nine months ended 30 September 2016. Sales volumes exclude gold produced from the Poputninskoye deposit, where trial mining was launched in 2015 and continued in 2016. Total gold production amounted to 1,040 thousand ounces of gold in the nine months ended 30 September 2017, as compared to 929 thousand ounces of gold in the nine months ended 30 September 2016. Total gold produced represents refined gold output together with gold contained in concentrate.

***Irkutsk alluvial business unit (alluvial deposits)***

In the nine months ended 30 September 2017, the Irkutsk alluvial deposits sold 116 thousand ounces of gold, as compared to 133 thousand ounces of gold sold in the nine months ended 30 September 2016. Total gold production amounted to 116 thousand ounces of gold in the nine months ended 30 September 2017, as compared to 129 thousand ounces of gold in the nine months ended 30 September 2016.

***Irkutsk ore business unit (Verninskoye mine)***

In the nine months ended 30 September 2017, the Irkutsk ore business unit sold 160 thousand ounces of gold, as compared to 143 thousand ounces of gold sold in the nine months ended 30 September 2016. Gold production amounted to 160 thousand ounces of gold in the nine months ended 30 September 2017, as compared to 143 thousand ounces of gold in the nine months ended 30 September 2016.

***Yakutia Kuranakh business unit (Kuranakh mine)***

In the nine months ended 30 September 2017, the Yakutia Kuranakh business unit sold 123 thousand ounces of gold, as compared to 118 thousand ounces of gold sold in the nine months ended 30 September 2016. Gold production amounted to 123 thousand ounces of gold in the nine months ended 30 September 2017, as compared to 118 thousand ounces of gold in the nine months ended 30 September 2016.

**Review of Financial Sustainability and Solvency as of 30 September 2017**

***Analysis of statement of financial position items***

The table below shows an extraction of selected items from the Group's condensed consolidated interim statement of financial position as of 30 September 2017.

| *(in millions of U.S. dollars)* | *30 September 2017* |
|---|---|
| **ASSETS** | |
| **Non-current assets** | |
| Property, plant and equipment | 3,701 |
| Derivative financial instruments and investments | 30 |
| Inventories | 300 |
| Deferred tax assets | 77 |
| Assets classified as held for sale | 98 |
| Other non-current assets | 44 |
| **Total non-current assets** | **4,250** |
| **Current assets** | |
| Inventories | 427 |
| Deferred expenditures | 12 |
| Trade and other receivables | 40 |
| Advances paid to suppliers and prepaid expenses | 24 |
| Taxes receivable | 119 |
| Assets classified as held for sale | 47 |
| Cash and cash equivalents | 1,121 |
| **Total current assets** | **1,790** |
| **TOTAL ASSETS** | **6,040** |
| | |
| **EQUITY AND LIABILITIES** | |
| Equity attributable to shareholders of PJSC Polyus(1) | 286 |
| Non-controlling interests | 100 |
| **TOTAL EQUITY** | **386** |
| **Non-current liabilities** | |
| Site restoration, decommissioning and environmental obligations | 47 |
| Borrowings | 4,262 |
| Derivative financial instruments | 456 |
| Deferred revenue | 79 |
| Deferred consideration | 214 |
| Deferred tax liabilities | 192 |
| Other non-current liabilities | 39 |
| **Total non-current liabilities** | **5,289** |
| **Current liabilities** | |
| Borrowings | 10 |
| Trade and other payables | 299 |
| Taxes payable | 56 |
| **Total current liabilities** | **365** |
| **TOTAL LIABILITIES** | **5,654** |
| **TOTAL EQUITY AND LIABILITIES** | **6,040** |

**Note:**

1. Equity attributable to shareholders of PJSC Polyus includes share capital, additional paid-in capital, treasury shares, translation reserve and retained earnings.

*Borrowings*

As of 30 September 2017, the Group's total borrowings (excluding liabilities arising from derivative financial instruments) amounted to US$4,272 million. The Group's debt portfolio remains primarily dominated by U.S. dollar-denominated instruments, representing 78 per cent of the total borrowings as of 30 September 2017 (82 per cent increase as compared to 31 December 2016). This was due to the Group entering into a seven-year US$2,500 million credit facility with Sberbank in January 2016. The RUB 36,000 million credit facility from Sberbank obtained in April 2014 and the RUB 15,000 million bonds placed in July 2015 were both economically hedged through cross-currency swaps. As of 30 September 2017, the main sources of the Group's total borrowings were as follows: Sberbank loans (42 per cent); Eurobonds (48 per cent); bank loans, excluding Sberbank (4 per cent); and rouble-denominated bonds (6 per cent). As of 30 September 2017, 31 per cent of the Group's total borrowings had floating interest rates, while 69 per cent had fixed rates.

The following table sets forth the components of the Group's total borrowings as of 30 September 2017 and 31 December 2016:

| | ***Nominal rate %*** | ***As of 30 September 2017*** | ***As of 31 December 2016*** |
|---|---|---|---|
| Credit facilities with financial institutions nominated in US$ with variable interest rates | US$ LIBOR + margins ranging from 1.35% to 4.50% | 1,240 | 2,513 |
| US$750 million Eurobonds with fixed interest rate due in 2020 | 5.625% | 745 | – |
| US$500 million Eurobonds with fixed interest rate due in 2022 | 4.699% | 494 | – |
| US$800 million Eurobonds with fixed interest rate due in 2023 | 5.250% | 793 | – |
| PGIL US$ credit facilities with fixed interest rates | 4.799% – 5.725% | – | 1,237 |
| Credit facilities with financial institutions nominated in RUB with fixed interest rates | 10.35% | 571 | 541 |
| Credit facilities with financial institutions nominated in US$ with fixed interest rates | 4.10% | 67 | 331 |
| Notes due in 2025 (Russian bonds) with noteholders' early repayment option in 2021 | 12.1% | 263 | 253 |
| Letters of credit with deferred payments terms with variable rates | Euribor + 1.8%, US$ LIBOR + 1.15% | – | 19 |
| Lease liabilities with fixed interest rate | 5.1% – 8.5% | 14 | 6 |
| Credit facilities with financial institutions nominated in RUB with variable interest rates | Central bank rate + 2.3% | 85 | 81 |
| **Sub-total** | | **4,272** | **4,981** |
| Less: short-term borrowings and current portion of long-term borrowings due within 12 months | | (10) | (283) |
| **Long-term borrowings** | | **4,262** | **4,698** |

PJSC Polyus and subsidiaries of the Group from time to time obtain credit facilities from different financial institutions and issue notes to finance capital investment projects and for general corporate purposes.

On 14 February 2017, JSC Polyus received a US$800 million loan from PGIL, which was financed by PGIL's US$ 800 million guaranteed notes due 7 February 2023 with a coupon of 5.250 per cent per annum.

During the nine months ended 30 September 2017, US$1,563 million of credit facilities with financial institutions denominated in U.S. dollars with variable interest rates were repaid in advance of the payment schedule.

**Reclassification of Russian bonds**

On 22 December 2016, PJSC Polyus' 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 the Russian bonds became entitled to an early redemption of the bonds. As a result, the total outstanding amount of the Russian bonds was reclassified to short-term as of 31 December 2016.

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

**Unused credit facilities**

In 2014, one of the Group's subsidiaries entered into a five year RUB 40,000 million credit line with VTB Bank to fund its general corporate purposes. As of 30 September 2017, the amount of unused credit facilities was RUB 40,000 million (equivalent to US$689 million, covering all debt repayments up to 2020, totaling approximately US$605 million at the RUB / U.S. dollar exchange rate in effect as at 30 September 2017).

**Pledge**

As of 30 September 2017 and 31 December 2016, all the shares of JSC TaigaEnergoStroy, belonging to the Group, were pledged to secure a credit line.

**Other matters**

There were a number of financial covenants under several loan agreements in effect as of 30 September 2017, according to which the respective subsidiaries of PJSC Polyus and PJSC Polyus themselves are limited in their level of leverage and other financial and non-financial parameters.

The Group checks its compliance with these covenants on a quarterly basis and was in compliance with all these covenants as of 30 September 2017.

The following table sets forth the currency breakdown of the Group's total borrowings as of 30 September 2017 and 31 December 2016:

| *(in millions of U.S. dollars)* | ***As at 30 September 2017*** | ***As at 31 December 2016*** |
|---|---|---|
| EUR | – | 6 |
| RUB | 919 | 876 |
| US$ | 3,353 | 4,099 |
| **Total** | **4,272** | **4,981** |

The following table sets forth the debt maturity schedule of the Group's total borrowings as of 30 September 2017:

| *Due in* | *(in millions of U.S. dollars)*[1] |
|---|---|
| 2017 | 1 |
| 2018 | 13 |
| 2019 | 591 |
| 2020 | 771 |
| 2021 | 348 |
| 2022 | 521 |
| 2023+ | 2,064 |

**Note:**

1. The debt maturity breakdown is based on actual maturities and excludes US$37 million of bank commissions included in borrowings, in accordance with IFRS.

### *Cash and cash equivalents and bank deposits*

As of 30 September 2017, the Group's cash and cash equivalents amounted to US$1,121 million, as compared to US$1,740 million as of 31 December 2016.

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

The following table sets forth the currency composition of cash, cash equivalents and bank deposits as of 30 September 2017 and 31 December 2016:

| *(in millions of U.S. dollars)* | *As at 30 September 2017* | *As at 31 December 2016* |
|---|---|---|
| RUB | 111 | 238 |
| US$ | 1,010 | 1,502 |
| **Total** | **1,121** | **1,740** |

### *Cash flow analysis*

The following table sets forth the main components of the Group's consolidated cash flow statement for the nine months ended 30 September 2017 and 2016.

| | *Nine months ended 30 September* | |
|---|---|---|
| *(in millions of U.S. dollars)* | *2017* | *2016* |
| **Consolidated cash flow information** | | |
| Net cash generated from operating activities | 948 | 872 |
| Net cash utilized in investing activities | (423) | (84) |
| Net cash utilized in financing activities | (1,156) | (932) |
| **Net decrease in cash and cash equivalents** | **(631)** | **(144)** |
| Cash and cash equivalents at beginning of the period | 1,740 | 1,825 |
| Effect of foreign exchange rates on cash and cash equivalents | 12 | 29 |
| **Cash and cash equivalents at end of the period** | **1,121** | **1,710** |

*Operating activities*

For the nine months ended 30 September 2017, the Group generated cash flow from operations of US$948 million, due to the Group's strong Adjusted EBITDA. This was partially offset by a US$71 million working capital outflow as a result of the accumulation of ore stockpiles at the Olimpiada and

Blagodatnoye business units, Natalka and Kuranakh and the advanced purchase of diesel fuel for the Olimpiada and Blagodatnoye business units, Verninskoye and Alluvials, which was mitigated by a settlement of account receivables associated with the sales of floto-concentrate.

*Investing activities*

For the first nine months of 2017, the Group's capital expenditure increased by 85 per cent to US$546 million from US$295 million for the nine months ended 30 September 2016, due to the increase in maintenance capital expenditure and the on-going construction at Natalka and the Group's brownfield development projects.

The Group's main development project, Natalka, saw a 136 per cent growth in capital expenditure for the first nine months ended 30 September 2017 to US$305 million. Mining activity was re-launched in January 2017 (the deposit was previously mined from 2013 to 2014) and production at the Natalka mine was launched at the end of 2017. The Group expects that production will be fully ramped up by the end of 2018.

The Group increased capital expenditure at Olimpiada to US$93 million, due to preparations to connect the mine to the new Razdolinskaya-Tayga grid and construction of the BIO-4 circuit at the Mills No. 1, 2 and 3 complex. Four out of eight units of the additional bio-oxidation circuit (BIO-4) have been launched and the remaining four reactors are scheduled to be launched in the first half of 2018.

Capital expenditure at Blagodatnoye was US$30 million in the first nine months ended 30 September 2017, an increase of 114 per cent over the first nine months ended 30 September 2016, primarily due to the implementation of optimization initiatives at the Blagodatnoye Mill following the completion of the Mill's processing capacity expansion project.

At Verninskoye, capital expenditure was US$23 million in the first nine months ended 30 September 2017, as compared to US$14 million in the first nine months ended 30 September 2016, due to the expansion of the Verninskoye Mill. The Group expects to reach its designed target throughput capacity of 3.0 mtpa for the mill over the course of three stages in 2017-2018.

At Kuranakh, capital expenditure increased to US$39 million in the first nine months ended 30 September 2017, as compared to US$18 million in the first nine months ended 30 September 2016, due to further progress with the heap leach project and the launch of the second stage of the expansion of the Kuranakh mill's capacity to 5.0 mtpa, which the Group expects to complete by the end of 2018. With the heap leach project near completion, the Group has started processing low grade in-situ and stockpiled ore.

Capital expenditure at Alluvials marginally increased to US$17 million, due to higher exploration activity, as well as the on-going worn-out equipment replacement program.

In January 2017, SL Gold submitted the highest bid during the Sukhoi Log auction totaling RUB 9.4 billion (approximately US$153 million), of which RUB 8.6 billion (approximately US$138 million) had been prepaid by SL Gold on 21 December 2016 and the rest in February 2017.

Other areas of investing activities in the nine months ended 30 September 2017 included payment of US$21 million for increasing the Group's stake in SL Gold by 3.6 per cent in May 2017. In July 2017, JSC Polyus entered into a number of option agreements with RT to acquire an additional 25.1 per cent interest in SL Gold. The total consideration for the additional stake is fixed at US$146 million and will be payable in the form of PJSC Polyus' shares within the next five years in five tranches, with the Group having the right to accelerate the exercise of the options. In July 2017, the Group exercised the first option of the additional set of options for a total amount of US$22 million and increased its stake by 3.8 per cent. The Group currently owns a 58.4 per cent interest in SL Gold.

The Group received US$100 million from the sale of its 82.34 per cent interest in UVGK Holdings Limited, a joint venture entity formed by the Group with Polymetal, which holds 100 per cent of the share capital of JSC South-Verkhoyansk Mining Company, the holder of the mining and exploration license for the Nezhdaninskoye gold deposit in Russia's Yakutia region.

The stake was sold for total consideration of US$158 million, payable to the Group in two instalments:

- cash consideration of US$100 million, payable upon the completion of the transaction, which was received by the Group in March 2017; and
- contingent cash consideration of US$58 million, which could be adjusted upon the achievement by the Nezhdaninskoye project of certain operational and financial criteria, payable upon the commissioning of the Nezhdaninskoye deposit and construction of the processing plant.

*Financing activities*

Net cash flow utilized in financing activities totaled US$1,156 million in the nine months ended 30 September 2017, as compared to US$932 million in the nine months ended 30 September 2016.

In the nine months ended 30 September 2017, the Group completed a 50 per cent pre-payment of its US$2.5 billion seven-year credit facility with PJSC Sberbank, using both cash on balance and the proceeds from PGIL's US$800 million guaranteed notes due 7 February 2023 with a coupon of 5.250 per cent per annum. In addition, the Group repaid US$231 million and US$74 million of borrowings with UniCredit and Rosbank, respectively, in advance of maturity.

On 30 June 2017, PJSC Polyus priced an offering of 12,910,081 of its ordinary shares in the form of shares and Global Depositary Shares, including through the facilities of the London Stock Exchange and Moscow Exchange, raising approximately US$858 million (US$400 million of such proceeds were attributable to PJSC Polyus, with the remaining US$458 million attributable to PGIL as selling shareholder) after the exercise of the over-allotment option on 1 August 2017.

***Capital expenditures, acquisitions of subsidiaries and stripping activity asset***

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

| | ***Nine months ended 30 September*** | | |
|---|---|---|---|
| ***(in millions of U.S. dollars)*** | ***2017*** | ***2016*** | ***Change (%)*** |
| Natalka | 305 | 129 | 136 |
| Olimpiada | 93 | 50 | 86 |
| Blagodatnoye | 30 | 14 | 114 |
| Verninskoye | 23 | 14 | 64 |
| Alluvials | 17 | 16 | 6 |
| Kuranakh | 39 | 18 | 117 |
| Exploration | 4 | 7 | (43) |
| Sukhoi Log[1] | 9 | – | N.A.[2] |
| Other (including power projects) | 26 | 47 | (45) |
| **Total** | **546** | **295** | **85** |

**Note:**

1. Presented net of the Sukhoi Log deposit license acquisition cost and payments to RT.
2. Not applicable.

On 16 December 2016, JSC Polyus entered into a number of option agreements with RT, a wholly owned subsidiary of Russian state-owned Rostec Corporation. Under these option agreements, the Group intends to increase its ownership interest in SL Gold, a 58.4 per cent (initially, 51 per cent) subsidiary of the Group, by 20.3 per cent (initially, 23.9 per cent) within five years (and has the right to accelerate) for undiscounted consideration of US$118 million (initially, US$139 million). On 25 May 2017, JSC Polyus exercised the first option to acquire an additional 3.6 per cent participation interest in SL Gold, and the transfer of the stake was registered on 9 June 2017.

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

On 11 July 2017, JSC Polyus entered into the second set of options with RT. Under these option agreements, the Group is expected to increase its interest in SL Gold by an additional 25.1 per cent, taking its total interest to 100 per cent within the following five years (with a right to accelerate the Group's call options) for an undiscounted consideration of US$146 million. The consideration will be payable by a variable number of PJSC Polyus' shares with a fair value at the exercise date equal to a fixed U.S. dollar amount. The Group recognized a liability for the gross amount payable under the respective put options in the second set of options of US$131 million, being the discounted amount of contractual cash flows measured by applying the appropriate discount factors based on observable market data and varying from 2.7 per cent to 4.5 per cent per annum.

In July 2017, the Group increased effective ownership in SL Gold from 54.6 per cent to 58.4 per cent, paying in kind by PJSC Polyus treasury shares valued at US$22 million.

The movement in the carrying value of deferred consideration was as follows:

| *US$ million* | *As at 30 September 2017* |
|---|---|
| **Balance at the beginning of the reporting period** | **–** |
| Value of the first set of options on initial recognition | 121 |
| Value of the second set of options on initial recognition | 131 |
| Unwinding of interest on deferred consideration for Sukhoi Log | 4 |
| Settled in cash | (21) |
| Settlement of obligation in the form of treasury shares | (22) |
| Foreign exchange gain, net | (8) |
| Effect of translation to presentation currency | 9 |
| **Balance at the end of the reporting period** | **214** |

The fair value measurement on the date of initial recognition is based on inputs (spot currency exchange rates and U.S. discount rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value. As of 30 September 2017, the fair value of the deferred consideration for Sukhoi Log is approximately equal to US$217 million.

*Dividends*

On 30 June 2017, PJSC Polyus declared dividends for 2016 of RUB 20,063 million (US$340 million) or RUB 152.41 per share (US$2.58 per share), including a special dividend of US$100 million (at the exchange rate of 59.09 roubles per US$1.00 as of 30 June 2017). The dividends were paid in July to August 2017 and were not allocated on treasury shares. US$16 million related to the newly issued shares in the secondary public offering priced on 30 June 2017.

On 15 September 2017, PJSC Polyus declared dividends for the six months ended 30 June 2017 of RUB 13,760 million (US$239 million) or RUB 104.3 per share (US$1.81 per share) (at the exchange rate of 57.77 roubles per US$1.00 as of 15 September 2017). The dividends were mostly paid in September 2017, with the remaining amount of approximately US$10 million paid in October 2017, and were not allocated on treasury shares.

**Contingent Liabilities**

***Capital commitments***

The Group's contracted capital expenditure commitments as at 30 September 2017 amounted to US$298 million as compared to US$257 million as at 31 December 2016. This increase was primarily due to entering into new contracts relating to the development of Natalka and Olimpiada and the appreciation of the rouble against the U.S. dollar, which was applied to the expected capital expenditure that mainly comprises rouble-denominated costs.

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

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

| | *Year ended 31 December* | | |
|---|---|---|---|
| *(in millions of U.S. dollars, unless otherwise indicated)* | *2016* | *2015* | *Change (%)* |
| Gold sales | 2,429 | 2,159 | 13 |
| Other sales | 29 | 29 | – |
| **Total revenue** | **2,458** | **2,188** | **12** |
| Cost of gold sales | (891) | (876) | 2 |
| Cost of other sales | (28) | (25) | 12 |
| **Gross profit** | **1,539** | **1,287** | **20** |
| Gross profit margin | 63% | 59% | 4 ppts |
| Selling, general and administrative expenses | (151) | (143) | 6 |
| Other (expenses) / income, net | (27) | 20 | N.A.[1] |
| **Operating profit** | **1,361** | **1,164** | **17** |
| Finance costs, net | (145) | (45) | 222 |
| Interest income | 40 | 69 | (42) |
| Gain / (loss) on derivative financial instruments and investments, net | 119 | (125) | N.A.[1] |
| Foreign exchange gain, net | 396 | 149 | 166 |
| **Profit before income tax** | **1,771** | **1,212** | **46** |
| Income tax expense | (326) | (191) | 71 |
| **Profit for the period** | **1,445** | **1,021** | **42** |
| Profit attributable to: | | | |
| Shareholders of PJSC Polyus | 1,420 | 987 | 44 |
| Non-controlling interests | 25 | 34 | (26) |
| Earnings per share (U.S. Cents), basic and diluted | 10 | 5 | 100 |

**Note:**

1. Not applicable.

### *Adjusted EBITDA*

Adjusted EBITDA has been calculated by management based on information derived from the Financial Statements. The following table sets out a reconciliation of the Group's Adjusted EBITDA for the years ended 31 December 2016 and 2015.

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

**Note:**

1. Not applicable.

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

***Total Cash Costs***

The following table shows the Group's TCC and TCC per ounce sold for the years ended 31 December 2016 and 2015. TCC and TCC per ounce sold have been calculated by management based on information derived from the Financial Statements.

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

**Note:**

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

The Group's TCC per ounce decreased by 8 per cent to US$389 per ounce in 2016 from US$424 per ounce in 2015. This was underpinned by the strong operational performance of the Group's assets, initiatives to improve efficiency and the depreciation of the rouble. All of the hard rock operations demonstrated a year-on-year cost improvement, except for Alluvials, which posted a TCC per ounce increase.

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

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

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

At Titimukhta, TCC decreased by 17 per cent in 2016 to US$414 per ounce as compared to 2015. As a result of the completion of the reconfiguration of Olimpiada's Mill No. 1 in September 2016,

mining and processing activities at Titimukhta were halted in favor of treating ore from Olimpiada in the second half of 2016.

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

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

### *All-In Sustaining Costs*

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

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

**Note:**

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

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

### *Gold Sales*

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

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

**Note:**

1. Source: London Bullion Market Association.

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

| *Production of Gold ('000 ounces)* | *Year ended 31 December* | | |
|---|---|---|---|
| | *2016* | *2015* | *Change (%)* |
| Refined Gold Production | | | |
| **Krasnoyarsk region** | | | |
| Olimpiada mine | 817 | 741 | 10 |
| Blagodatnoye mine | 457 | 425 | 8 |
| Titimukhta[1] | 40 | 102 | (61) |
| Poputninskoye | 7 | 2 | 250 |
| **Irkutsk region** | | | |
| Verninskoye | 187 | 161 | 16 |
| Alluvials | 169 | 168 | 1 |
| **Republic of Sakha (Yakutia) region** | | | |
| Kuranakh | 160 | 145 | 10 |
| **Refined gold** | **1,841**[2] | **1,744** | **5** |
| Gold in flotation concentrate | 126 | 19 | 641 |
| **Total gold produced** | **1,968** | **1,763** | **12** |

**Notes:**

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

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

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

### *Cost of Gold Sales*

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

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

**Note:**

1. Not material.

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

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

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

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

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

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

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

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

***Selling, general and administrative expenses***

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

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

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

***Finance costs and interest income***

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

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

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

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

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

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

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

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

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

**Note:**

1. Not applicable.

*Revenue stabilizer*

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

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

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

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

the price-protection amount of 300 thousand ounces, provided the gold price does not fall below US$950 per ounce. Additionally, the Group will have an obligation to sell 375 thousand ounces of gold at the weighted average gold price US$1,406 per ounce should the weighted average gold price exceed US$1,586 per ounce.

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

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

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

**Gold forward**

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

During the year ended 31 December 2016, US$12 million of loss was recognized in the cash flow hedge revaluation reserve within the consolidated statement of comprehensive income and subsequently reclassified as accumulated within the consolidated statement of changes in equity. There were no outstanding gold forward contracts since 30 June 2016.

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

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

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

**Cross currency swaps**

***Rouble denominated credit facilities with fixed interest rate***

In April 2014, the Group signed a five-year RUB 36 billion credit facility agreement with Sberbank. The interest rate for this credit facility is 10.35 per cent. The revenue of the Group is linked to U.S. dollars as the gold price is denominated in U.S. dollars. The Group entered into a number of cross

currency swaps with leading Russian banks to economically hedge interest payments and the exchange of principal amounts.

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

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

- the Group quarterly pays to the banks 3.94 per cent in U.S. dollars and receives from the banks 10.35 per cent in roubles; and at maturity (9 April 2019) the Group exchanges principal amounts by paying US$808 million and receiving RUB 28,443 million (amended terms of cross currency swap agreements with the same banks dated to 2014);
- the Group quarterly pays to the banks 3.98 per cent in U.S. dollars and receives from the banks 10.35 per cent in roubles; and at maturity (9 April 2019) the Group exchanges principal amounts by paying US$215 million and receiving RUB 7,557 million. These terms were achieved by keeping unchanged previous cross currency contracts and entering into new fixed rate swaps.

No premium was paid or received on modification of original swaps and entering into the new interest rate swap.

***Russian bonds***

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

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

**Interest rate swaps**

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

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

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

***Foreign exchange gain***

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

**Income tax expense**

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

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

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

| *(in millions of U.S. dollars, unless otherwise indicated)* | *Year ended 31 December 2016* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Gold sales* | *Gold sold ('000 ounces)* | *Production ('000 ounces)* | *Adjusted EBITDA* | *TCC per ounce of gold sold (US$ per ounce)* | *AISC per ounce of gold sold (US$ per ounce)* | *Capital expenditures* |
| Krasnoyarsk[(1)] | 1,773 | 1,396 | 1,440 | 1,170 | 367 | 518 | 120 |
| Irkutsk alluvial | 220 | 169 | 169 | 90 | 598 | 813 | 16 |
| Irkutsk ore | 232 | 186 | 187 | 146 | 389 | 530 | 24 |
| Yakutia Kuranakh | 199 | 160 | 160 | 107 | 499 | 782 | 33 |
| Magadan | – | – | 5 | (2) | – | – | 215 |
| Exploration | 5 | 4 | 7 | 1 | 1,010 | 1,073 | 10 |
| Capital construction | – | – | – | 1 | – | – | 43 |
| Unallocated | – | – | – | 23 | – | – | 7 |
| **Total** | **2,429** | **1,915** | **1,968** | **1,536** | **389** | **572** | **468** |
| Advances paid for the participation in the auction for Sukhoi Log | – | – | – | – | – | – | 138 |
| **Total** | **2,429** | **1,915** | **1,968** | **1,536** | **389** | **572** | **606** |

**Notes:**

1. Krasnoyarsk business unit consists of three mines, Olimpiada, Blagodatnoye, and Titimukhta as described within Presentation of Financial and Other Information. Olimpiada, Blagodatnoye and Titimukhta, presented as the former Krasnoyarsk business unit, had total capital expenditures for the year ended 31 December 2016 of US$120 million. The cost to develop information relating to the capital expenditures of Olimpiada, Blagodatnoye and Titimukhta would be excessive.

| *(in millions of U.S. dollars, unless otherwise indicated)* | *Gold sales* | *Gold sold ('000 ounces)* | *Production ('000 ounces)* | *Adjusted EBITDA*[1] | *TCC per ounce of gold sold (US$ per ounce)*[1] | *AISC per ounce of gold sold (US$ per ounce)* | *Capital expenditures* |
|---|---|---|---|---|---|---|---|
| Olimpiada | 1,141 | 903 | 943 | 717 | 405 | 567 | N.A. |
| Blagodatnoye | 576 | 450 | 457 | 417 | 290 | 425 | N.A. |
| Titimukhta | 56 | 43 | 40 | 36 | 414 | 465 | N.A. |
| **Krasnoyarsk** | **1,773** | **1,396** | **1,440** | **1,170** | **367** | **518** | **120** |

**Notes:**

1. For reconciliations of segment-adjusted EBITDA to profit and segment TCC to cost of gold sales for the year, see note 5 of the 2016 Financial Statements.

| *(in millions of U.S. dollars, unless otherwise indicated)* | *Year ended 31 December 2015* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Gold sales* | *Gold sold ('000 ounces)* | *Production ('000 ounces)* | *Adjusted EBITDA* | *TCC per ounce of gold sold (US$ per ounce)* | *AISC per ounce of gold sold (US$ per ounce)* | *Capital expenditures* |
| Krasnoyarsk[(1)] | 1,611 | 1,293 | 1,287 | 1,007 | 399 | 566 | 58 |
| Irkutsk alluvial | 191 | 168 | 168 | 76 | 582 | 725 | 5 |
| Irkutsk ore | 189 | 161 | 161 | 115 | 417 | 535 | 21 |
| Yakutia Kuranakh | 165 | 144 | 145 | 70 | 598 | 748 | 10 |
| Magadan | – | – | – | – | – | – | 113 |
| Exploration | 3 | 2 | 2 | 3 | 694 | 815 | 7 |
| Capital construction | – | – | – | 1 | – | – | 53 |
| Unallocated | – | – | – | 6 | – | – | 1 |
| **Total** | **2,159** | **1,768** | **1,763** | **1,278** | **424** | **596** | **268** |

**Notes:**

1. Krasnoyarsk business unit consists of three mines, Olimpiada, Blagodatnoye, and Titimukhta as described within Presentation of Financial and Other Information. Olimpiada, Blagodatnoye and Titimukhta, presented as the former Krasnoyarsk business unit, had total capital expenditures for the year ended 31 December 2015 of US$58 million. The cost to develop information relating to the capital expenditures of Olimpiada, Blagodatnoye and Titimukhta would be excessive.

| *(in millions of U.S. dollars, unless otherwise indicated)* | *Gold sales* | *Gold sold ('000 ounces)* | *Production ('000 ounces)* | *Adjusted EBITDA*[1] | *TCC per ounce of gold sold (US$ per ounce)*[1] | *AISC per ounce of gold sold (US$ per ounce)* | *Capital expenditures* |
|---|---|---|---|---|---|---|---|
| Olimpiada | 952 | 761 | 760 | 605 | 416 | 609 | N.A. |
| Blagodatnoye | 525 | 424 | 425 | 348 | 345 | 444 | N.A. |
| Titimukhta | 134 | 108 | 102 | 54 | 498 | 745 | N.A. |
| **Krasnoyarsk** | **1,611** | **1,293** | **1,287** | **1,007** | **399** | **566** | **58** |

**Notes:**

1. For reconciliations of segment-adjusted EBITDA to profit and segment TCC to cost of gold sales for the year, see note 5 of the 2015 Financial Statements.

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

***Krasnoyarsk business unit (Olimpiada, Blagodatnoye and Titimukhta mines)***

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

***Irkutsk alluvial operations (alluvial deposits)***

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

***Irkutsk ore business unit (Verninskoye mine)***

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

***Yakutia Kuranakh business unit (Kuranakh mine)***

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

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

***Analysis of statement of financial position items***

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

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

**Note:**

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

***Borrowings***

As of 31 December 2016, the Group's total borrowings (excluding liabilities arising from derivative financial instruments) amounted to US$4,981 million. The decision by the Group to obtain the US$2,500 million credit facility from Sberbank in January 2016 resulted in an increase in bank loans (increased by 174 per cent since the end of 2015) and in the Group's total borrowings structure. It led to a decline in the share of public debt, including PGIL's US$750 million 5.625 per cent guaranteed notes due 2020 and Russian bonds, to 30 per cent of the Group's total borrowings as of 31 December 2016. The Group's debt portfolio remains dominated by U.S. dollar-denominated instruments, representing 82 per cent of the total borrowings as of 31 December 2016 (11 percentage point increase as compared to 31 December 2015). The RUB 36,000 million credit facility from Sberbank obtained in April 2014 and the RUB 15,000 million bonds placed in July 2015 were both economically hedged through cross-currency swaps. As of 31 December 2016, the main sources of the Group's total borrowings were as follows: Sberbank loans (62 per cent); Eurobonds (25 per cent); bank loans, excluding Sberbank (8 per cent); and rouble-denominated bonds (5 per cent). As of 31 December 2016, 52 per cent of the Group's total borrowings had floating interest rates, while 48 per cent had fixed rates.

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

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

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

- US$2,500 million credit facility agreement with Sberbank with maturity in 2023 at three-month LIBOR plus 4.5 per cent, entered into by JSC Polyus and supported by guarantees by PGIL and several other of PJSC Polyus' subsidiaries, including JSC Matrosova Mine, JSC Polyus Verninskoye, JSC Aldanzoloto GRK and Polyus Stroy LLC, as well as undertakings by PGIL and PJSC Polyus to maintain their shareholdings in PJSC Polyus and JSC Polyus, respectively, above certain thresholds;

- US$100 million credit facility agreement with Credit Bank of Moscow maturing in 2019 having an annual interest rate of three-month LIBOR plus 4.5 per cent.

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

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

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

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

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

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

**Reclassification of Russian bonds**

On 22 December 2016, PJSC Polyus' Extraordinary General Shareholder Meeting approved the reorganization of PJSC Polyus by way of a merger of LLC Polyus-Invest into PJSC Polyus and the decrease of PJSC Polyus' charter capital by way of cancellation of PJSC Polyus' shares held by LLC Polyus-Invest following the completion of the merger. Under Russian law, immediately thereafter the holders of the Russian bonds became entitled to exercise an option for the early redemption of the Russian bonds. As a result, the full outstanding amount of the Russian bonds was reclassified to short-term borrowing as of 31 December 2016.

Under Russian law, the bondholders who wished to exercise the option had to notify PJSC Polyus by 24 March 2017 of their exercise of the option; however, no such notification was received from any bondholder and, accordingly, the full outstanding amount of the Russian bonds was reclassified back to long-term borrowing from 24 March 2017.

**Unused credit facilities**

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

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

**Other matters**

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

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

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

The Group was in compliance with all these covenants as of 31 December 2016 and 2015.

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

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

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

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

**Note:**

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

***Cash and cash equivalents and bank deposits***

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

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

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

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

### *Cash flow analysis*

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

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

*Operating activities*

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

*Investing activities*

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

The Group's main development project, Natalka, saw a 90 per cent growth in capital expenditure in 2016 to US$215 million, due to a further increase in construction works. The construction of the primary crushing and main conveyor complex was completed and equipment for the grinding circuit was installed. In addition, construction of the crushed ore storage and reclaim facility is progressing as planned.

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

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

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

At Kuranakh, capital expenditure increased to US$33 million in 2016, as compared to 2015, mainly due to the completion of the first stage of the expansion of the Kuranakh mill's capacity. The mill currently operates at a throughput capacity of 4.5 mtpa, which has resulted in increased production volumes and lower production costs. The expansion project is expected to be finalized in 2018.

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

*Financing activities*

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

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

In March 2016, LLC Polyus-Invest, a 100 per cent indirect subsidiary of PJSC Polyus, completed a buy-back of PJSC Polyus' shares and ADRs, in which LLC Polyus-Invest purchased the following number of shares as of 10 March 2016 (the date of the buy-back approval):

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

In the short- to medium-term, the Group may consider issuing Russian bonds, with the terms and conditions of such issuance to be determined if and when such bonds are issued.

*Capital expenditures, acquisitions of subsidiaries and stripping activity asset*

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

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

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

*Dividends*

In October 2016, the board of directors of PJSC Polyus approved a new dividend policy, pursuant to which PJSC Polyus will, subject to applicable requirements of Russian law for dividends to be paid out of net profit determined in accordance with Russian accounting standards, pay dividends on a semi-annual basis in an amount of 30 per cent of the EBITDA for the applicable reporting period. Payment will be calculated on the basis of the consolidated financial statements of PJSC Polyus 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 PJSC Polyus 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 PJSC Polyus 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 PJSC Polyus may consider the possibility of payment of special dividends, subject to the Group's liquidity position, capital expenditure requirements, free cash flow and leverage.

On 17 January 2018, PJSC Polyus announced an amendment to its dividend policy, setting the minimum dividend payout in respect of each of the years 2017 and 2018 in the amount of US$550 million. The dividend policy otherwise remains unchanged.

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

## Contingent Liabilities

### *Capital commitments*

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

### *Operating leases*

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

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

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

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

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

| *(in millions of U.S. dollars, unless otherwise indicated)* | *Year ended 31 December* | | |
|---|---|---|---|
| | ***2015*** | ***2014*** | ***Change (%)*** |
| Gold sales | 2,159 | 2,197 | (2) |
| Other sales | 29 | 42 | (31) |
| **Total revenue** | **2,188** | **2,239** | **(2)** |
| Cost of gold sales | (876) | (1,174) | (25) |
| Cost of other sales | (25) | (33) | (24) |
| **Gross profit** | **1,287** | **1,032** | **25** |
| Gross profit margin | 59% | 46% | 13 ppts |
| Selling, general and administrative expenses | (143) | (174) | (18) |
| Other income / (expenses), net[3] | 20 | (5) | N.A.[1] |
| **Operating profit** | **1,164** | **853** | **36** |
| Finance costs, net | (45) | (26) | 73 |
| Interest income | 69 | 31 | 123 |
| Loss derivative financial instruments and investments, net | (125) | (934) | (87) |
| Foreign exchange gain, net | 149 | 123 | 21 |
| **Profit before income tax** | **1,212** | **47** | **2,479** |
| Income tax expense | (191) | (222) | 14 |
| **Profit / (loss)** | **1,021** | **(175)** | **N.A.[1]** |
| Profit / (loss) for the year attributable to: | | | |
| Shareholders of PJSC Polyus | 987 | (216) | N.A.[1] |
| Non-controlling interests | 34 | 41 | (17) |
| Earnings / (loss) per share (U.S. Cents), basic and diluted[2] | 5 | (1) | N.A.[1] |

**Notes:**

1. Not applicable.
2. There are no instruments or any other instances which could cause a dilutive effect on the earnings / (loss) per share calculation.
3. For the purposes of this Prospectus, "(Impairment) / reversal of impairment" was included within "Other income / (expenses), net" in order to be consistent with the presentation within the 2016 Financial Statements. In the 2015 Financial Statements, the line "(Impairment) / reversal of impairment" was presented separately in the consolidated statement of profit and loss.

### *Adjusted EBITDA*

Adjusted EBITDA has been calculated by management based on information derived from the Financial Statements. The following table sets out a reconciliation of the Group's Adjusted EBITDA for the years ended 31 December 2015 and 2014:

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

**Note:**

1. Not applicable.

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

### *Total Cash Costs*

The following table shows the Group's TCC and TCC per ounce sold for the years ended 31 December 2015 and 2014. TCC and TCC per ounce sold have been calculated by management based on information derived from the Financial Statements.

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

**Note:**

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

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

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

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

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

Alluvials achieved the least cost reduction among the Group's assets in 2015, lowering costs by 21 per cent as compared to 2014, to US$582 per ounce, due to a decline in grades at some mining areas. To partially offset this, the amount of sands washed increased, which led to a rise in fuel, materials,

and spare parts costs. However, the weaker rouble against the U.S. dollar and lower contractors' expenses helped mitigate the effect of lower grades.

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

### *All-In Sustaining Costs*

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

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

**Note:**

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

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

*Gold Sales*

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

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

**Note:**

1. Source: London Bullion Market Association.

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

| *Refined Gold production ('000 ounces)* | *Year ended 31 December* | | |
|---|---|---|---|
| | ***2015*** | ***2014*** | ***Change (%)*** |
| Refined Gold Production | | | |
| **Krasnoyarsk region** | | | |
| Olimpiada mine | 741 | 726 | 2 |
| Blagodatnoye mine | 425 | 394 | 8 |
| Titimukhta(1) | 102 | 93 | 10 |
| Poputninskoye | 2 | – | N.A.(2) |
| **Irkutsk region** | | | |
| Verninskoye | 161 | 146 | 10 |
| Alluvials | 168 | 190 | (12) |
| **Republic of Sakha (Yakutia) region** | | | |
| Kuranakh | 145 | 137 | 6 |
| **Refined gold** | **1,744** | **1,686** | **4** |
| Gold in flotation concentrate | 19 | 10 | 70 |
| **Total gold produced** | **1,763** | **1,696** | **4** |

**Notes:**

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

The Group's revenue from gold sales decreased by 2 per cent to US$2,159 million in 2015 from US$2,197 million in 2014, as a result of a decrease in realized gold prices, notwithstanding higher sales volumes. In 2015, gold sales volumes increased by 5 per cent to 1,768 thousand ounces. However, the average realized refined gold price in 2015 amounted to US$1,225 per ounce, a 6 per cent decrease from 2014. The Group benefited from the SPPP, which was launched by the Group in March 2014 and set the price floor for a significant amount of gold sold. The positive effect of the SPPP on the 2015 average selling price amounted to US$66 per ounce, with the average London afternoon gold pricing fixing falling by eight per cent to US$1,160 per ounce in 2015. The Group's 2015 average selling price (including the effect of the SPPP) was US$1,225 per ounce, approximately

6 per cent higher than the average London afternoon gold pricing fixing for the period, compared to US$1,302 per ounce in 2014. Mine-by-mine gold sales were broadly in line with the production performance of each asset, with no serious delays in sales volumes at the Group's operations in 2015.

***Cost of gold sales***

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

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

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

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

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

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

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

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

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

***Cost of other sales***

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

***Selling, general and administrative expenses***

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

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

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

***Reversal of impairment***

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

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

An impairment test was performed as of 31 December 2015.

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

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

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

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

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

See note 8 to the 2015 Financial Statements.

***Finance costs and interest income***

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

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

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

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

***Loss on derivative financial instruments and investments, net***

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

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

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

*Revenue stabilizer*

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

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

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

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

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

During the year ended 31 December 2015, the Group entered into several new revenue stabilizer agreements under the Tranche 3 of the revenue stabilizer program. Under the agreements, the Group is able to ensure a minimum weighted average price of US$1,232 per ounce for 280 thousand ounces of gold annually output during the first three years of the revenue stabilizer program, provided that the gold price does not fall below US$900 per ounce. During the first three years, the Group benefits

from price increases until the gold price reaches US$1,450 per ounce, in which case the weighted average price is capped at US$1,350 per ounce. In the fourth year of the revenue stabilizer program, the Group is able to ensure a minimum weighted average price of US$971 per ounce for the price-protected amount of 840 thousand ounces, provided that the gold price does not fall below US$921 per ounce. Additionally, in the fourth year, the Group will have an obligation to sell 840 thousand ounces of gold at US$1,391 per ounce should the gold price exceed US$1,591 per ounce.

The revenue stabilizer options are exercised quarterly in equal amounts.

Tranches 1 and 2 of the revenue stabilizer arrangements were designated as a cash flow hedge until 30 June 2017. Any change in the intrinsic value of the collars is recognized in the cash flow hedge revaluation reserve within consolidated statement of comprehensive income, whilst the remaining change in the fair value of US$19 million gain is reflected in the consolidated statement of profit or loss (gain of US$15 million in the year ended 31 December 2014). See note 10 to the 2015 Financial Statements.

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

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

**Gold forward**

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

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

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

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

**Currency collars**

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

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

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

**Cross currency swaps**

***Rouble denominated credit facilities with fixed interest rate***

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

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

***Russian bonds***

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

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

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

***Interest rate swaps***

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

During the year ended 31 December 2015, gain on changes in the fair value of the interest rate swaps in the amount of US$4 million is recognized in the consolidated statement of profit or loss (gain US$9 million in the year ended 31 December 2014). The gain on the exchange of interest payments in amount of US$13 million is recognized within the finance cost (gain of US$4 million in the year ended 31 December 2014).

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

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

***Foreign exchange gain***

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

***Income tax expense***

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

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

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

| | *Year ended 31 December 2015* | | | | | | |
|---|---|---|---|---|---|---|---|
| *(in millions of U.S. dollars, unless otherwise indicated)* | *Gold sales* | *Gold sold ('000 ounces)* | *Production ('000 ounces)* | *Adjusted EBITDA* | *TCC per ounce of gold sold (US$ per ounce)* | *AISC per ounce of gold sold (US$ per ounce)* | *Capital expenditures* |
| Krasnoyarsk[1] | 1,611 | 1,293 | 1,287 | 1,007 | 399 | 566 | 58 |
| Irkutsk alluvial | 191 | 168 | 168 | 76 | 582 | 725 | 5 |
| Irkutsk ore | 189 | 161 | 161 | 115 | 417 | 535 | 21 |
| Yakutia Kuranakh | 165 | 144 | 145 | 70 | 598 | 748 | 10 |
| Magadan | – | – | – | – | – | – | 113 |
| Exploration | 3 | 2 | 2 | 3 | 694 | 815 | 7 |
| Capital construction | – | – | – | 1 | – | – | 53 |
| Unallocated | – | – | – | 6 | – | – | 1 |
| **Total** | **2,159** | **1,768** | **1,763** | **1,278** | **424** | **596** | **268** |

**Notes:**

1. Krasnoyarsk business unit consists of three mines, Olimpiada, Blagodatnoye, and Titimukhta as described within Presentation of Financial and Other Information. Olimpiada, Blagodatnoye and Titimukhta, presented as the former Krasnoyarsk business unit, had total capital expenditures for the year ended 31 December 2015 of US$58 million. The cost to develop information relating to the capital expenditures of Olimpiada, Blagodatnoye and Titimukhta would be excessive.

| *(in millions of U.S. dollars, unless otherwise indicated)* | *Gold sales* | *Gold sold ('000 ounces)* | *Production ('000 ounces)* | *Adjusted EBITDA* | *TCC per ounce of gold sold (US$ per ounce)* | *AISC per ounce of gold sold (US$ per ounce)* | *Capital expenditures* |
|---|---|---|---|---|---|---|---|
| Olimpiada | 952 | 761 | 760 | 605 | 416 | 609 | N.A. |
| Blagodatnoye | 525 | 424 | 425 | 348 | 345 | 444 | N.A. |
| Titimukhta | 134 | 108 | 102 | 54 | 498 | 745 | N.A. |
| **Krasnoyarsk** | **1,611** | **1,293** | **1,287** | **1,007** | **399** | **566** | **58** |

**Notes:**

1. For reconciliations of segment-adjusted EBITDA to profit and segment TCC to cost of gold sales for the year, see note 5 of the 2015 Financial Statements.

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

**Notes:**

1. Krasnoyarsk unit consists of three mines, Olimpiada, Blagodatnoye, and Titimukhta as described within Presentation of Financial and Other Information. Olimpiada, Blagodatnoye and Titimukhta, presented as the former Krasnoyarsk business unit, had total capital expenditures for the year ended 31 December 2014 of US$84 million. The cost to develop information relating to the capital expenditures of Olimpiada, Blagodatnoye and Titimukhta would be excessive.

| *(in millions of U.S. dollars, unless otherwise indicated)* | *Gold sales* | *Gold sold ('000 ounces)* | *Production ('000 ounces)* | *Adjusted EBITDA* | *TCC per ounce of gold sold (US$ per ounce)* | *AISC per ounce of gold sold (US$ per ounce)* | *Capital expenditures* |
|---|---|---|---|---|---|---|---|
| Olimpiada | 961 | 732 | 726 | 490 | 541 | 854 | N.A. |
| Blagodatnoye | 517 | 393 | 394 | 305 | 442 | 561 | N.A. |
| Titimukhta | 124 | 94 | 93 | 27 | 956 | 1,183 | N.A. |
| **Krasnoyarsk** | **1,602** | **1,219** | **1,213** | **822** | **541** | **785** | **84** |

**Notes:**

1. For reconciliations of segment-adjusted EBITDA to profit and segment TCC to cost of gold sales for the year, see note 5 of the 2015 Financial Statements.

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

***Krasnoyarsk business unit (Olimpiada, Blagodatnoye and Titimukhta mines)***

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

***Irkutsk alluvial operations (alluvial deposits)***

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

***Irkutsk ore business unit (Verninskoye mine)***

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

***Yakutia Kuranakh business unit (Kuranakh mine)***

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

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

*Analysis of statement of financial position items*

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

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

**Note:**

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

***Borrowings***

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

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

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

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

**Unused credit facilities**

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

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

**Other matters**

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

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

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

The Group was in compliance with all these covenants as of 31 December 2015 and 2014.

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

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

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

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

**Note:**

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

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

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

**Note:**

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

*Cash and cash equivalents and bank deposits*

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

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

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

*Cash flow analysis*

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

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

*Operating activities*

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

*Investing activities*

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

- a decrease in purchases of property, plant and equipment from US$570 million in 2014 to US$326 million in 2015;
- a significant increase in cash outflow, due to the settlement of derivatives amounting to US$494 million in 2015, as compared to US$55 million in 2014;
- an increase in proceeds from the redemption of bank deposits to US$340 million, as compared to US$248 million in 2014;
- an increase in bank deposits of US$74 million, as compared to US$475 million in 2014;
- partially offset by a decrease of loans issued and repayment of previously issued loans of US$190 million in 2015, as compared to US$954 million (net amount) in 2014; and
- partially offset by an increase in interest received from US$30 million in 2014 to US$62 million in 2015, due to an increase in deposits.

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

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

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

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

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

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

*Financing activities*

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

- a decrease in net proceeds from borrowings to US$532 million, as compared to US$1,022 million in 2014;
- US$230 million used in 2015 for the increase of ownership in certain subsidiaries of the Group, as compared to US$301 million proceeds received in 2014; and

- an increase in the interest paid due to increased debt amounts, amounting to US$124 million in 2015, as compared to US$75 million in 2014, which was partially offset by cash inflow from interest and currency rate swaps amounting to US$52 million, as compared to US$20 million in 2014.

***Capital expenditures, acquisitions of subsidiaries and stripping activity asset***

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

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

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

## Contingent Liabilities

***Capital commitments***

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

***Operating leases***

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

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

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

**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 judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates. The following sets forth a discussion of critical accounting judgments and key sources of estimation uncertainty arising in connection with the preparation of the Group's consolidated financial statements as of and for the year ended 31 December 2016 and 2015 and condensed consolidated interim financial statements as of and for the nine months ended 30 September 2017.

***Critical judgments 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 capitalization;
- determination of functional currency; and
- cash flow hedge designation.

***Economic useful lives of property, plant and equipment***

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

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

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

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

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

***Depreciation method for property, plant and equipment***

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

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

***Borrowing costs capitalization***

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

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

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

***Determination of functional currency***

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

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

***Cash flow hedge designation***

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

***Key sources of estimation uncertainty***

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

- recoverability of the exploration and evaluation assets;
- impairment of the tangible assets;
- determination and valuation of the stripping activity asset;
- carrying value of stockpiles, gold in process and product inventories;

- initial recognition in share options
- estimation of the site restoration, decommissioning and environmental obligations; and
- interpretation of the tax legislation in accounting for income taxes.

***Exploration and evaluation assets***

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

***Impairment of tangible assets***

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

Factors which could impact the underlying cash flows include:

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

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

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

The Russian Resource Reporting Code estimates allocate the "geological" amount of ore and do not incorporate certain other mining parameters including dilution and losses while JORC estimates are based on modifying factors developed at pre-feasibility or feasibility stages. These estimates identify the value of the part of the resources which could be mined with profit. Further, the Russian Resource

Reporting Code estimates are limited by wireframes and in some cases this excludes the haloes of lower grade mineralization that is likely to be mined by open pit means.

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

***Stripping activity asset***

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

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

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

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

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

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

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

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

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

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

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

***Site restoration, decommissioning and environmental obligations***

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

***Income taxes***

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

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

***The Group's new accounting policies***

The management of the Group has implemented a new accounting policy for "Government grants".

*Government grants*

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

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

***Initial recognition of share options***

On 16 December 2016, JSC Polyus entered into a number of put and call option agreements, as well as certain other transaction documents (the "**First Set of Options**"), with RT, for a 23.9 per cent interest in SL Gold held by RT. On 11 July 2017, JSC Polyus entered into a series of additional put and call option agreements with RT for RT's remaining 25.1 per cent interest in SL Gold (the "**Second Set of Options**").

Based on standalone contractual rights and obligations, the First Set of Options would be recognized as financial liabilities with a corresponding decrease in equity.

The Group's management believes that, in substance, the consideration payable by the Group under the First Set of Options represents an additional cost for the mineral rights license for the Sukhoi Log deposit, as the options were directly linked to the acquisition of the Sukhoi Log license and, together with the payment for the license itself, represented a single transaction that was structured to achieve the same commercial objective.

This is based on the following:

- the options are exercisable only if the license for Sukhoi Log is received and remains valid;
- the option agreements considered on their own are not economically justified.

Similar to the First Set of Options, the Second Set of Options represents a modification to the original terms of the acquisition. The Group's management believes that an accounting treatment similar to the First Set of Options is applicable to the Second Set of Options. An additional liability of US$131 million is, therefore, recognized as deferred consideration payable by the Group under the Second Set of Options, with a corresponding debit to the cost of exploration and evaluation assets within mineral rights.

**Quantitative and Qualitative Disclosures about Market Risk**

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

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

***Gold price risk***

The Group is exposed to changes in the gold price due to its significant volatility. During 2014, the Group entered into a number of derivative transactions (revenue stabilizer and gold forward agreements) under the SPPP to limit its exposure to future possible fluctuations of gold price.

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

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

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

***Interest rate risk***

The Group is exposed to interest rate risk as it borrows funds. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's current policy considering the relatively low LIBOR rates is to borrow funds in US$ with floating interest rates. During the years ended 31 of December 2014, 2015 and 2016, the Group, in order to align its borrowings with the policy, entered into a number of derivative transactions:

- to swap cash flows under a 36 billion rouble denominated credit facility with a fixed interest rate of 10.35 per cent into U.S. dollar-denominated cash flows with a floating interest rate of LIBOR plus 2.47 per cent. The credit facility was initially arranged in RUB with the view to swapping it into a US$ denominated cash flow, because this was more cost effective than obtaining funding directly in U.S. dollars. In 2016, the Group amended these cross currency contracts and entered into a new fixed rate swap, offsetting the floating swap under the following terms:
    - the Group pays quarterly to the banks 3.94 per cent in U.S. dollars and receives from the banks 10.35 per cent in roubles; and at maturity (9 April 2019) the Group exchanges principal amounts by paying US$808 million and receiving RUB 28,443 million (amended terms of cross currency swap agreements with the same banks dated to 2014);
    - the Group pays quarterly to the banks 3.98 per cent in U.S. dollars and receives from the banks 10.35 per cent in roubles; and at maturity (9 April 2019) the Group exchanges principal amounts by paying US$215 million and receiving RUB 7,557 million. These

terms were achieved by keeping unchanged previous cross currency contracts and entering into new fixed rate swaps;

- to swap interest payments under the US$750 million notes issued by PGIL from a fixed rate of 5.625 per cent into a floating rate of LIBOR plus 3.55 per cent. In 2016, the Group amended these interest rate swaps and entered into a new fixed rate swap, offsetting the floating swap when the Group semi-annually pays to the banks 5.342 per cent and receives from the banks LIBOR plus 3.55 per cent; and
- to swap cash flows under a 15 billion rouble denominated bonds with a fixed coupon of 12.1 per cent into U.S. dollar-denominated cash flows with a floating interest rate of six-month LIBOR plus 4.45 per cent for RUB 10,000 million and 5.9 per cent fixed rate for RUB 5,000 million. The bond was initially arranged in RUB with the view to swapping it into a U.S. dollar-denominated cash flow, because this was more cost effective than obtaining funding directly in U.S. dollars.

See note 25 to the 2016 Financial Statements.

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

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

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

***Foreign currency exchange rate risk***

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

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

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

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

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

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

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

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

### *Credit risk*

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

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

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

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

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

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

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

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

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

***Liquidity risk***

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

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

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

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

| | Borrowings | | Trade and other payables | 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 at 31 December 2015 based on undiscounted contractual payments, including interest payments:

| | Borrowings | | Trade and other 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** |

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2014 based on undiscounted contractual payments, including interest payments:

| | Borrowings | | Trade and other payables | Total |
|---|---|---|---|---|
| | Principal | Interest | | |
| Due in the first year | 90 | 122 | 110 | 322 |
| Due in the second year | 38 | 120 | – | 158 |
| Due in the third year | 87 | 119 | – | 206 |
| Due in the fourth year | 886 | 91 | – | 977 |
| Due in the fifth year | 710 | 34 | – | 744 |
| Due in the period between sixth to eight years | 14 | – | – | 14 |
| **Total** | **1,825** | **486** | **110** | **2,421** |

# INDUSTRY OVERVIEW

*The following information relating to the gold market and industry overview has been provided for background purposes only. Unless specified otherwise, the information has been extracted from Metals Focus Gold Five-Year Forecasting Quarterly report dated February 2017 and World Gold Council's Gold Demand Trends Full Year 2016 report dated February 2017.*

For centuries, gold has functioned as a store of value, as well as a form of money and it has been used to produce jewellery. Until recently, many economies used gold as the basis for international monetary standards, and the Group believes it remains a popular investment tool. Due to its qualities of malleability, ductility, reflectivity, resistance to corrosion and excellent thermal and electric conductivity, gold is also used in a wide variety of industrial and medical applications.

Historically, jewellery has been by far the most important market for gold. In 2016, total demand for gold equaled 4,309 tonnes, the main components of which were jewellery, which accounted for 47 per cent of total demand; bar and coin production, which accounted for approximately 36 per cent; purchases by central banks, which accounted for 9 per cent; and industrial demand, which accounted for approximately 7 per cent.

In addition to rings, brooches, necklaces and earrings, people also use gold in the form of gold leaf for decoration and protection and for screen printing (for example, directly onto bone china, earthenware, porcelain and glass surfaces). Gold is also the key component for both "liquid gold", a formulation containing up to 12 per cent gold, which is ideal for decorative applications using brushes, and gold pastes used for screen printing.

Gold is also used as a coinage metal. Apart from gold coins, gold ingots and gold bars, gold is available in numerous forms, including pure gold and alloys, such as gold flakes, foil gauzes, grain, powders, sheet, sponges, tubes, wires and even single gold crystals.

In recent years, gold catalysts have become increasingly useful in the chemical industry. Many other gold compounds, including neutral gold halides, aurates, gold cyanides, gold oxides, phosphine gold complexes, gold hydroxides and gold nitrates, are available to industrial users.

Gold is also widely used in electronics due to its inert nature and other physical properties. Examples of the use of gold in electronics include electrical contacts, bonding wire, solder alloys and electroplating. Gold is also a useful brazing material, and manufacturers use it for coating space satellites, since it reflects infrared light well and is inert.

As an alloy, gold is used extensively for dentistry in gold teeth, dental attachments, inserts and solders and is used increasingly for medical implants in eyes and ears, as well as in many other medical wires, tubes, sheets and foils.

The bulk of the gold mined throughout history is still in circulation today in one form or another due to the exceptional physical characteristics of gold.

**Gold Production**

According to Metals Focus' Gold Five-Year Forecasting Quarterly report dated February 2017, in 2016 global gold production totalled 3,236 tonnes.

The biggest gold producer remained China with a 14 per cent share in global production in 2016. Among the leading producers, the highest percentage growth was in Australia (+2 per cent) and Uzbekistan (+2 per cent). The largest decreases in mine output in 2016 were recorded in Mexico (-5

per cent) and Brazil (-2 per cent). Countries with the largest gold mine reserves are Australia, Russia and South Africa.

In 2016, Russia retained its position as the third-largest gold-producing country in the world in terms of production. According to Metals Focus Gold Five-Year Forecasting Quarterly report dated February 2017, mine production in Russia amounted to 267 tonnes, a decrease of one per cent as compared to 2015 levels. The Group is the largest Russian gold producer contributing 23 per cent of the country's gold output and increased its gold production by 12 per cent in 2016 and by 13 per cent in the nine months ended 30 September 2017.

The top five gold producers globally, measured by the amount of attributable gold JORC Proved and Probable Ore Reserves based on the most recent publicly available company reports were: Barrick Gold (approximately 77 million ounces), the Group (approximately 71 million ounces), Newmont Mining Corp. (approximately 68 million ounces), Newcrest Mining (approximately 65 million ounces) and Goldcorp (approximately 53 million ounces).

Based on publicly available reports, the top ten gold producers globally, as measured by the amount of gold produced on an attributable basis in 2016, were: Barrick Gold (approximately 5.5 million ounces), Newmont Mining (approximately 4.9 million ounces), AngloGold (approximately 3.6 million ounces), Goldcorp (approximately 2.9 million ounces), Kinross Gold Corp (approximately 2.7 million ounces (based on attributable gold sales)), Newcrest Mining (approximately 2.4 million ounces (production is calendarized for December year end)), Gold Fields (approximately 2.1 million ounces), the Group (approximately 1.9 million ounces), Agnico Eagle Mines (approximately 1.7 million ounces) and Sibanye (approximately 1.5 million ounces).

## Supply and Demand

### *Supply*

According to the World Gold Council's Gold Demand Trends Full Year 2016 report dated February 2017, total gold supply amounted to 4,571 tonnes in 2016, an increase of 5 per cent as compared to 2015.

Mine production represents the main source of gold supply, accounting for 71 per cent of the global supply of gold in 2016. In 2016, mine production was flat on a year-on-year basis and totaled 3,236 tonnes as high grading continued to support mining activities. However, higher gold prices and lower costs – due to the continued appreciation of the U.S. dollar resulting in a devaluation of producer currencies and the maximization of free cash flow generation on account of cost cutting initiatives implemented by gold mining companies in 2013 – have resulted in a renewed interest in exploration.

Volumes of recycled gold amounted to 1,309 tonnes in 2016, increasing by 17 per cent as compared to 2015, due to significant levels of recycling in Europe and the Middle East, which has been driven by weak currencies and a high gold price.

Net producer hedging, which has been a feature of the gold market since the second half of 2015, increased by 95 per cent to 26 tonnes in 2016, as gold producers exploited an opportunity to secure cash flow at higher prices.

### *Demand*

In 2016, global gold demand rose by 2 per cent as compared to 2015, to reach a three-year high of 4,309 tonnes, according to the World Gold Council's latest Gold Demand Trends report. The increase was largely driven by investment demand of 1,561 tonnes, an increase of 70 per cent as compared to 2015. However, declines in jewellery and central bank purchases almost offset this growth. As a result of higher gold prices, global demand for jewellery decreased by 15 per cent to 2,042 tonnes in 2016,

as compared to 2,389 tonnes in 2015. Central bank purchases of gold declined, with increased pressure on foreign exchange reserves resulting in demand decreasing by 33 per cent to 384 tonnes in 2016. Despite an upturn in late 2016, annual demand for gold in technology decreased by 3 per cent to 323 tonnes in 2016, as compared to 332 tonnes in 2015.

The investment sector was the main contributor to the growth in total demand, as the share of investment increased by 14 per cent year-on-year and amounted to 36 per cent of the global demand for gold (22 per cent in 2015). Annual inflows into exchange traded funds ("**ETFs**") reached 532 tonnes in 2016, which was the second highest year on record, after 2009. A flow of funds into ETFs was supported by political and economic factors, for example, concerns over interest rate hikes by the U.S. Federal Reserve, the 2016 U.S. presidential election, the result of the UK's referendum to leave the European Union, negative interest rates in some countries and price momentum. At the same time, another driver of demand in the investment sector – bar and coin purchases – amounted to 1,029 tonnes in 2016, demonstrating a 2 per cent year-on-year decline, primarily due to the higher gold prices for much of the year. However, investor interest increased due to the decline in gold prices in the fourth quarter of 2016. In China, demand increased by 86 per cent in 2016 as compared to 2015, reaching 285 tonnes for the year, which constitutes approximately 28 per cent of the total annual demand for bar and coin. India's gold market suffered in 2016, as a raft of regulatory developments, fragile rural sentiment in 2014 and 2015 and an increasing gold price for most of the year, pushed bar and coin demand down to its lowest level since 2005.

Demand for jewellery, with a 47 per cent share in total demand, decreased to a seven-year low of 2,042 tonnes and remained subdued as a result of persistently high gold prices, resulting in its contribution in global gold demand decreasing by 10 per cent from 57 per cent in 2015. Nevertheless, gold price was not the only factor that negatively affected demand in the jewellery sector; for instance, demand in India was low due to strikes, new regulations and a shock demonetization policy, as well as the high gold prices. In addition, Chinese consumers exhibited changing tastes, while the consumer environment in Europe and the U.S. remained hesitant.

Central bank net purchases decreased by 33 per cent to 384 tonnes in 2016 as compared to 2015, while its share in the global demand declined by 5 per cent to 9 per cent 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 programs.

Technology recorded a relatively flat year, decreasing 3 per cent to 323 tonnes in 2016, primarily due to substitutions and savings in the wireless industry and in dentistry.

### Pricing and Trading

Unlike most commodities, gold is not consumed, and most above-ground stocks of gold can be brought back to market. As a result, variations in new gold output from mines in any given time period may not have an immediate material impact on the gold price, as the amount of gold produced in any single year represents a small portion of the total potential supply of gold available for sale. During 2014 and 2015, the major factors influencing the gold prices included improving economic expectations in the United States and changes in the U.S. monetary policy, which put significant pressure on gold, restraining investment demand. However, intensifying concerns over the global economic slowdown, loosening of the monetary policy in other major advanced and several emerging economies and increasing geopolitical risks supported the price in 2016.

**Historical Gold Prices – London afternoon gold price fixing (US$/oz)**

Source: World Gold Council www.gold.org

**Average Gold Price**

| *Year* | *2011* | *2012* | *2013* | *2014* | *2015* | *2016* | *2017* |
|---|---|---|---|---|---|---|---|
| Average gold price (US$/oz) | 1,571 | 1,669 | 1,411 | 1,266 | 1,160 | 1,251 | 1,257 |

The price of gold has historically been significantly affected by macroeconomic factors, such as interest rates dynamics, inflation, exchange rates, reserve policy and the overall global political and economic situation. Gold is often purchased as a store of value in periods of price inflation and weakening currency.

London has the world's largest pool of gold liquidity, with trading conducted primarily via an over-the-counter format in 400 ounce gold bars with a purity of 9,950 parts per 10,000 or higher. The LBMA fixes the gold price twice daily in London (at 10.30 a.m. and 3.00 p.m.) using prices derived from five fixing members of the LBMA. These price fixings are used as a key indicator for gold market participants around the world. Leading gold futures markets are the COMEX in New York and TOCOM in Tokyo.

After the highly volatile 2013, in 2015 the gold prices started to stabilize with most aspects of supply and demand adjusting to the new lower price environment. Macroeconomic factors, including increasing expectations of a potential increase in interest rates and a stronger U.S. dollar, remained among the key factors affecting the gold price dynamics. In the United States, gold traded lower on the back of its decreasing appeal as an asset class, with lower expected risk from systematic financial instability and continued low inflationary pressures. The gold price usually decreases as higher rates and growing U.S. economy imply better returns from fixed income and equity markets.

Factors affecting the gold price outside the United States included the launch of the European quantitative easing program in 2015, higher geopolitical tensions and a slowdown in emerging economies resulting in the devaluation of many currencies against the U.S. dollar.

In the first months of 2016, gold prices were highly volatile. They surged from US$1,077/oz to almost US$1,300/oz from January to April on anticipations of fewer interest rate hikes in the U.S., as

well as overall stock market instability and volatility owing to the macro issues in the United States and China.  However, as the data started to indicate certain improvements in the U.S. economy, backed by the rhetoric of the U.S. officials, gold prices retreated during May from their annual highs to the levels slightly above $1,200/oz. In the fourth quarter of 2016, gold relinquished some of its gains amid the results of the 2016 U.S. presidential election and the expectations of interest rate hikes in the U.S.. The decline in gold prices resulted in November 2016 being the worst month for gold prices since June 2013.

**Overview of the Gold Mining Environment in Russia**

In 2016, Russia remained the third largest gold-producing country in the world in terms of production. According to Metals Focus Gold Five-Year Quarterly report dated February 2017, mine production in Russia amounted to 267 tonnes, a decrease of 1 per cent as compared to 2015. The main gold mining regions in Russia are the Krasnoyarsk region, Chukotka, the Amur region, Yakutia and the Magadan region. The Group is the largest Russian gold producer, contributing 23 per cent of the country's gold output and increasing its gold production by 12 per cent in 2016.

# BUSINESS

## Overview of the Group

The Group is the largest gold mining group in Russia by both production and reserves, according to Metals Focus' Quarterly Gold Mine Cost Service report dated 24 February 2017. The Group is also the eighth largest gold company globally in terms of production, based on the Metals Focus Quarterly Gold Mine Cost Service report and publicly available reports, and is the second largest gold company globally in terms of attributable gold reserves (excluding Sukhoi Log), based on the latest reserves and resources statements of other gold mining companies. Since 2007, the Group's gold production has increased at a CAGR of 6 per cent to 1,968 thousand ounces in 2016, principally as a result of expanding Olimpiada; launching production at the Blagodatnoye, Titimukhta and Verninskoye deposits; and introducing targeted optimization and debottlenecking projects at each of its mines.

The Group is committed to the Russian market and operates a portfolio of four core producing open pit mines with a major near-term greenfield development project. Its principal assets are located in the Krasnoyarsk, Irkutsk, Magadan and Republic of Sakha (Yakutia) regions of Russia.

The Group's mineral base as classified and reported according to the JORC Code includes 71 million ounces of Proved and Probable Ore Reserves and 193 million ounces of Measured, Indicated and Inferred Mineral Resources (including 58 million ounces of Inferred Mineral Resources for Sukhoi Log on a 100 per cent basis) as at 31 December 2016. Based on attributable 2016 production volumes and attributable Proved and Probable Ore Reserves (excluding Sukhoi Log), the Group has an average mine life of approximately 37 years.

In the nine months ended 30 September 2017, the Group had total gold sales of US$1,950 million, total revenue of US$1,978 million and profit for the period of US$974 million, and, as at 30 September 2017, total assets of US$6,040 million and total equity of US$386 million. The Group's Adjusted EBITDA was US$1,237 million in the nine months ended 30 September 2017. In 2016, the Group had total gold sales of US$2,429 million, total revenue of US$2,458 million and profit for the year of US$1,445 million, and, as at 31 December 2016, total assets of US$5,666 million and a total equity deficit of US$414 million. The Group's Adjusted EBITDA was US$1,536 million in 2016. The Group is well-positioned to maintain its position as one of the lowest-cost producers globally with total cash cost per gold ounce sold ("**TCC/oz**") of US$389/oz and average all-in sustaining cost per gold ounce sold ("**AISC/oz**") of US$572/oz in 2016 and TCC/oz of US$380/oz and AISC/oz of US$606/oz in the nine months ended 30 September 2017, placing the Group in the first decile of the 2017 global cost curves according to Metals Focus' Quarterly Gold Mine Cost Service report dated 28 November 2017. According to Bloomberg Intelligence, the Group is also one of the most profitable gold producers globally, with an Adjusted EBITDA margin of 62 per cent in 2016.

Going forward, the Group is aiming to increase production from approximately 2.1 million ounces in 2017 to approximately 2.35-2.4 million ounces in 2018 and 2.8 million ounces by 2019. This would make the Group the fourth largest gold company globally in terms of production, based on production volumes for the largest gold producers as estimated by Wood Mackenzie. This anticipated increase is expected from the Natalka project, where production was launched at the end of 2017 and is expected to be ramped up by the end of 2018, and further anticipated production increases at existing operational assets with the development of low-risk, low-cost brownfield projects. Approximately 420-470 thousand ounces per annum (average over the life of mine) of targeted incremental gold production is expected after the ramp-up of the Natalka operations. On 21 February 2017, following an auction process instituted by the Russian Government, the Rosnedra issued a license for the development of the Sukhoi Log deposit, one of the 30 largest gold mineral deposits globally in terms of reserves according to Metals Focus' Gold Focus 2016 report, with Total Inferred Mineral Resources of Sukhoi Log estimated at 58 million ounces with an average grade of 2.0 g/t in accordance with the JORC Code, to SL Gold.

In December 2016, JSC Polyus entered into a number of cash option agreements with RT to acquire a 23.9 per cent stake in SL Gold between 2017 to 2022. In May 2017, the Group exercised the first option agreement for US$21 million and increased its stake in SL Gold by 3.6 per cent. In July 2017, JSC Polyus entered into a number of additional option agreements with RT to acquire an additional 25.1 per cent participation interest in SL Gold. Total consideration for the additional 25.1 per cent participation interest is fixed at US$146 million and will be payable in PJSC Polyus' shares within the next five years in five tranches, with JSC Polyus having the right to accelerate the dates of these transactions. Subsequently, in July 2017, the Group exercised the first option agreement of the additional set of options for US$22 million and increased its stake in SL Gold by 3.8 per cent. Currently, the Group owns a 58.4 per cent stake in SL Gold.

The development of Sukhoi Log is expected to be a significant contributor to the Group's long-term strategy. In November 2017, the Group started a 180,000 meter drilling campaign at the Sukhoi Log deposit, which is scheduled to last two years and will provide the basis for the Group to update the block model for the deposit and provide both Ore Reserve and Measured and Indicated Mineral Resource estimates in accordance with the JORC Code. The Group has instructed Hatch and SRK to conduct a scoping study, which is expected to be completed by mid-2018, and intends to conduct a feasibility study, which is currently expected to last for approximately four years, with the assistance of international mining and engineering consultants. Based on the results of the feasibility study, the Group will evaluate options to start construction at Sukhoi Log.

The table below sets out the Ore Reserves and Mineral Resources of the Group according to the JORC Code as at 31 December 2016.

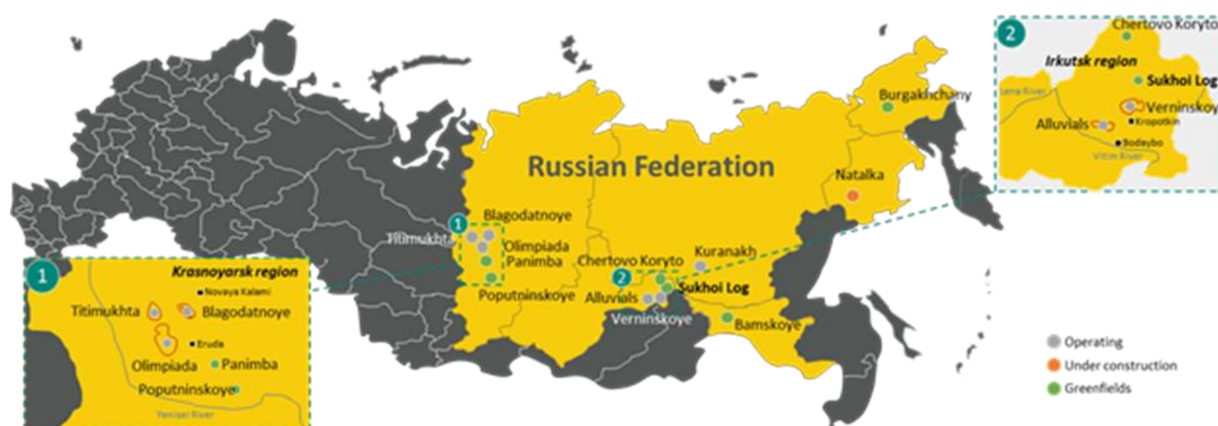
| | **Proved** | | | **Probable** | | | **Proved and Probable** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Tonnes (mln tonnes)[1]** | **Gold Grade (g/t)[1]** | **Gold (mln ounces)** | **Tonnes (mln tonnes)[1]** | **Gold Grade (g/t)[1]** | **Gold (mln ounces)** | **Tonnes (mln tonnes)[1]** | **Gold Grade (g/t)[1]** | **Gold (mln ounces)** |
| ***Operating assets*** | | | | | | | | | |
| Olimpiada | 6.5 | 2.5 | 0.51 | 309 | 3.0 | 30 | 316 | 3.0 | 30 |
| Blagodatnoye | 42 | 0.9 | 1.1 | 182 | 1.5 | 8.9 | 223 | 1.4 | 10 |
| Titimukhta | 5.3 | 1.6 | 0.27 | 6.5 | 3.1 | 0.65 | 12 | 2.4 | 0.91 |
| Verninskoye[3] | 11 | 1.3 | 0.45 | 86 | 1.7 | 4.8 | 96 | 1.7 | 5.3 |
| Alluvials[2] | 0 | 0 | 0 | 105 | 0.34 | 1.1 | 105 | 0.34 | 1.1 |
| Kuranakh | 0 | 0 | 0 | 136 | 1.0 | 4.5 | 136 | 1.0 | 4.5 |
| **Total operating assets** | **64** | **1.1** | **2.4** | **824** | **1.9** | **50** | **888** | **1.8** | **52** |
| ***Mine under construction*** | | | | | | | | | |
| Natalka | 146 | 1.6 | 7.3 | 147 | 1.8 | 8.5 | 293 | 1.7 | 16 |
| **Total under construction** | **146** | **1.6** | **7.3** | **147** | **1.8** | **8.5** | **293** | **1.7** | **16** |
| ***Greenfield projects*** | | | | | | | | | |
| Sukhoi Log | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Panimba / Razdolinskoye | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Poputninskoye | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Zmeinoye | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Chertovo Koryto | 0 | 0 | 0 | 62 | 1.5 | 3.1 | 62 | 1.5 | 3.1 |
| Bamskoye | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Degdekan | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Burgankhchany | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Zapadnoye[4] | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Medvezhy[5] | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total greenfield projects** | **0** | **N.A.** | **0** | **62** | **1.5** | **3.1** | **62** | **1.5** | **3.1** |
| **Total** | **210** | **1.4** | **9.7** | **1,033** | **1.8** | **61** | **1,243** | **1.8** | **71** |

1. The estimates for all deposits are presented on a 100 per cent basis.
2. For the Alluvials, cubic meters ($m^3$) have been converted to tonnages using the general bulk density factor of 1.85 $t/m^3$ strictly for the purpose of the summary accumulations. Gold grades have been adjusted from $g/m^3$ to g/t, accordingly.
3. Including the Smezhny deposit.
4. Adjacent to the Sukhoi Log deposit.
5. Adjacent to the Verninskoye deposit.

| | Measured | | | Indicated | | | Inferred | | | Measured, Indicated and Inferred | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Tonnes (mln tonnes)[1] | Gold Grade (g/t)[1] | Gold (mln ounces) | Tonnes (mln tonnes)[1] | Gold Grade (g/t)[1] | Gold (mln ounces) | Tonnes (mln tonnes)[1] | Gold Grade (g/t)[1] | Gold (mln ounces) | Tonnes (mln tonnes)[1] | Gold Grade (g/t)[1] | Gold (mln ounces) |
| ***Operating assets*** | | | | | | | | | | | | |
| Olimpiada | 6.5 | 2.5 | 0.51 | 340 | 3.1 | 34 | 127 | 2.9 | 12 | 474 | 3.0 | 46 |
| Blagodatnoye | 42 | 0.9 | 1.1 | 309 | 1.5 | 15 | 69 | 1.3 | 2.9 | 420 | 1.4 | 19 |
| Titimukhta | 5.3 | 1.6 | 0.27 | 7.2 | 3.3 | 0.8 | 0.54 | 1.5 | 0.03 | 13 | 2.5 | 1.1 |
| Verninskoye[3] | 11 | 1.3 | 0.45 | 212 | 1.6 | 11 | 14 | 2.0 | 0.9 | 237 | 1.6 | 12 |
| Alluvials[2] | 0 | 0 | 0 | 243 | 0.21 | 1.6 | 34 | 0.40 | 0.44 | 277 | 0.23 | 2.1 |
| Kuranakh | 0 | 0 | 0 | 148 | 1.1 | 5.4 | 100 | 1.2 | 3.8 | 248 | 1.2 | 9.2 |
| **Total operating assets** | **64** | **1.1** | **2.4** | **1,260** | **1.7** | **67** | **344** | **1.8** | **20** | **1,669** | **1.7** | **89** |
| ***Mine under construction*** | | | | | | | | | | | | |
| Natalka | 150 | 1.7 | 8.2 | 261 | 1.8 | 16 | 148 | 2.1 | 9.9 | 558 | 1.9 | 34 |
| **Total under construction** | **150** | **1.7** | **8.2** | **261** | **1.8** | **16** | **148** | **2.1** | **9.9** | **558** | **1.9** | **34** |
| ***Greenfield projects*** | | | | | | | | | | | | |
| Sukhoi Log | 0 | 0 | 0 | 0 | 0 | 0 | 887 | 2.0 | 58 | 887 | 2.0 | 58 |
| Panimba / Razdolinskoye | 5.0 | 2.3 | 0.36 | 11 | 2.3 | 0.83 | 24.0 | 1.8 | 1.4 | 40 | 2.0 | 2.6 |
| Poputninskoye | 0 | 0 | 0 | 37 | 3.2 | 3.9 | 4.4 | 2.9 | 0.42 | 42 | 3.2 | 4.3 |
| Zmeinoye | 0 | 0 | 0 | 0.93 | 5.0 | 0.15 | 2.0 | 4.5 | 0.28 | 2.9 | 4.6 | 0.43 |
| Chertovo Koryto | 0 | 0 | 0 | 67 | 1.5 | 3.3 | 7.8 | 1.3 | 0.33 | 75 | 1.5 | 3.6 |
| Bamskoye | 0 | 0 | 0 | 15 | 1.8 | 0.9 | 5.1 | 1.6 | 0.26 | 20 | 1.8 | 1.1 |
| Degdekan | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Burgakhchany | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Zapadnoye[4] | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| Medvezhy[5] | 0 | 0 | 0 | 0 | 0 | 0 | 6.5 | 1.8 | 0.38 | 6.5 | 1.8 | 0.38 |
| **Total greenfield projects** | **5.0** | **2.3** | **0.36** | **131** | **2.1** | **9.0** | **937** | **2.0** | **61** | **1,073** | **2.0** | **70** |
| **Total** | **219** | **1.6** | **11** | **1,652** | **1.7** | **92** | **1,429** | **2.0** | **91** | **3,301** | **1.8** | **193** |

1. The estimates for all deposits are presented on a 100 per cent basis.
2. For the Alluvials, cubic meters ($m^3$) have been converted to tonnages using the general bulk density factor of 1.85 $t/m^3$ strictly for the purpose of the summary accumulations. Gold grades have been adjusted from $g/m^3$ to g/t, accordingly.
3. Including the Smezhny deposit.
4. Adjacent to the Sukhoi Log deposit.
5. Adjacent to the Verninskoye deposit.

The map below shows the location of the Group's operating mines and development and exploration projects.



**History of the Group**

In 2002, OJSC MMC Norilsk Nickel ("**Norilsk Nickel**") acquired JSC Polyus, which held various gold mining assets in the Krasnoyarsk region of Russia, with its principal producing asset being the Olimpiada deposit. In 2003, JSC Polyus acquired the license to develop the Titimukhta deposit. In 2004, JSC Polyus completed the acquisition of a controlling interest in OJSC Lenzoloto (combining alluvial mining operations in the Irkutsk region of Russia) and JSC Matrosova Mine (owner of the Natalka deposit license in the Magadan region of Russia). In 2004-2005, JSC Polyus completed a number of license acquisitions, including the Panimba, Chertovo Koryto, Verninskoye and Bamskoye deposits. In August to September 2005, JSC Polyus further expanded its gold mining assets through the acquisition of JSC Aldanzoloto GRK (with the principal asset being the Kuranakh deposit), OJSC YMC and JSC South-Verkhoyansk Mining Company (owner of the Nezhdaninskoye deposit license) in the Republic of Sakha (Yakutia) region in Russia.

In March 2006, Norilsk Nickel spun off the gold mining business of JSC Polyus by transferring all of the shares of JSC Polyus, together with a cash contribution of RUB 10 billion (approximately US$360 million at the time), to PJSC Polyus, a newly formed Russian open joint stock company, as part of a spin-off of Norilsk Nickel's gold mining business. In May 2006, the shares of PJSC Polyus (at that time OJSC Polyus Gold) were admitted to listing and trading on the RTS and MICEX stock exchanges (which merged in 2011 to create the Moscow Exchange). In July 2006, PJSC Polyus established a Level I American depositary receipt ("**ADR**") program, and in December 2006, the ADRs were listed on the Official List of the UKLA and admitted to trading on the London Stock Exchange.

From April to June 2009, entities controlled by Suleyman Kerimov completed the acquisition of a 37 per cent stake in PJSC Polyus (at that time OJSC Polyus Gold) from Interros.

On 9 July 2009, JSC Polyus' subsidiary, Jenington International Inc. ("**Jenington**"), made a partial offer for the shares of KazakhGold Group Limited ("**KazakhGold**") to the shareholders of KazakhGold. The partial offer was declared unconditional on 14 August 2009, following which Jenington became the controlling shareholder of KazakhGold, which held mining assets in Kazakhstan, Kyrgyzstan and Romania.

On 25 July 2011, KazakhGold acquired 89.14 per cent of the issued share capital of PJSC Polyus through a series of transactions, including a private exchange offer by KazakhGold to holders of PJSC Polyus' securities, as well as option agreements with Jenington and the principal shareholders of KazakhGold. On 26 July 2011, KazakhGold changed its name to 'Polyus Gold International Limited', which became the principal holding company of the Group. Subsequently, PJSC Polyus (then OJSC Polyus Gold) delisted its ADRs from the London Stock Exchange on 20 January 2012. Following a mandatory tender offer by PGIL to the remaining shareholders of PJSC Polyus in accordance with Russian law, PGIL increased its total interest in the issued share capital of PJSC Polyus to 92.95 per cent. In addition, Jenington acquired ADRs representing 2.36 per cent of PJSC Polyus' share capital through a private exchange offer, which were later bought by PGIL.

The Group subsequently sold its assets in Romania, Kazakhstan and Kyrgyzstan in 2012-2013. On 19 June 2012, the entire issued share capital of PGIL was admitted to the Premium Listing Segment of the Official List of the UKLA and to trading on the main market of the London Stock Exchange. On 22 December 2014, PGIL's ordinary shares were admitted to trading on the main market of the Moscow Exchange.

In April 2013, PGIL issued US$750 million guaranteed notes due 2020 with a coupon of 5.625 per cent per annum (the "**2020 Notes**"). On 12 May 2017, PGIL was substituted by the Company as the issuer of the 2020 Notes. Following such substitution, PJSC Polyus executed and delivered to BNY Mellon Corporate Trustee Services Limited a further guarantee by which it acceded as a guarantor

under the 2020 Notes and guaranteed jointly and severally with JSC Polyus the obligations of the Company under the 2020 Notes.

In 2013, Suleyman Kerimov (who was the then beneficiary of 40.22 per cent of the shares in PGIL under a trust arrangement), transferred his beneficial ownership of PGIL to the Suleyman Kerimov Foundation (the "**Foundation**"), a Swiss charitable fund. In 2014, Said Kerimov was named as a second beneficiary under the trust arrangement. On 28 November 2016, the relevant trust arrangements were amended, such that the Foundation ceased to be a beneficiary and Said Kerimov remained the sole beneficial owner of PGIL. As of the date of this Prospectus, Said Kerimov remains the sole beneficial owner of PGIL.

On 1 September 2015, the board of directors of PGIL received an unsolicited, conditional, and indicative proposal from Sacturino Limited, a wholly-owned subsidiary of Wandle Holdings Limited. The proposal envisaged an offer comprising US$2.97 per share in cash for all of the issued and to-be-issued share capital of PGIL not already owned or controlled by Sacturino Limited or its affiliates. A cash offer to acquire the issued and to-be-issued share capital of PGIL that Sacturino Limited or Wandle Holdings Limited did not already own or have an interest in, at a price of US$2.97 per share (the "**Offer**"), was announced on 30 September 2015. The Offer became wholly unconditional on 4 November 2015 and closed on 17 November 2015. On 3 December 2015, following the completion of the acquisition of PGIL by Sacturino Limited, the cancellation of the listing and the admission to trading of PGIL's shares from the London Stock Exchange took effect. PGIL's ordinary shares were also delisted from the Moscow Exchange. On 17 December 2015, Sacturino Limited completed a mandatory squeeze-out of PGIL's shares and, together with Wandle Holdings Limited, acquired 100 per cent of PGIL's share capital. Following this transaction, PJSC Polyus (still at that time OJSC Polyus Gold) became the principal holding company for the Group and was renamed 'PJSC Polyus'. The Group remained public with PJSC Polyus retaining its listing on the Moscow Exchange.

***Recent Developments***

On 13 April 2016, the listing of PJSC Polyus' shares on the Moscow Exchange was upgraded to the First Level and, effective from 16 June 2016, the Moscow Exchange approved the inclusion of PJSC Polyus' ordinary shares in the RTS and MICEX indices.

As of 1 May 2016, the competence of the sole executive bodies of JSC Polyus and certain of its subsidiaries were transferred to a wholly-owned subsidiary of PJSC Polyus, Management Company Polyus Limited Liability Company ("**MC Polyus LLC**") in order to streamline the management of the Group and for the Group to have direct operating control over the mining subsidiaries, in addition to the corporate control exercised by the shareholders and board of directors of such subsidiaries. MC Polyus LLC is currently fulfilling the functions of the sole executive bodies of these companies under management agreements entered into among MC Polyus LLC and each of the companies. Members of the senior management of JSC Polyus were transferred to similar positions at MC Polyus LLC and Pavel Grachev was appointed as General Director of MC Polyus LLC.

Also in May 2016, PJSC Polyus completed a share buyback whereby LLC Polyus-Invest, an indirect wholly-owned subsidiary of PJSC Polyus, acquired 31.75 per cent of PJSC Polyus' share capital for RUB 244,656 million, which was equivalent to US$3.44 billion at the official exchange rate of the CBR. PGIL participated in the buyback, selling approximately 31.59 per cent of PJSC Polyus' share capital to LLC Polyus-Invest. In addition to the share buyback, on 30 September 2016, the Group obtained from PGIL 4,476,853 ordinary shares representing 2.35 per cent of PJSC Polyus' share capital, with the proceeds used for the settlement of loans and accrued interest in the amount of US$269 million.

In September 2016, PJSC Polyus' Extraordinary General Meeting voted on the issuance of 28,594,162 authorized and non-issued ordinary shares, each with a par value of 1.00 rouble.

In October 2016, PGIL issued US$500 million guaranteed notes due 2022 with a coupon of 4.699 per cent per annum (the "**2022 Notes**"). On 13 February 2017, under the terms and conditions of the 2022 Notes, which are guaranteed by JSC Polyus, and the respective trust deed entered into by and among PGIL, JSC Polyus and BNY Mellon Corporate Trustee Services Limited, dated 26 October 2016, PJSC Polyus executed and delivered to BNY Mellon Corporate Trustee Services Limited a further guarantee by which it acceded as a guarantor under the 2022 Notes and guaranteed jointly and severally with JSC Polyus the obligations of PGIL under the 2022 Notes. On 30 May 2017, PGIL was substituted by the Company as the issuer of the 2022 Notes.

On 22 December 2016, PJSC Polyus' Extraordinary General Meeting approved the reorganization of PJSC Polyus in the form of a merger of LLC Polyus-Invest, a then subsidiary of PJSC Polyus, into PJSC Polyus and the decrease of PJSC Polyus' charter capital by way of cancellation of 63,082,318 shares of PJSC Polyus then held by LLC Polyus-Invest following completion of the merger. The merger and subsequent cancellation of PJSC Polyus' shares were completed on 7 April 2017 and 10 April 2017, respectively. Prior to the completion of the merger, PJSC Polyus' share capital consisted of 190,627,747 shares. Following the completion of the merger and cancellation of 63,082,318 shares held by LLC Polyus-Invest, the share capital of PJSC Polyus was decreased by 63,082,318 shares. PJSC Polyus has not cancelled the 1,913,200 shares that it received from LLC Polyus-Invest in the merger. Currently, approximately 1.6 million of such shares are being held by PJSC Polyus as treasury shares primarily for general corporate purposes, including possible sale and the LTIP. During the nine months ended 30 September 2017, 290,049 treasury shares were used as proceeds for the 3.8 per cent increase in the Group's holding in the share capital of SL Gold.

In February 2017, PGIL issued US$800 million guaranteed notes due 7 February 2023 with a coupon of 5.250 per cent per annum (the "**2023 Notes**"). On 28 April 2017, PGIL was substituted by the Company as the issuer of the 2023 Notes. Following such substitution, PJSC Polyus executed and delivered to BNY Mellon Corporate Trustee Services Limited a further guarantee by which it acceded as a guarantor under the 2023 Notes and guaranteed jointly and severally with JSC Polyus the obligations of the Company under the 2023 Notes.

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

On 12 May 2017, PGIL was substituted by the Company as the issuer of the 2020 Notes.

On 31 May 2017, PGIL entered into an agreement with a consortium led by Fosun International Limited for the sale of 12,561,868 shares of PJSC Polyus, representing 10 per cent of PJSC Polyus' share capital, excluding treasury shares, to the consortium, together with an option to acquire, subject to completion of the acquisition of such initial 10 per cent stake, an additional number of shares to bring its stake in the share capital of PJSC Polyus up to 15 per cent of PJSC Polyus' share capital (the "**Fosun Agreement**"). PGIL also agreed to sell 354,095 shares of PJSC Polyus to a subsidiary of the Russian Direct Investment Fund.

On 30 June 2017, American Depositary Shares and Global Depositary Shares representing ordinary shares of PJSC Polyus were admitted to the Official List of the UKLA and to trading on the London Stock Exchange. In connection with the listing, PJSC Polyus made an offering of 12,910,081 of its ordinary shares in the form of shares and Global Depositary Shares, including through the facilities of the London Stock Exchange and the Moscow Exchange, raising approximately US$858 million

(US$400 million of such proceeds were attributable to PJSC Polyus, with the remaining US$458 million attributable to PGIL as selling shareholder) after the exercise of the over-allotment option.

On 15 January 2018, PGIL announced that the Fosun Agreement had been terminated. The Fosun Agreement was terminated due to non-satisfaction of a condition precedent pursuant to the terms of the Fosun Agreement. After the condition precedent was not satisfied, the parties discussed further options, but did not reach a consensus, following which PGIL proposed to terminate the Fosun Agreement. The parties agreed to terminate the Fosun Agreement, including the option for the consortium to acquire an additional 5 per cent of PJSC Polyus' share capital pursuant to the Fosun Agreement. Following the termination of the Fosun Agreement, the shareholding structure of PJSC Polyus has not changed. See the section headed "*Principal Shareholder*" of this Prospectus.

On 19 January 2018, PJSC Polyus announced that it has priced an offering of US$250 million principal amount of senior convertible bonds due 2021, issued by the Company and guaranteed by JSC Polyus and PJSC Polyus (the "**Bonds**"). The Bonds will pay a coupon of 1%. Subject to a cash settlement option at the discretion of the Company, the Bonds are convertible into Regulation S Global Depositary Receipts (the "**GDRs**") representing ordinary shares of PJSC Polyus listed on the London Stock Exchange. The initial conversion price has been set at US$50.0427 per GDR. Subject to certain conditions being met, the Company will have the option to require an early redemption of the Bonds following the second anniversary of the issue date, at their principal amount plus accrued interest. Settlement of the convertible bond offering is expected to occur on or around 26 January 2018. The net proceeds of the issue will be used primarily for debt refinancing and for the general corporate purposes of the Group.

***Sukhoi Log***

On 21 February 2017, following an auction process instituted by the Russian Government, the Rosnedra issued a license for the development of the Sukhoi Log deposit, one of the 30 largest gold mineral deposits globally in terms of resources according to Metals Focus' Gold Focus 2016 report, to SL Gold. The payment by SL Gold of a one-off license fee in the amount of RUB 9,406 million was financed by the Group.

As of the date hereof, JSC Polyus holds a 58.4 per cent participation interest in SL Gold, with the remaining 41.6 per cent participation interest held by RT (see "*Risk Factors–The development of Sukhoi Log is subject to risks*"). Pursuant to the terms of a shareholders' agreement between JSC Polyus and RT, dated 16 December 2016, in respect of SL Gold, JSC Polyus, as a shareholder of SL Gold, will be responsible for developing and operating the Sukhoi Log deposit. Under the terms of the shareholders' agreement, JSC Polyus is entitled to nominate for appointment the CEO of SL Gold.

The Group may in the future consider further increasing its stake in SL Gold, including through a number of option agreements entered into between JSC Polyus and RT on 16 December 2016, pursuant to which JSC Polyus intends to increase its stake in SL Gold by 20.3 per cent (initially, 23.9 per cent prior to the exercise of the first option on 25 May 2017) of participation interest within the next five years (with the right to accelerate) at the following prices totaling approximately US$118.1 million (US$138.9 million together with the price of the first option):

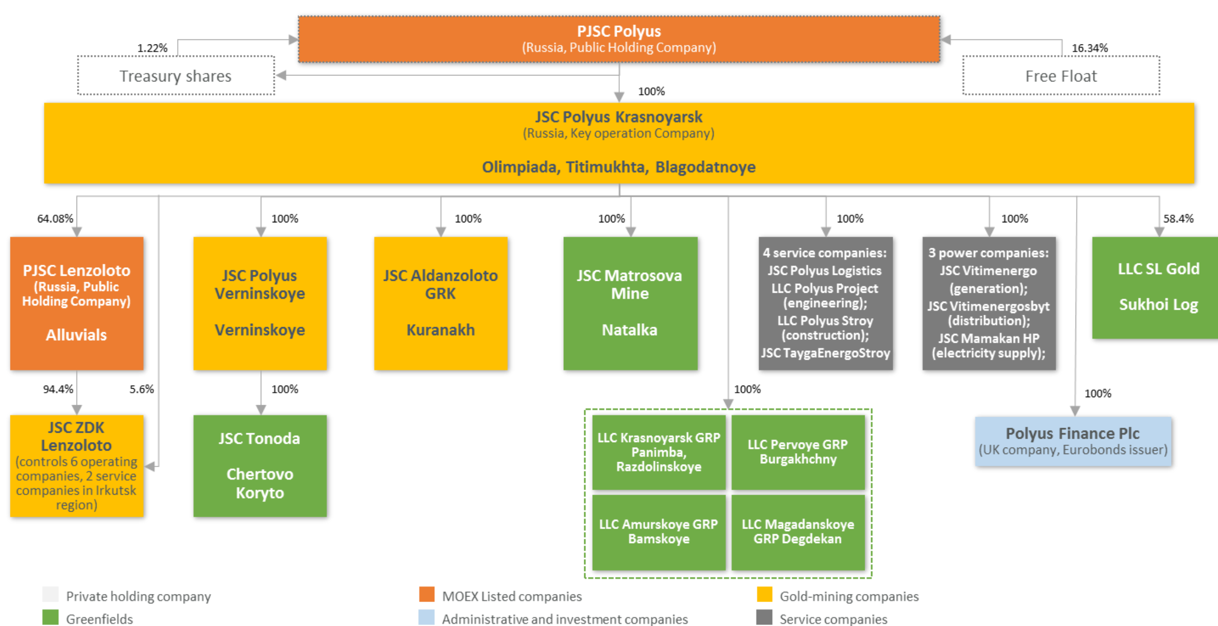
- approximately US$20.8 million for 3.6 per cent of participation interest in the first half of 2017 (exercised on 25 May 2017);
- approximately US$27.8 million for 4.8 per cent of participation interest at the beginning of 2019;
- approximately US$27.8 million for 4.8 per cent of participation interest at the beginning of 2020;

- approximately US$27.8 million for 4.8 per cent of participation interest at the beginning of 2021; and
- approximately US$34.7 million for 5.9 per cent of participation interest at the beginning of 2022.

A further set of option agreements were entered into between JSC Polyus and RT on 11 July 2017, pursuant to which JSC Polyus intends to increase its stake in SL Gold by a further 21.3 per cent (initially, 25.1 per cent prior to the exercise of the first option of the additional set of options) of participation interest within the next five years (with the right to accelerate) for total consideration of approximately US$123.9 million (US$146 million together with the price of the first additional option), payable in PJSC Polyus' shares. In July 2017, the Group exercised the first additional option for US$22 million, paid in PJSC Polyus' treasury shares, for 3.8 per cent of participation interest.

## Group Structure

The structure chart below sets out the corporate structure of the Group's principal subsidiaries as at the date of this Prospectus.




## Strengths

The directors of the Company believe that the Group's competitive strengths include:

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

With 2017 production of approximately 2.1 million ounces and 71 million ounces of Proved and Probable Ore Reserves, the Group is the largest gold mining company in Russia by both production and reserves, according to Metals Focus' Quarterly Gold Mine Cost Service report dated 24 February 2017. The Group is also the eighth largest gold company globally in terms of production, based on the Metals Focus Quarterly Gold Mine Cost Service report and publicly available reports, and is the second largest gold company globally in terms of attributable gold reserves (excluding Sukhoi Log), based on the latest reserves and resources statements of other gold mining companies. The Group benefits from an average mine life of approximately 34 years based on attributable 2017 production volumes, which is over two times higher than the average mine life of its top ten global peers. All of the Group's mines are open pit and have an average reserve grade of 1.8 g/t (2.0 g/t excluding heap leaching and the Group's alluvial operations). Because of its strong foothold in, and commitment to, the Russian market, the Group believes that it is well-positioned to capitalize on existing and future opportunities in the region and 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 optimization and project development, achieving a 30 per cent increase in production from 2013 to 2017, the Group believes that the Group 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 approximately 2.1 million ounces in 2017 to approximately 2.8 million ounces in 2019, representing 34 per cent growth and a 15 per cent CAGR. Approximately 420-470 thousand

ounces per annum (average over the life of mine) are expected after the ramp up of the Natalka operations, where production was launched at the end of 2017 and is expected to be ramped up by the end of 2018. Further gold production growth is expected from the expansions and further debottlenecking measures at Olimpiada, Blagodatnoye, Verninskoye and Kuranakh. Given its comfortable liquidity position and experience in asset development, the Group believes that the Group is well-positioned to bring its existing development projects into production. As the Group has received the license for the Sukhoi Log deposit, the subsequent development of the Sukhoi Log deposit, one of the Group's mid-term projects, is expected to enhance significantly the Group's existing production growth profile.

***A leading low-cost profile, with sustainable cost advantage as 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 on-going operational efficiency initiatives undertaken by current management between the end of 2013 and 2016. As a result, the Group's average TCC/oz and average AISC/oz of US$380/oz and US$606/oz in the nine months ended 30 September 2017, respectively, are in the first decile of the 2017 global cost curves, having moved from the fifth decile of the global cost curve, according to Metals Focus' Quarterly Gold Mine Cost Service report dated 28 November 2017. Furthermore, in 2014, as part of its focus on operational excellence and cost discipline, the Group launched the TOP to incentivize the implementation of capital expenditure-light operational improvements across its business. The TOP's objective is to introduce quick 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. In 2016, operational efficiency measures generated US$134 million in total adjusted EBITDA improvements. From 2013 to 2016, adjusted EBITDA increased by 68 per cent from US$917 million to US$1,536 million. The Group intends to retain its status as one of the lowest-cost gold producers globally.

***Extensive and successful experience in asset development and optimization***

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 with Blagodatnoye and Verninskoye. Construction of Blagodatnoye, which is one of the largest Russian exploration projects developed in the last decade and which contributed 23 per cent of the Group's output in 2016, was completed in two years from its greenfield state, including commissioning all the supporting infrastructure. In addition, the current management team has demonstrated strong capabilities in optimizing and debottlenecking existing operations. Following a number of targeted improvements in mining and processing technologies, cash costs, recovery rates and throughput capacity have improved substantially at Olimpiada, Blagodatnoye, Kuranakh and Verninskoye. Also, most of the brownfield development projects identified in the Strategic Asset Review Program either had already been completed by the end of 2017 or are expected to be finalized in the near future, facilitating an increase in production of 30 per cent to 2.1 million ounces in 2017 as compared to 2013.

***Ability to efficiently expand resource base***

Because of its strong foothold in, and commitment to, the Russian market, the Group believes that it is well-positioned to capitalize on existing and future opportunities in the region and has a competitive advantage in bidding for new licenses and assets. On 21 February 2017, the Rosnedra issued a license for the development of the Sukhoi Log deposit to SL Gold, a company established by JSC Polyus and RT. The Sukhoi Log deposit is one of the 30 largest gold mineral deposits globally in terms of reserves, according to Metals Focus' Gold Focus 2016 report. Total Inferred Mineral Resources at

Sukhoi Log were estimated at 58 million ounces with an average grade of 2.0 g/t in accordance with the JORC Code.

**Strategy**

The Group's strategy is to create value by focusing on growing organically through the execution of expansion projects and the construction and launch of projects at new deposits that the Group owns. By pursuing this strategy, the Group seeks to provide investors with access to a company capable of generating industry-leading shareholder returns, while maintaining a commitment to operational excellence and its social and environmental responsibilities. The Group's current corporate strategy focuses on the following aspects:

- ***Maintain and Expand Extensive Reserve and Resources Base***: The Group is operating in the gold-rich CIS region. According to Metals Focus' "Gold Focus 2016" report, the Group successfully operates and develops two of three Russian deposits included in the list of the 30 largest gold assets globally in terms of resources, Olimpiada and Natalka. With the acquisition of the license for the Sukhoi Log deposit, which is the third Russian deposit included in the list, the Group further enhanced its operational profile. Moreover, the Group is the largest gold mining company in Russia by reserves, according to Metals Focus' Quarterly Gold Mine Cost Service report dated 24 February 2017, and the second largest gold company globally in terms of attributable gold reserves, based on the latest reserves and resources statements of other gold mining companies, with 71 million ounces of Proved and Probable Ore Reserves. The Group's operations are supported by an average mine life of approximately 37 years based on attributable 2016 production volumes (excluding Sukhoi Log).

- ***Pursue Capital-efficient Growth Opportunities***: The Group surpassed its annual production guidance by 5 per cent to 1,696 thousand ounces in 2014 (guidance of 1,580 to 1,650 thousand ounces), 6 per cent to 1,763 thousand ounces in 2015 (guidance of 1,630 to 1,710 thousand ounces), 11 per cent to 1,968 thousand ounces in 2016 (initial guidance range of 1,760 to 1,800 thousand ounces) and 3 per cent to 2,160 thousand ounces in 2017 (guidance of 2,075 to 2,125 thousand ounces). Following a 30 per cent increase in gold production from 2013 to 2017, the Group aims to deliver sustainable organic growth by executing an identified set of brownfield development projects. These projects are expected to enable the Group to extract maximum output from existing assets through targeted expansion and debottlenecking initiatives with high IRRs. Additionally, the Group is developing a large scale greenfield project – Natalka (where production was launched at the end of 2017 and is expected to be ramped up by the end of 2018) – and is exploring Sukhoi Log and Chertovo Koryto. The Group launched additional exploration works and intends to conduct a feasibility study at Sukhoi Log, supported by international mining and engineering consultants. Based on the results of the feasibility study, the Group will evaluate options to initiate construction activities at Sukhoi Log. The Group expects that eventual development of the Sukhoi Log deposit should significantly enhance the Group's existing production growth profile. The development of the Sukhoi Log deposit, along with the Chertovo Koryto deposit as part of the development of the Irkutsk business unit, will comprise the next stage of the Group's growth strategy. One of the main strategic targets for the Group is to bring extensive ounces of reserves into low-cost profitable ounces of production.

- ***Preserve Cost Leadership***: 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 its large scale "Tier 1" assets, which are long-life, large-scale and low-cost assets. The Group also plans to continue implementing operational efficiency initiatives aimed at throughput and recovery rate increase as well as cost reduction.

- ***Striking a Balance Between Shareholder Returns and Optimal Capital Structure:*** The Group has set a dividend policy that is focused on shareholder returns. Under its dividend policy, the Group will pay dividends on a semi-annual basis in an amount of 30 per cent of the EBITDA for the applicable reporting period, provided that the net debt/adjusted EBITDA ratio for the last 12 months based on the consolidated financial statements of the Group is lower than 2.5x, with a minimum dividend payout in respect of each of the years 2017 and 2018 in the amount of US$550 million. With net debt/adjusted EBITDA ratio at 1.9x as of 30 September 2017 and a robust cash generation profile, the Group believes that the Group is well-positioned to maintain leverage below its target threshold. As at the date of the Prospectus, the Group continues to have a comfortable leverage profile with limited repayments in the coming years and a strong cash position, which the Group believes will allow it to meet its financing obligations and the planned capital expenditures program.

- ***Maintain High Standards of Corporate Governance and Corporate Disclosure***: The Group is committed to maintaining high standards of corporate governance and disclosure. The Group's board of directors includes four 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 of directors, former member of the board of directors and Executive Director for Mining and Exploration at De Beers, has over 30 years of experience in the mining industry and currently serves as the Chairman of the board of directors of Alacer Gold, and as a member of the board of directors 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 natural resources industry. William Champion has over 30 years of experience in the mining industry and currently serves on the board of directors of Compañía de Minas Buenaventura, Peru's largest publicly traded precious metals company. Maria Gordon has 20 years of experience in finance and capital markets and currently serves on the board of directors of the Moscow Exchange and Alrosa, the world's largest diamond producer. 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 such Committees are chaired by an independent non-executive director.

- ***Maintain Stringent Health and Safety Standards***: The Group is committed to the best HSE practices and is continuing implementation of a two-year action plan that commenced in 2015 to ensure full compliance with the ICMM Sustainable Development principles. According to the ICMM website, the Group is the only group in Eastern Europe and one of only three companies from emerging markets that is a member of the ICMM. The Group is committed to implement fully the ICMM Sustainable Development principles. The Group's ultimate goal is to achieve a zero fatality rate.

## Operational Performance

The following table shows selected operational data for the periods indicated.

| | *Year ended 31 December* | | | | *Nine months ended 30 September* |
|---|---|---|---|---|---|
| | *2016* | *2015* | *2014* | *2013* | *2017* |
| ***Production*** | | | | | |
| Ore mined (Kt) | 29,682 | 22,012[1] | 29,880 | 34,144 | 27,744 |
| Ore processed (Kt) | 26,445 | 24,824[1] | 23,743 | 22,480 | 20,854 |
| Gold production (Koz) | 1,968 | 1,763 | 1,696 | 1,652 | 1,580 |
| ***Sales*** | | | | | |
| Gold (Koz) | 1,915 | 1,768 | 1,691 | 1,631 | 1,561 |

**Note:**

1. Includes volumes of ore mined at the Poputninskoye deposit.

## Principal Operations

The Group's major gold deposits in Russia are:

- in the Krasnoyarsk region (representing 58 per cent of the Group's total Proved and Probable Ore Reserves and 74 per cent of the Group's total gold production in 2016 (72 per cent in the nine months of 2017)) – the Olimpiada deposit, which is the largest operating gold mine in Russia according to Metals Focus' Quarterly Gold Mine Cost Service report for the third quarter of 2017, and the Blagodatnoye, Titimukhta and Poputninskoye deposits;

- in the Irkutsk region (representing 13 per cent of the Group's total Proved and Probable Ore Reserves (including the Chertovo Koryto deposit) and 18 per cent of the Group's total gold production in 2016 (19 per cent in the nine months of 2017)) – the Verninskoye deposit and Alluvials;

- in the Republic of Sakha (Yakutia) region (representing 6 per cent of the Group's total Proved and Probable Ore Reserves and 8 per cent of the Group's total gold production in 2016 (9 per cent in the nine months of 2017)) – the Kuranakh mine; and

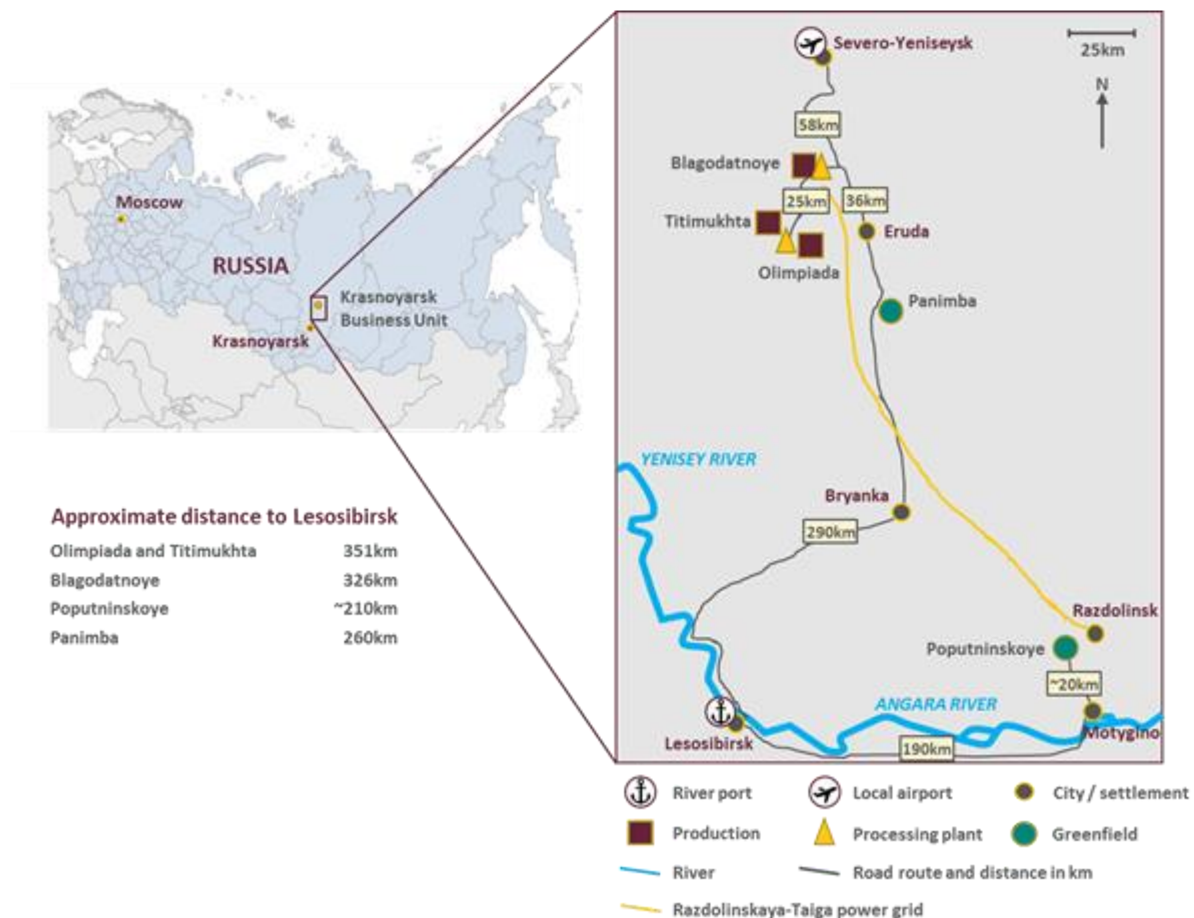
- in the Magadan region (representing 23 per cent of the Group's Proved and Probable Ore Reserves) – the Natalka deposit, where production was officially launched in December 2017, with production expected to be fully ramped-up by the end of 2018.

On 21 February 2017, the Rosnedra issued to SL Gold a license for the development of the Sukhoi Log deposit. The development of Sukhoi Log is expected to be a significant contributor to the Group's long-term strategy.

**Krasnoyarsk Region (Olimpiada and Blagodatnoye business units)**

The Group's operations in the Krasnoyarsk region include the Olimpiada, Blagodatnoye and Titimukhta deposits, of which Olimpiada and Blagodatnoye accounted for 48 per cent and 23 per cent of the Group's total gold production in 2016, respectively. Ore from the Olimpiada deposit is processed at Olimpiada's Mills No. 1, 2 and 3 processing facilities. In 2016, Mill No. 1 started processing Olimpiada ore and mostly ceased processing Titimukhta ore as the Group reoriented its processing facilities. The Blagodatnoye deposit operates its own mill, Mill No. 4. The operations of the Olimpiada and Blagodatnoye business units are located in close proximity, which allows the deposits to share infrastructure, including access to roads and electricity.

The map below shows the location of the Olimpiada and Blagodatnoye business units.




The major power sources for the mines are grid electricity, an on-site coal fired power station and an on-site diesel oil-fired power station. Approximately 59 per cent of the Olimpiada and Blagodatnoye business units' current power demand, depending on the season, is covered via two 110 kV lines from the regional grid. The remaining power is provided by on-site coal fired combined heat and power stations (CHP), which employ 34 MW steam turbines, and an on-site diesel oil-fired power station, which employs 16 MW diesel generator sets.

In 2016, the Group completed the construction of a 228 kilometers power grid (the Razdolinskaya-Tayga grid) as part of its broader strategy towards the development of the Krasnoyarsk business unit. By the end of 2016, the Group finalized the project's execution by connecting the Olimpiada and Blagodatnoye business units with Boguchanskaya heat and power plant ("**HPP**"). These are expected to provide the Olimpiada and Blagodatnoye business units with power at attractive rates and improve the reliability of the power supply. The Razdolinskaya-Tayga grid will also provide the additional power capacity required for the Olimpiada and Blagodatnoye business units' development program,

including the expansion of processing capacities. Following commissioning, the sale of the Razdolinskaya-Tayga grid line to the Federal Grid Company was completed in December 2017 for approximately RUB 6.6 billion (approximately US$113 million at the US$/RUB exchange rate as at 1 December 2017), which will cover the Group's capital expenditure for the project. Payments will be received by the Group in tranches over a 10-year period.

The Olimpiada and Blagodatnoye business units' operations have established logistics for the supply of materials and personnel. The transport services providing support to the Olimpiada and Blagodatnoye business units include general and passenger road transport, rail, ferries and river transport. The majority of the transport infrastructure is owned or maintained by the Group, although certain transport services are also hired, in particular for the longer river routes. Rail and road transshipment is primarily from the Lesosibirsk railhead and base, located on the west bank of the Yenisey River. Materials are ferried across the Yenisey River or barged either to the Nasimovo base located 200 km to the north of Lesosibirsk, or to the Bryanka base 200 km up the Bolshoi Pit River in the Yenisey district. Eruda, the settlement where the employees of the Olimpiada and Blagodatnoye business units reside, is connected by an all-season road to the Lesosibirsk crossing via Bryanka and a winter road to Nasimovo. As the Yenisey crossing is only available during the winter, material stocks are stockpiled at the bases during the spring and autumn, while coal and oil are stockpiled at Nasimovo during the summer before being transported to Eruda during the winter.

In February 2016, the regional government of the Krasnoyarsk region issued a decree allocating a RUB 3.5 billion (approximately US$54 million) subsidy for the renovation of the Episho–Severo-Eniseyskiy transportation road to the Group's assets in the Krasnoyarsk region. The Group is collaborating with the regional government to implement this infrastructure project.

A significant social infrastructure has been established by the Group at Eruda and, to a lesser extent, at Severo-Yeniseysk. At Eruda, this includes housing for shift and construction employees and for senior management.

The Group's research and design services are located in Krasnoyarsk. A modern and well-equipped technical research facility was opened in 2004 and includes the following departments: geotechnical; chemical analysis; mineralogical analysis; mineral processing; and hydrometallurgical processing. The Group's engineering design and project management functions are based in Moscow and Krasnoyarsk.

***Olimpiada***

*1.* *Location and history*

Olimpiada is the largest operating gold mine in Russia. The Olimpiada deposit is located at Eruda, a small community in the Severo-Yeniseysk administrative district (approximately 540 km north of Krasnoyarsk). Access to the deposit is provided by a regular air service from Krasnoyarsk to Severo-Yeniseysk and by an all-weather gravel road and ferry crossing at Lesosibirsk on the Yenisey River, 340 km south of Eruda.

The Olimpiada deposit was discovered in 1975. Between 1983 and 1993, extensive exploration efforts led to the discovery of multiple ore zones. Mining commenced in 1985 with the oxide ore being transported to a toll processing plant in Sovetsky, which is located 80 km from the Olimpiada mine in Severo-Yeniseysk, for gold recovery.

In 1993, reserves and resources of the deposit were booked at the Russian State Reserves Committee. Toll processing continued until 1996, when Mill No. 1, a cyanide leaching plant for treatment of oxidized ore with a capacity of 1.5 million tonnes of ore per annum, was built and full-scale open pit operations commenced at the Olimpiada deposit.

## 2. *Geology and mineralization*

The Olimpiada gold deposit comprises four main mineralized zones: Ore Zones 1, 2 and 3 form the Western (Zapadny) orebody and Ore Zone 4 forms the Eastern (Vostochny) orebody. Ore Zone 4 is the most significant as it contains approximately 90 per cent of the total Mineral Resource at Olimpiada.

Gold mineralization forms two distinct mineralogical and metallurgical types; oxide ore and primary low sulphide, arsenic-antimony ore. Gold mineralization occurs as native gold encapsulated in sulphide minerals, with the gold grain size less than 10 µm and averaging 5 µm. The deportment of gold is estimated as: 35 per cent in arsenopyrite; 40 per cent in quartz; 15 per cent in pyrite; and 5 per cent in stibnite.

## 3. *Reserves and resources*

Total Proved and Probable Ore Reserves at Olimpiada as at 31 December 2016 were estimated to be 316 mt of ore, grading 3.0 g/t gold for 30 moz of contained gold as classified and reported according to the JORC Code.

Total Measured and Indicated and Inferred Mineral Resources, including stockpiles, at Olimpiada as at 31 December 2016 were estimated at 474 mt of ore, grading 3.0 g/t gold for 46 moz of contained gold as classified and reported according to the JORC Code.

## 4. *Mining*

The Olimpiada mine comprises of two open pits, the Vostochny Pit (Eastern Pit) and the Zapadny Pit (Western Pit). The Group extracts ore at Olimpiada primarily through open pit mining at the Vostochny pit using conventional excavator and truck techniques. The current pit is 575 meters deep, 1.5 kilometers in length and 1.7 kilometers in width. Mining activity at the previously closed down Zapadny pit was re-commissioned in 2016 in order to sustain the gold grade in the ore fed to the mills. The reserves of oxidized ores at the Olimpiada deposit had been fully depleted by the end of 2007, and the Group has been mining only sulphide ore since that date.

According to the Group's current life of mine plan, the mine life of Olimpiada allows for 14 years of open pit mining and 16 years of underground mining. The combined open pit and underground operations are expected to have sufficient ore to feed the Olimpiada processing complex at 11.7 mtpa for approximately 31 years until 2048.

The mine utilizes a fleet of Russian and Western mining equipment supplied by a variety of different manufacturers, consisting of: 11 drilling units, including SBSh-250MH, Atlas Copco DML, PV-275 or ROC L8 drill rigs, 22 digging units, including IZ-Kartex EKG10 electric rope shovels, Komatsu PC1250, PC2000 and PC3000 hydraulic face shovels, 117 hauling units including Caterpillar 777 and 785, Terex MT3300, Komatsu 830E and BelAZ 7540 trucks.

## 5. *Processing*

Ore is transported to the processing facilities by truck. The Olimpiada processing facility comprises of three processing plants – Mill No. 1, Mill No. 2 and Mill No. 3.

The tailings storage facility is located approximately one km from the plants. The dam is constructed from waste rock, with a clay core. In the summer, tailings are discharged from the dam onto the beach from numerous spigots. In the winter, the tailings are discharged under the ice. Potable water is extracted from five wells under permit within the Olimpiada production site.

Mill No. 1 was built in 1996 with an annual capacity of 1.5 million tonnes of ore and initially processed ore from the Olimpiada Zapadny open pit. The modernization of Mill No. 1 for processing ores from Titimukhta was completed in 2009, increasing its capacity to 2.2 million tonnes of ore per annum. In May 2012, the Group completed the expansion of capacity to 2.4 million tonnes of ore per annum at Mill No. 1. As part of the Olimpiada and Blagodatnoye business units' production flows optimization, Mill No. 1 was reconfigured in order to process higher grade sulphide ore from the Olimpiada deposit instead of oxidized ores from Titimukhta, with a new flotation circuit being added to spare areas inside the existing mill complex. Due to the physical properties of Olimpiada ore, the processing capacity of Mill No. 1 was increased from 2.4 to 3.0 million tonnes of ore per annum. This project, which was identified as a prospective brownfield development project during the Strategic Asset Review, was completed in September 2016, on time and on budget, resulting in approximately an additional 160 thousand ounces of incremental gold production on an annualized basis. The capital expenditure for the reconfiguration project was US$19 million.

Mill No. 2, which has an annual capacity of 3.5 million tonnes, was built in 2001, while Mill No. 3, which has an annual capacity of 5.0 million tonnes, began operations in 2007.

The Mill No. 1 key processing stages include jaw crushing, semi-autonomous grinding ("**SAG**") and ball milling, gravitation, flotation of sulphide minerals, bio-oxidation, cyanide leaching of gold, carbon-in-leach ("**CIL**") for flotation concentrate and resin-in-pulp ("**RIP**") technology for flotation tailings, electrowinning and doré smelting.

The Mill No. 2 and Mill No. 3 key processing stages include crushing, milling with a SAG mill and two ball mills in parallel, gravitation, flotation of sulphide minerals, bio-oxidation, CIL for flotation concentrate and RIP technology for flotation tailings, electrowinning and doré smelting.

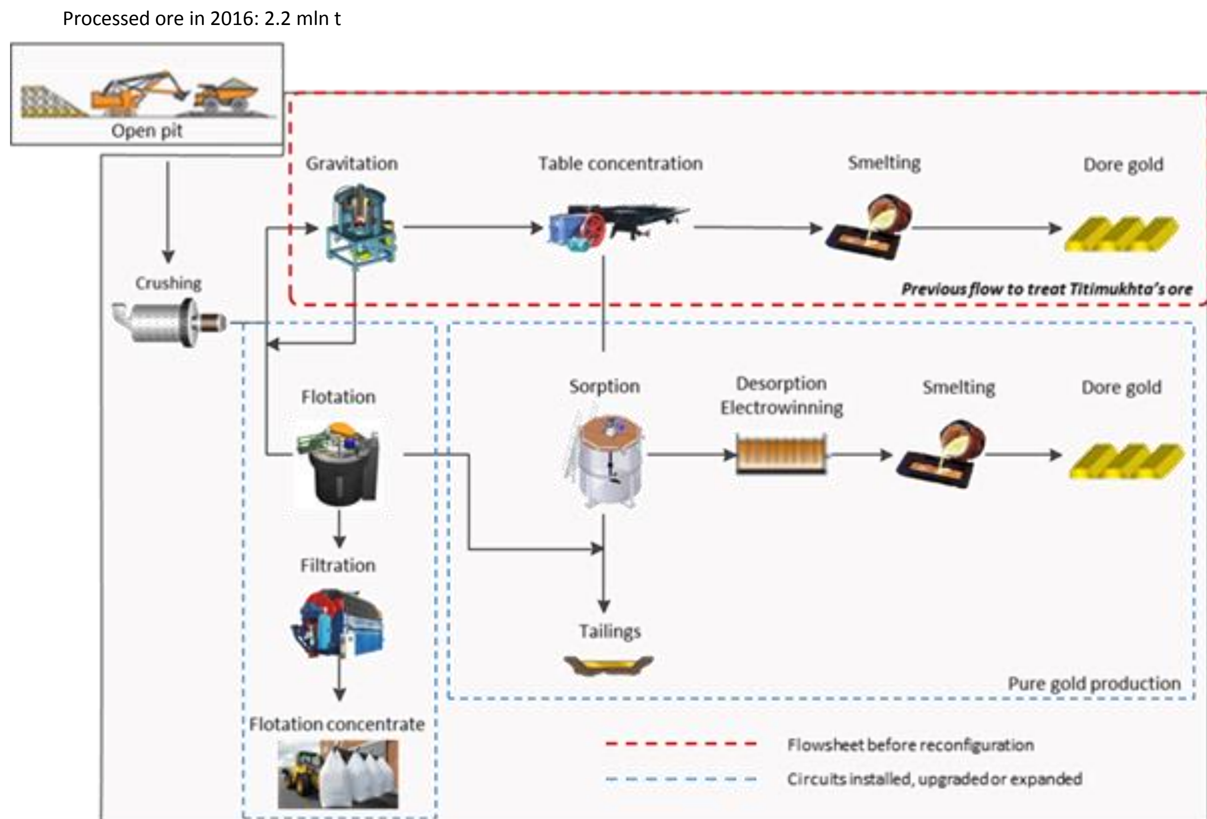
The Olimpiada processing facility employs a proprietary JSC Polyus' BIONORD® bio-oxidation process – the oxidation of sulphide minerals by bacterial action – rendering the minerals amenable to leach extraction of the metals contained in the ore. Mill No. 2 and Mill No. 3 produce 437,000 tonnes of flotation concentrate per annum that is treated at the BIO-1, -2 and -3 facilities. The BIO process has resulted in gold recovery rates of approximately 93 per cent, as compared to the 30-40 per cent recovery rates generated from direct cyanidation. The processing of ores from Olimpiada with a higher antimony content at Mill No. 1 allows for the production of antimony concentrate, which opens potential long-term options for the sale or further treatment of the antimony concentrate to pure antimony ingots (approximately 12 ktpa), while also improving BIO recoveries.

In 2012-2015, the Group implemented a number of projects to improve the efficiency of the BIO-1, -2 and -3 facilities. The BIO-3 facility was launched in the third quarter of 2012, involving the construction of six additional bio-oxidation reactors; two blending stations for flotation concentration with a capacity of 1,000 m3 each were launched in the second quarter of 2014; and the BIO-automation project was launched at the end of 2014 and beginning of 2015.

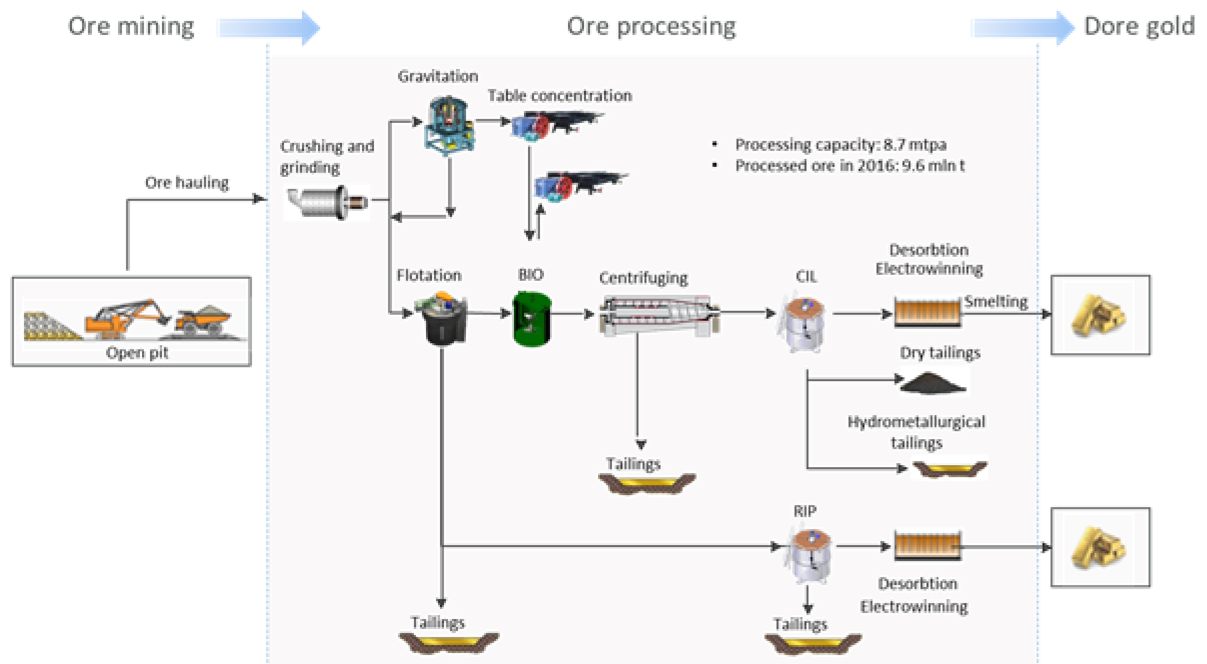
Following reconfiguration of Mill No. 1 and debottlenecking of Mills No. 2 and 3, the existing BIO capacities would not be sufficient to process the additional volumes of flotation concentrate produced in excess of the current throughput capacity of 437 ktpa at the BIO-1, -2 and -3 facilities. With a view to processing additional flotation concentrate, four units of an additional BIO circuit (BIO-4) were launched by the end of 2017 at the Mills No. 1, 2 and 3 complex, with the remaining four units expected to be launched in 2018. The Group expects the combined throughput capacity of BIO-4 to be at 74 ktpa of concentrate.

## 6. *Flowchart*

A processing flowchart for Olimpiada’s Mill No. 1 is set forth below.




A processing flowchart for Olimpiada’s Mill No. 2 and 3 is set forth below.



## 7. *Operational results*

The table below presents an overview of the Group's operations at the Olimpiada mine and processing facilities.

| | *Year ended 31 December* | | | *Nine months ended 30 September* |
|---|---|---|---|---|
| | ***2016*** | ***2015*** | ***2014*** | ***2017*** |
| ***Mining*** | | | | |
| Total rock moved (kt) | 51,917 | 60,317 | 65,130 | 51,958 |
| Strip ratio (t/t) | 4.3 | 20.7 | 9.8 | 4.8 |
| Ore mined (kt) | 9,782 | 2,777 | 6,005 | 9,035 |
| Average grade in ore mined (g/t) | 3.37 | 2.67 | 3.68 | 4.15 |
| ***Processing*** | | | | |
| Ore processed (kt) | 11,336 | 9,506 | 8,526 | 9,302 |
| Head grade (g/t) | 3.31 | 3.18 | 3.63 | 3.75 |
| Gold recovery (%) | 81.0 | 80.1 | 75.9 | 80.9 |
| Gold production (koz)[(1)] | 943.4 | 760.0 | 735.7 | 851.3 |

**Note:**

1. Includes refined gold and gold contained in concentrate.

In 2016, the Group mined 9,782 thousand tonnes of ore at Olimpiada, as compared to 2,777 thousand tonnes of ore in 2015, an increase of 252 per cent due to planned growth in mining works after a prolonged period of extensive stripping works to conduct a pit cut back. Following the Vostochny pit wall failure at Olimpiada in May 2016, the Group initiated an intensified localized cutback of the southern pit wall as part of the pit's scheduled expansion. The cut back is not expected to have a major impact on the total volumes of stripping works within the pit. In order to increase the gold grade in the ore fed to the mills, mining activity at the previously closed down Zapadny pit has been re-commissioned. In 2015, ore mined volumes at Olimpiada decreased by 54 per cent, as compared to ore mined volumes in 2014 of 6,005 thousand tonnes due to extensive stripping works to cut back the pit and ore being mined only in the cutback zone. The stripping ratio was at an average of 4.3 t/t in 2016, as compared to 20.7 t/t in 2015 and 9.8 t/t in 2014, a decrease of 79 per cent and an increase of 111 per cent, respectively, reflecting the planned cutback initiative in 2015 and in the first quarter of 2016. At the same time, the average grade in ore mined was 3.37 g/t in 2016, 2.67 g/t in 2015 and 3.68 g/t in 2014.

In 2016, the Group processed 11,336 thousand tonnes of ore at Olimpiada, as compared to 9,506 thousand tonnes of ore in 2015, an increase of 19 per cent despite reduced hourly throughput at Mill No. 2 and reflecting the results of the reconfiguration of Mill No. 1, which was completed in September 2016 and started processing Olimpiada ore. In 2015, ore processed volumes increased by 11 per cent, as compared to ore processed volumes in 2014 of 8,526 thousand tonnes of ore, due to increased feed from ore stockpiles. Mills No. 2 and 3 operated above their nameplate capacities. The processing figures for 2016, 2015 and 2014 include ore purchased from the Veduga mine under an off-take agreement, with 551 thousand tonnes purchased (4.9 per cent of ore processed) in 2016, 50 thousand tonnes purchased (0.5 per cent of ore processed) in 2015 and 249 thousand tonnes purchased (2.9 per cent of ore processed) in 2014.

From 2014 to 2016, the Group implemented a number of measures to improve recoveries at Olimpiada Mills Nos. 1, 2 and 3, including optimization of flows in the technological scheme of the hydrometallurgical department and reactant supply process, modernization of the flotation circuit equipment and oxygen complex, stabilization of the chemical composition of flotation concentrate before feeding BIO and the sorption process, reduction of gold losses through the capture of non-conforming coal sorbent, additional recovery of gold from recycled water and the introduction of automatic surge tanks as part of the BIO process. Furthermore, the Group reduced gold losses in the sorption process by capturing non-conforming coal sorbent and stabilizing the chemical composition

of flotation concentrate. As a result, recoveries at Olimpiada Mills Nos. 2 and 3 increased to 81.0 per cent in 2016 from 75.9 per cent in 2014.

In 2016, Olimpiada produced 943.4 thousand ounces of gold, as compared to 760.0 thousand ounces of gold in 2015, an increase of 24 per cent, due to higher recoveries and increased volumes of ore processed. For the same reasons, gold production increased by 3 per cent in 2015, as compared to 735.7 thousand ounces in 2014, due to an increase in ore processing volumes and a higher recovery rate, despite a decrease in head grade.

In 2017, Mill No. 2 had an average hourly throughput of 488 tonnes per hour and Mill No. 3 had an average hourly throughput of 753 tonnes per hour.

The Group plans to implement a number of additional measures to improve recoveries at Olimpiada, including higher-temperature leaching at Mill No. 3 with the introduction of sodium hydroxide at 90°C to 95°C to sorption for lower gold losses, and modernization and further automation of desorption, reactivation and oxidation equipment.

***Blagodatnoye***

*1.* *Location and history*

The Blagodatnoye deposit is located in the Severo-Yeniseysk administrative district of the Krasnoyarsk region (540 km north of Krasnoyarsk). The project is located 25 km north of the Olimpiada mine at Eruda and 35 km south of the town and district center of Severo-Yeniseysk. Access to Eruda and Severo-Yeniseysk is by all-weather gravel road. The proximity of the Blagodatnoye deposit to the Olimpiada mine allows the full use of the existing Olimpiada infrastructure, including utilities, support infrastructure and services. Vehicle maintenance is provided primarily by the facilities at Olimpiada, although limited facilities are available at the mine for immediate requirements.

The Blagodatnoye gold deposit was first discovered in 1966 when the Northwest orebody was mapped on the surface. Subsequent exploration between 1973 and 1976 confirmed the presence of gold mineralization in the Northwest orebody. In 2000, the Group obtained the license for Blagodatnoye. The Group continued exploration between 2000 to 2004 and located the Southeast orebody, which has subsequently proved to be significantly larger than the Northwest orebody.

In 2005, the Group obtained the state registration of the Blagodatnoye reserves and, in November 2007, the board of directors of PJSC Polyus approved the construction of an open pit mine to exploit the license. In 2008, the mining pilot at the Blagodatnoye deposit was launched and, in July 2010, the Group commissioned Mill No. 4 at the Blagodatnoye deposit with a nameplate capacity of 6 mtpa.

*2.* *Geology and mineralization*

The Blagodatnoye gold deposit comprises of two main mineralized zones connected along strike by low-grade mineralization: the Southeast orebody and the Northwest orebody, with the Southeast orebody being significantly larger than the Northwest orebody.

The mineralization is hosted by a tectonic zone that has a length of approximately 4 km to 4.5 km, with an average thickness of 120 m to 140 m. The Northwest orebody is located to the northwest and includes one major zone, with an approximate strike length of 1.5 km, and approximately 16 smaller zones. The Southeast orebody consists of one major zone with an approximate strike length of 2.2 km and approximately 27 smaller lenticular zones. The Northwest orebody extends down dip up to 500 m. The Southeast orebody extends to 550 m.

Gold mineralization at Blagodatnoye is hosted by schist and quartzite units with sulphide mineralization. The main forms of gold in ores are free, connected with barren minerals and in

aggregates.

*3. Reserves and resources*

Total Proved and Probable Ore Reserves at Blagodatnoye as at 31 December 2016 were estimated to be 223 mt of ore, grading 1.4 g/t gold for 10 moz of contained gold as classified and reported according to the JORC Code.

Total Measured and Indicated and Inferred Mineral Resources at Blagodatnoye as at 31 December 2016 were estimated at 420 mt of ore, grading 1.4 g/t gold for 19 moz of contained gold as classified and reported according to the JORC Code.

*4. Mining*

The Blagodatnoye mine is a single open pit with a smaller north pod and a larger south pod. The Group mines the deposit using an open pit method with surface stockpiling. Run of mine ("**ROM**") ore is directly fed to the processing plant, with excess material stockpiled being generally low-grade material. The stockpiles are re-handled to meet any supply requirements during the active mining period.

According to the Group's current life of mine plan, the mine life of Blagodatnoye allows for 18 years of open pit mining until 2034 based on 2016 production volumes.

The mine utilizes a fleet of Russian and Western mining equipment supplied by a variety of different manufacturers, consisting of: two EKG-10 electric rope shovels with a bucket capacity of 10 $m^3$, supplemented by a mixed fleet of Komatsu PC-1250 5 $m^3$ and Komatsu PC-3000 15 $m^3$ bucket capacity diesel hydraulic shovels; and a fleet of BelAZ 7540 (30t) and Caterpillar 785 (136t) and 777 (90t) haul trucks.

*5. Processing*

The Group transfers the ore it mines at Blagodatnoye by truck to its processing plant to recover gold for refinement. The Group's main processing facility is Mill No. 4, commissioned in July 2010, with a nameplate capacity of 6 million tonnes of ore per year.

Storage facilities for consumables and reagent mixing facilities are also present at the facility. The tailings storage facility is located 1 km away from Mill No. 4. The dam is constructed from waste rock with an upstream clay lining.

The Mill No. 4 processing circuit includes primary crushing in a toothed roll crusher, two parallel primary grinding lines with SAG mills and ball mills, a gravity separation circuit followed by intensive leach reactors, flotation of gravity tailings, sorption units and electrowinning facilities to recover gold from concentrate. Tailings are stored at the tailings storage facility located near the plants.

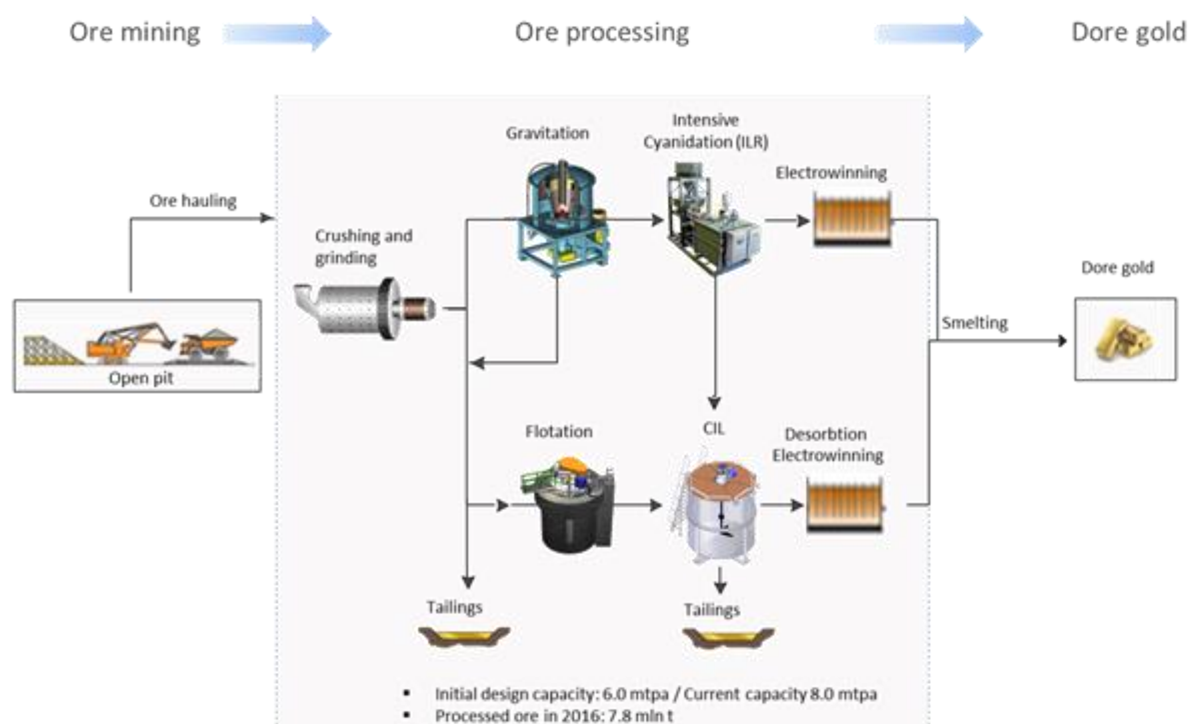
The Blagodatnoye Mill No. 4 has been operating above its nameplate capacity of 6.0 million tonnes of ore per year for the last six years. Prior to 2014, capital expenditure-intensive construction of an additional production line (Mill No. 5) was considered in order to expand the Blagodatnoye processing capacity. During the Strategic Asset Review, an analysis of the production flowsheet showed that it was possible to expand the mill's capacity to 8.0 mtpa at current production lines, without the construction of additional production lines by upgrading and debottlenecking the existing processing flowsheet. The Group has completed the Blagodatnoye Mill No. 4 capacity expansion, reaching 8.1 million tonnes of annualized throughput capacity. The Group is currently evaluating its options for further expansion of the throughput capacity of the Blagodatnoye Mill.

In order to process existing low grade ore with an average grade of 0.9 g/t from stockpiles and in situ material at Blagodatnoye, the Group is considering a heap leaching project with a designed capacity of up to 10 million tonnes of ore per year. PJSC Polyus has engaged international engineering consultancy companies to assist in executing a pre-feasibility study. The aims of this study are to assess potential processing options and identify optimal operating parameters based on existing power, storage, social and support infrastructure. A column leaching pilot plant installation at Blagodatnoye was also completed.

If heap leaching at Blagodatnoye is successfully applied, the Group may also consider processing off-balance ore stockpiles at Titimukhta.

*6.* *Flowchart*

A processing flowchart for Blagodatnoye's Mill No. 4 is set forth below.




*7.* *Operational results*

The table below presents an overview of the Group's operations at the Blagodatnoye mine and processing facilities.

| | *Year ended 31 December* | | | *Nine months ended 30 September* |
|---|---|---|---|---|
| | ***2016*** | ***2015*** | ***2014*** | ***2017*** |
| ***Mining*** | | | | |
| Total rock moved (kt) | 49,021 | 45,654 | 40,828 | 55,468 |
| Strip ratio (t/t) | 3.3 | 5.0 | 4.5 | 5.0 |
| Ore mined (kt) | 11,515 | 7,628 | 7,392 | 9,264 |
| Average grade in ore mined (g/t) | 2.01 | 1.97 | 2.00 | 1.95 |
| ***Processing*** | | | | |
| Ore processed (kt) | 7,753 | 7,512(1) | 7,251 | 5,963 |
| Head grade (g/t) | 2.07 | 1.99 | 1.96 | 1.97 |
| Gold recovery (%) | 88.0 | 87.9 | 88.0 | 87.9 |
| Gold production (koz) | 456.5 | 424.6 | 394.3 | 330.1 |

**Note:**

1. Based on hourly capacity and adjusted for maintenance time, the Group processed 7,801 thousand tonnes of ore in 2015.

Over the last four years, the Group has successfully increased the processing volumes at Blagodatnoye mill by implementing debottlenecking and upgrading initiatives and operating the mill at above its nameplate capacity. During this period, the Group optimized flows in the technological scheme and upgraded the mill equipment, such as modernizing the ore crushing circuit and installing two additional gravity concentrators at the gravity separation unit. In 2015 to 2016, the first stage of the full-scale debottlenecking project was completed to maintain high recoveries despite the increase in productivity through the installation of two vibration screens of higher capacity; the installation and commissioning of two additional sorbent columns and renovation of the Acacia intensive cyanidation circuit; the introduction of the flotation concentrate regrinding mill and the installation of the second stage of classification at the flotation concentrate regrinding mill; the installation of a filter press to catch coal fines; and the commissioning of two upgraded agitators for flotation cells.

In 2016, the Group mined 11,515 thousand tonnes of ore at Blagodatnoye, as compared to 7,628 thousand tonnes of ore in 2015, an increase of 51 per cent due to planned growth in mining works and use of the mining fleet temporarily reallocated from the Olimpiada mine's Vostochny pit, following the wall accident in 23 May 2016. In 2015, ore mined volumes increased by 3 per cent, as compared to ore mined volumes in 2014 of 7,392 thousand tonnes. The stripping ratio was at an average of 3.3 t/t in 2016, as compared to 5.0 t/t in 2015 and 4.5 t/t in 2014, a decrease of 35 per cent and an increase of 10 per cent, respectively, in line with the mine plan. At the same time, the average grade in ore mined was stable over the last several years with 2.01 g/t in 2016, 1.97 g/t in 2015 and 2.00 g/t in 2014.

In 2016, the Group processed 7,753 thousand tonnes of ore, as compared to 7,512 thousand tonnes of ore in 2015, an increase of 3 per cent, reflecting on-going initiatives to further expand throughput capacity. In 2015, ore processed volumes increased by 4 per cent as compared to ore processed volumes in 2014 of 7,251 thousand tonnes of ore with increased volumes produced, primarily due to improvements to the processing of ore, higher throughput at the ore preparation unit as a result of optimizing the coarseness of the grains for crushing, installing higher-yielding screens and other initiatives. The processing figures for 2014 include the ore from Blagodatnoye processed at the Olimpiada Mill No. 1.

Recoveries remained high at an average of 88.0 per cent in 2016, 87.9 per cent in 2015 and 88.0 per cent in 2014.

In 2016, the Group produced 456.5 thousand ounces of gold, as compared to 424.6 thousand ounces of gold in 2015, an increase of 8 per cent primarily due to higher processing volumes and higher grades in ore processed, though this was offset slightly by lower processing volumes in the fourth quarter of 2016, which resulted from the outage of the second grinding circuit caused by the temporary blackouts at Mill No.4. In 2015, gold production increased by 8 per cent, as compared to gold production of 394.3 thousand ounces in 2014, due to increased volumes of ore processed.

In 2017, Mill No. 4 had an average hourly throughput of 1,017 tonnes per hour.

***Titimukhta***

*1.* *Location and history*

The Titimukhta deposit is located in the Severo-Yeniseysky district, nine kilometres from the Olimpiada mine. The proximity of the Titimukhta deposit to the Olimpiada mine allows the full use of the existing Olimpiada infrastructure, including utilities, support infrastructure and services. The major power source for the mine is grid electricity.

The Titimukhta gold deposit was first discovered in 1989. From 1989 to 1996, geological exploration work, including geological mapping, drilling and test-pitting, was completed. In 2003, the Group acquired the license for Titimukhta. During the period from 2004 to 2007, the Group conducted

geological exploration on the deposit, which resulted in sizeable reserves being estimated and classified and reported according to the JORC Code.

In 2007, the Group began modifying the Olimpiada Mill No. 1 to process the Titimukhta ore and began delivering mining equipment to the Titimukhta deposit, and constructed an access road.

In April 2009, the mining of Titimukhta ore, with processing of the ore at Olimpiada's Mill No. 1, was commissioned. In May 2012, the Group completed the expansion of capacity to 2.4 million tonnes of ore per annum at Mill No. 1.

In 2015, the Group decided to reconfigure Mill No. 1 to process higher-grade ore from Olimpiada as part of the Strategic Asset Review with the objective of increasing total production from the Olimpiada and Blagodatnoye business units. Due to the physical properties of Olimpiada ore, the processing capacity of Mill No. 1 was increased from 2.4 to 3.0 mtpa.

*2. <u>Geology and mineralization</u>*

The Titimukhta gold deposit comprises of one main mineralized zone as a stockwork of mineralized quartz veins in a schist host rock. The deposit area is underlain by a zone of intense faulting with major northwest-southeast trending faults running through the northern side of the deposit. The orebody extends for 550 m in strike length and 350 m in width. Gold mineralization extends to a depth of 500 m and occurs as stacked elongated zones that dip eastwards at between 30° and 50°, cross-cutting the stratigraphy.

*3. <u>Reserves and resources</u>*

Total Proved and Probable Ore Reserves at Titimukhta as at 31 December 2016 were estimated to be 12 mt of ore, grading 2.4 g/t gold for 0.9 moz of contained gold as classified and according to the JORC Code (2004).

Total Measured and Indicated and Inferred Mineral Resources, including stockpiles, at Titimukhta as at 31 December 2016 were estimated at 13 mt of ore, grading 2.5 g/t gold for 1.1 moz of contained gold as classified and reported according to the JORC Code (2004).

*4. <u>Mining</u>*

Since 2015, mining works at Titimukhta have been significantly downscaled, while Mill No. 1 was reconfigured and reoriented for the processing of Olimpiada ore in order to optimize production flows in the Olimpiada business unit. In April 2016, mining activity at Titimukhta was downscaled to the minimum required for maintenance.

*5. <u>Processing</u>*

Prior to April 2016, the Group transferred the ore it mined at Titimukhta by truck to Mill No. 1 processing plant at the Olimpiada production site to recover gold for refinement.

In 2016, Mill No.1 was reconfigured to process higher-grade ore from Olimpiada instead of lower-grade ore from Titimukhta as a result of optimization of the Olimpiada business unit's production flows. This project was completed in September 2016.

*6. <u>Operational results</u>*

In line with the completion of the Mill No. 1 reconfiguration project in September 2016, mining and processing activities at Titimukhta have been suspended in favor of treating Olimpiada ores in the third quarter of 2016.

The table below presents an overview of the Group's operations at the Titimukhta mine and processing facilities.

| | *Year ended 31 December* | | | *Nine months ended 30 September* |
|---|---|---|---|---|
| | ***2016*** | ***2015*** | ***2014*** | ***2017*** |
| ***Mining*** | | | | |
| Total rock moved (kt) | 1,054 | 14,002 | 26,509 | 419 |
| Strip ratio (t/t) | 1.6 | 3.3 | 10.8 | 2.2 |
| Ore mined (kt) | 412 | 3,225 | 2,242 | 131 |
| Average grade in ore mined (g/t) | 1.61 | 1.58 | 1.66 | 1.62 |
| ***Processing*** | | | | |
| Ore processed (kt) | 500 | 1,515 | 1,978 | – |
| Head grade (g/t) | 2.26 | 2.43 | 1.85 | – |
| Gold recovery (%) | 85.2 | 87.1 | 83.7 | – |
| Gold production (koz) | 40.2 | 102.3 | 93.0 | – |

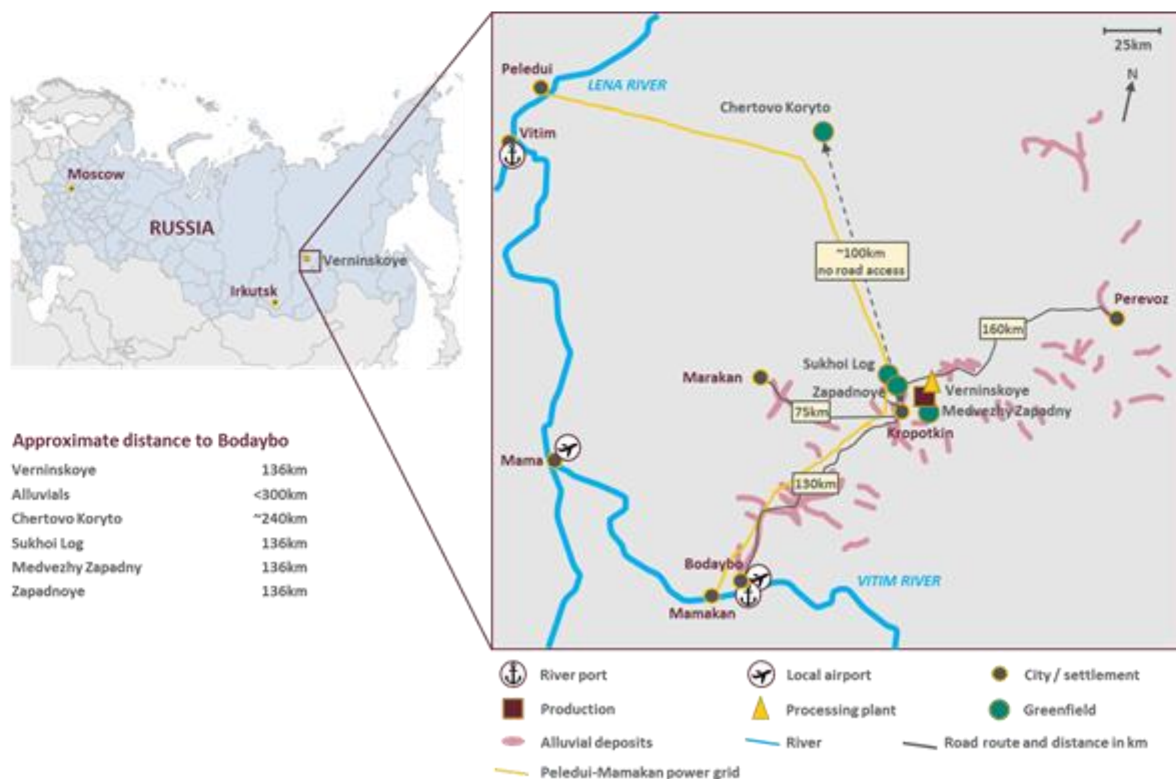
**Irkutsk region**

***Verninskoye***

*1.* *Location and history*

The Verninskoye gold deposit is located in the northern part of the Bodaybo administrative district, Irkutsk Region. The deposit lies 6 km from Kropotkin settlement and approximately 136 km north of the town and district center of Bodaybo. Bodaybo is located on the Vitim River, which provides seasonal access to the Lena River ports. There is a regular scheduled air service to Bodaybo from the regional capital Irkutsk located 900 km by air, and 1,440 km by road from Bodaybo. Bodaybo is also accessible to the south by a 220 km all-weather gravel road from Taksimo on the Baikal-Amur railway.

The map below shows the location of the Verninskoye deposit.




The Verninskoye deposit was discovered in 1974. From 1977 to 1990, a significant amount of exploration work was conducted on the deposit, including detailed geological mapping, geochemical sampling and surface exploration drilling, by the Bodaybinskaya exploration group. In 2003, reserves and resources of the deposit were booked at the Russian State Reserves Committee.

In 2005, the Group acquired OJSC Pervenets (now JSC Polyus Verninskoye), which holds licenses for both the Verninskoye and Pervenets deposits. During the period from 2005 to 2009, the Group conducted additional geological exploration at the deposit, which resulted in significant additions to the resource base. In January 2008, the board of directors of PJSC Polyus approved a feasibility study for the construction of a gold mining facility at the Verninskoye deposit with a capacity of 2.2 million tonnes of ore per annum.

In December 2011, the Verninskoye mine was launched, and the Group fully commissioned production in 2012. In 2014, the Verninskoye mine reached its design throughput parameters.

The operating site is supplied by 36 MWh and 74 MWh lines from the VitimEnergo 110 kV and Peleduy – Polyus 110 kV grids. Diesel generators with installed electric capacity of 12.8 MW are available for emergency supply.

In December 2012, the Group was awarded the contract for the design of the first stage of the Peleduy-Mamakan grid. In the fourth quarter of 2015, the Group completed the construction of the 110 kV Peleduy–Chertovo Koryto–Sukhoy Log power grid, the first phase of the Peleduy – Mamakan 220 kV grid project, as part of its broader strategy towards the development of the Irkutsk business unit. The grid connects Viluyskie HPP with the Verninskoye and Chertovo Koryto deposits, providing the Irkutsk business unit with power at attractive rates and improving the capacity and reliability of the power supply. The actual capital expenditure for the Peleduy-Mamakan grid amounted to a total of RUB 2.9 billion. The Federal Grid Company ("**FGC**") bought out the Peleduy-Mamakan grid line for RUB 2.6 billion (approximately US$44 million) in December 2017.

Potable water is obtained from an intake on the Tyopliy Creek. Industrial and process makeup water is pumped from the Nigri Creek and back from the tailings storage facility. Three coal fired boiler houses are used for heating and hot water.

The camp, administration offices and workshops are on the northern flank of the valley, adjacent to the waste stockpile. Tailings are discharged into the storage facility in the adjacent valley to the east. Administrative support and senior management is provided from Bodaybo. The Verninskoye mine has its own camp facilities and is not reliant on any nearby towns for accommodation.

*2. Geology and mineralization*

The Verninskoye gold deposit is located in the central part of the Lena gold province at the intersection of two large tectonic blocks: the Siberian Platform and the Baykal-Patomsk fold belt, near the western end of the Sukhoi Log belt, the largest undeveloped gold deposit in Russia. The Verninskoye deposit is a series of lenticular bodies of gold mineralization localized at the contact between black shale and siltstone with limestone units in the hanging wall around the Verninskoye anticline. The Verninskoye deposit includes the Pervenets deposit, which comprises of a series of near surface gold-bearing quartz-sulphide veins.

Gold occurs in quartz-sulphide veins and associated with disseminated sulphide minerals within the sedimentary rocks (pyrite and arsenopyrite). The mineralization, defined by the limits of low-grade stockwork mineralization, covers an area of 1,500 m along strike and 1,100 m across strike. The depth of mineralization ranges from near the surface to possibly greater than 700 m in depth, with the current open pit mining targeting mineralization down to 300 m to 350 m below the surface.

Gold mineralization also occurs in the adjacent Medvezhy deposit as auriferous quartz-sulphide veins and with disseminated sulphide minerals within the sedimentary rocks. Although no mining has been conducted at Medvezhy to date, any mining of Medvezhy mineralization is likely to be a satellite pit with treatment at the Verninskoye plant.

*3. Reserves and resources*

Total Proved and Probable Ore Reserves at Verninskoye as at 31 December 2016 were estimated to be 96 mt of ore, grading 1.7 g/t gold for 5.3 moz of contained gold as classified and reported according to the JORC Code.

Total Measured and Indicated and Inferred Mineral Resources, including stockpiles, at Verninskoye as at 31 December 2016 were estimated at 237 mt of ore, grading 1.6 g/t gold for 12 moz of contained gold as classified and reported according to the JORC Code.

*4.* *Mining*

The Verninskoye mine comprises one open pit, the Verninsky Pit, which is centrally located, and a waste stockpile downstream in the valley. The Group extracts ore at Verninskoye through open pit mining using: 10 $m^3$ class diesel-hydraulic face shovels, 10 $m^3$ class electric rope shovels and a fleet of Komatsu HD785 (90t) class dump trucks. Waste and low-grade ore is hauled to nearby storage facilities and ore is hauled to the ROM pad.

According to the Group's current life of mine plan, the mine life of Verninskoye allows for 33 years of open pit mining until 2050 based on 2016 production volumes.

A broad range of ancillary equipment supports the main production equipment and performs other mine maintenance activities. The workshops are on the northern flank of the pit adjacent to the waste stockpile.

*5.* *Processing*

The Group transfers the ore it mines at Verninskoye by truck to its processing plant to recover gold for refinement.

The processing circuit includes primary crushing in a Metso jaw crusher, primary grinding in a SAG mill, secondary grinding in a ball mill (both mills were supplied by NKMZ), a gravity separation circuit, sulphide flotation (roughing, scavenging, two-stage cleaning) of gravity tailings and a conventional CIL circuit, followed by an electrowinning facility to recover gold from flotation concentrate.

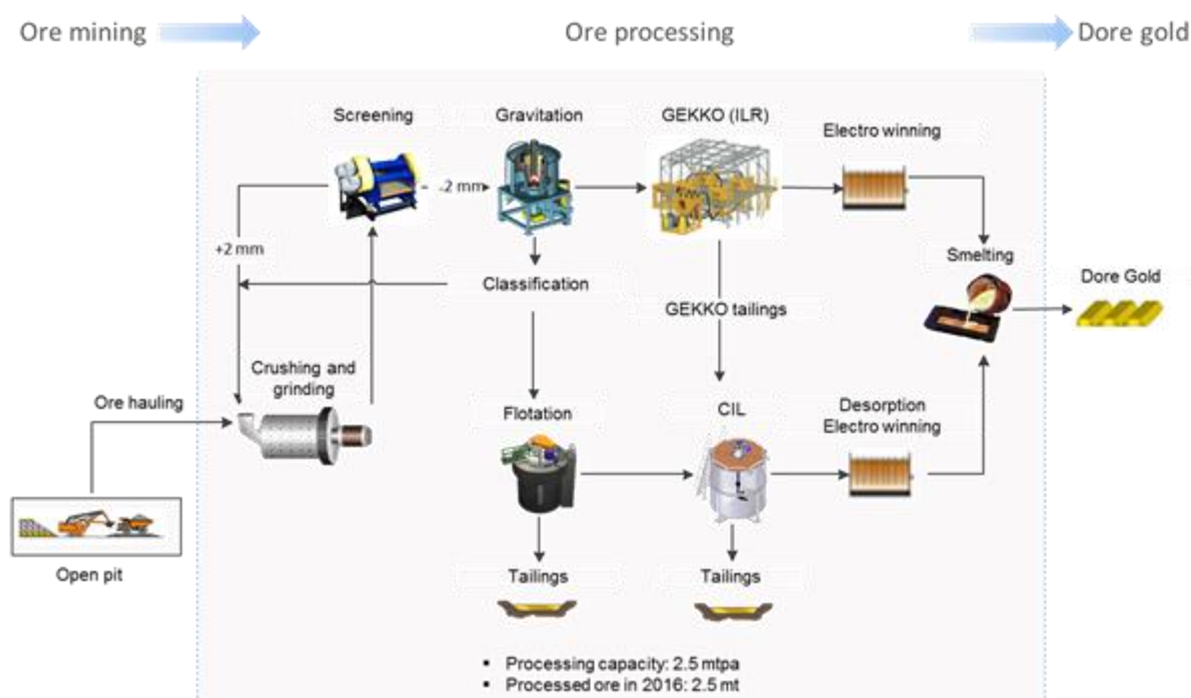
Although the Verninskoye mine was commissioned on 30 December 2011, the Group fully commissioned production at Verninskoye only in 2012. During the course of 2013-2016, the Group implemented over 20 individual measures to improve production at Verninskoye, including the fine-tuning or rearranging of crushing, grinding, gravitation and flotation processes, as well as the CIL and electrowinning circuits. As a result of these modifications and upgrades, the plant increased its throughput run-rate from 1.13 mtpa to 2.5 mtpa, while the Group also improved the recovery rate at the Verninskoye Mill from approximately 64 per cent to approximately 87 per cent, which is above the designed recovery rate of 86 per cent. The mill has operated above the design recovery rate of 86 per cent since the second quarter of 2015.

The Group is currently implementing an expansion of the Verninskoye mill throughput capacity. The first stage of the project was completed at the end of 2016 in order to increase the utilization of equipment, including the replacement of pumps and crushing equipment for more productive units, the installation of a mill relining system and the replacement of the mill's cylinder. The Verninskoye Mill annualized throughput capacity has reached 2.7 mtpa. The Group plans to further increase throughput capacity up to 3.0 mtpa. The completion of the project is expected by the end of 2018.

The implementation of individual measures has contributed to the decline of production costs by 55 per cent from a TCC/oz of US$869 in 2013 to a TCC/oz of US$389 in 2016.

6. *Flowchart*

The ore processing flowchart for Verninskoye is set forth below.




7. *Operational results*

The table below presents an overview of the Group's operations at the Verninskoye mine and processing facilities.

| | *Year ended 31 December* | | | *Nine months ended 30 September* |
|---|---|---|---|---|
| | ***2016*** | ***2015*** | ***2014*** | ***2017*** |
| ***Mining*** | | | | |
| Total rock moved (kt) | 16,300 | 16,270 | 13,257 | 13,874 |
| Strip ratio (t/t) | 3.9 | 3.1 | 1.8 | 4.0 |
| Ore mined (kt) | 3,355 | 3,954 | 4,716 | 2,765 |
| Average grade in ore mined (g/t) | 2.20 | 2.09 | 1.90 | 2.22 |
| ***Processing*** | | | | |
| Ore processed (kt) | 2,501 | 2,284 | 2,203 | 2,029 |
| Head grade (g/t) | 2.65 | 2.63 | 2.72 | 2.62 |
| Gold recovery (%) | 87.3 | 86.1 | 79.4 | 88.4 |
| Gold production (koz) | 186.5 | 161.1 | 146.0 | 160.1 |

Over the last four years, the Group successfully improved recoveries at Verninskoye mill by implementing a number of initiatives, including commissioning a new gravity concentrate production unit, improved operation of the sorption unit and usage of a new flotation reagent to increase recoveries.

In 2016, the Group mined 3,355 thousand tonnes of ore at Verninskoye, as compared to 3,954 thousand tonnes of ore in 2015, a decrease of 15 per cent due to the planned reduction in low-grade ore mining. For the same reason, in 2015, ore mined volumes decreased by 16 per cent, as compared to ore mined volumes in 2014 of 4,716 thousand tonnes. The stripping ratio was at an average of 3.9 t/t in 2016, as compared to 3.1 t/t in 2015 and 1.8 t/t in 2014, an increase of 24 per cent and 72 per cent, respectively, reflecting growth in stripping works as a result of reduced low-grade ore mining. At the same time, the average grade in ore mined increased to 2.20 g/t in 2016, as compared to 2.09 g/t in 2015 and 1.90 g/t in 2014.

In 2016, the Group processed 2,501 thousand tonnes of ore, as compared to 2,284 thousand tonnes of ore in 2015, an increase of 10 per cent. The Mill's improved performance resulted from the increased hourly throughput of grinding equipment following the replacement of the Mill's cone crusher with a more efficient model, the commissioning of pulp pumps with higher capacity and reduced downtime during maintenance works. In 2015, ore processed volumes increased by 4 per cent, as compared to ore processed volumes in 2014 of 2,203 thousand tonnes of ore, due to an increase in hourly throughput and greater equipment utilization by reducing planned downtime.

Recoveries were at an average of 87.3 per cent in 2016, as compared to 86.1 per cent in 2015, an increase of 1 per cent due to optimization of reagents and continuing improvements at the sorption and cyanidation circuits. In 2015, recoveries increased to 86.1 per cent, as compared to recoveries in 2014 of 79.4 per cent, due to improved operation of the sorption unit, commissioning of a new gravity concentrate production unity and the use of a new flotation reagent.

In 2016, the Group produced 186.5 thousand ounces of gold, as compared to 161.1 thousand ounces of gold in 2015, an increase of 16 per cent due to an increase in processed ore volumes at a stable average grade and growth in recovery rates. In 2015, gold production increased by 10 per cent, as compared to gold production of 146.0 thousand ounces in 2014, due to higher recoveries and an increased amount of ore processed.

In 2017, the Verninskoye mill had an average hourly throughput of 349 tonnes per hour.

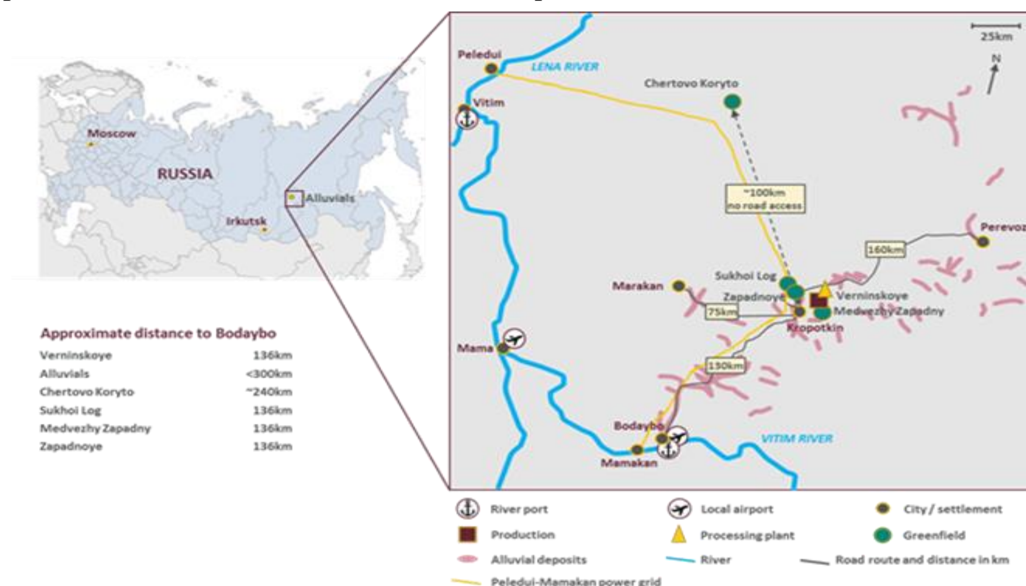
***Alluvials***

*1.* *<u>Location and history</u>*

The Lenzoloto (Alluvials) gold mining operations are located in the northern part of the Bodaybo administrative district, Irkutsk Region. The operations are widespread in the region and stretch from north of the town and district center of Bodaybo to the north-west of Kropotkin settlement, which is 130 km northeast of Bodaybo.

The deposits are accessed via all-weather gravel roads. Bodaybo is located on the Vitim River, which provides access to the Lena River ports. There is a regular scheduled air service to Bodaybo from the regional capital Irkutsk located 900 km by air, and 1,440 km by road from Bodaybo. Bodaybo is also accessible to the south by a 220 km all-weather gravel road from Taksimo on the Baikal-Amur railway. Electricity is provided by the integrated network and recently constructed Peleduy-Mamakan grid, being a cheaper source of energy than diesel generators, which are used in the case of an emergency.

The map below shows the location of the Alluvials operations.



Gold placer mining has been practiced in the area for more than 160 years since the mid-19th century. The gold placer mining operations in this area were incorporated under the entity Lenzoloto in 1921 and were owned by Russian industrialists. In 1950-1970s, dredges and power shovels operations commenced across the gold placers and mining operations were automated. Lenzoloto was reorganized into CJSC Lenzoloto in 1992 and then to OJSC Lenzoloto in 1997.

In 2004, the Russian government auctioned OJSC Lenzoloto, resulting in the Group acquiring a controlling stake. Lenzoloto currently holds 93 licenses for the placer deposits in the Irkutsk region. Exploration, development and operation at a number of licenses are planned for commencement in the near future.

*2.* *Geology and mineralization*

The Lenzoloto alluvial gold deposits are found in the Lenskii gold field, situated on the northern flanks of the Baikal orogenic belt. Some primary placer deposits remain in areas beneath thick permafrost.

The gold deposits are largely placer gold in river bed gravels and flood plain terraces. The placer deposits are formed in river channels within incised glacially eroded valleys. The valleys form the drainage network for the region with the streams and rivers forming tributaries for the major Lena River to the north and west and the Vitim River to the south. The placer gold deposits are buried below a cover of between 10 m and 30 m of glacial till. The deposits are underlain by bedrock.

Gold bearing alluvial gravels are typically between 2 m and 6 m thick, and can extend for a few thousand meters along the river channel. The distribution of the gold in the alluvial gravels is irregular. Many deposits are small, originally containing pre-mining reserves of less than 500 kg of gold.

*3.* *Reserves and resources*

Total Proved and Probable Ore Reserves at Alluvials as at 31 December 2016 were estimated to be 57 $Mm^3$ of sands, grading 0.62 $g/m^3$ gold for 1.1 moz of contained gold as classified and reported according to the JORC Code.

Total Measured and Indicated and Inferred Resources at Alluvials as at 31 December 2016 were estimated at 150 $Mm^3$ of mineralized material, grading 0.43 $g/m^3$ gold for 2.1 moz of contained gold as classified and reported according to the JORC Code.

The Group has a proven track record of constant replenishment of the reserves at Alluvials. Exploration works at the mines which are currently in operation allows for average annual additions of approximately 100 koz. In addition, the Group acquires two licenses per year on average, thereby adding approximately 17 koz to the existing reserve base. These acquired licenses allow for additional exploration and further resource expansion. As a result, resources at Alluvials may be expanded by approximately 1.2-1.4 moz over the next 10-12 years, assuming that the current exploration and acquisition rate is sustained.

For example, as at 1 January 2007, reserves at Alluvials included 1.7 moz of contained gold according to the JORC Code and the Group produced 1.9 moz of gold from its Alluvial operations from 2007 to 2016 inclusive, while reserves at Alluvials decreased only by 0.6 moz for the corresponding period.

*4.* *Mining*

The Lenzoloto subsidiaries employ various washing methods at Alluvials gold placers, including: dredging for bulk, low-grade technogenic deposits; dozing for the smaller, higher-grade primary deposits; and conventional open pit/dozing in permafrost. The choice of method is determined by an

evaluation of the physical conditions, gravel grade and economics. The Group's alluvial mining operations are seasonal and can only be mined from May to October.

According to the Group's current life of mine plan, the mine life of Alluvials allows for 9 years of mining until 2025 based on 2016 production volumes.

Commencing in March and ahead of dredging, the bulk of the overburden is removed and side-cast by dragline. The final overburden and gravel horizons are then dredged.

Waste and overburden removal at the open pit placers continues year-round and employs drilling and blasting of the frozen ground. Stripping is performed by walking excavators and bulldozers, depending on the gold-bearing placer's characteristics. Walking excavators are used in the development of deep-seated deposits.

The depth of the primary deposits varies across the region. Nearer to Bodaybo, where placer mining has taken place for more than a century, the deposits are at depths of between 20 m and 70 m. In the center of the region, the depth is between 10 m and 20 m.

The equipment maintenance is conducted at sites while capital repairs are carried out at Kropotkin and Marakan. Much of the equipment repair is conducted during winter when the operating sites are shut down.

*5.* *Washing*

Gold is recovered by gravity separation without the use of chemical agents. The Group operates gold washing plants, dredges and sluice enrichment plants with a total annual capacity of 10 $Mm^3$.

The dredges sift the mined sands through the sluices to recover gold. The tailings are washed out and stacked behind the dredge. In open pit placers bulldozers and excavators push the sands to the scrubber, screen and sluices arrangements.

Primary sluice concentrates from the dredge and bulldozer operations are collected daily and upgraded at centralized facilities using secondary sluices, shaking tables and hand finishing, depending on the deposit. Concentrates are transported to the refinery in Krasnoyarsk. Some primary sluice tailing washing is conducted by contractors using scavenger sluices.

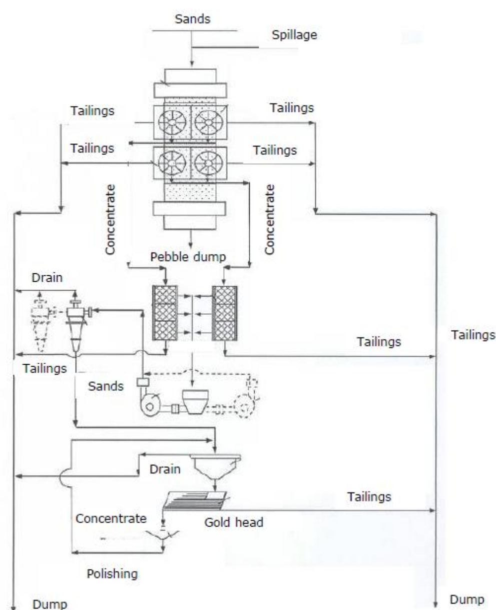
Reserves for dredging production are depleting and the share of dredging process in overall output tends to decrease. Dredging production peaked in the 1970s, with 18 dredges operating in the Irkutsk region accounting for approximately 70 per cent of overall output. Currently, 7 bucket-line floating dredges operate within the license areas at Alluvials with bucket capacity ranging from 150-380 litres.

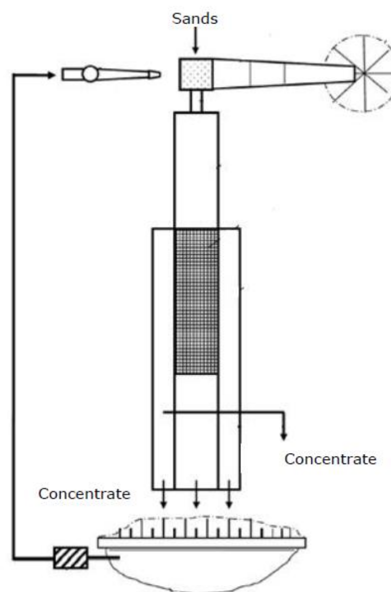
The operating sites are supplied by 35 kV and 6 kV lines from the VitimEnergo 110 kV grid; the typical site demand is 600 kW. Diesel generators are installed where necessary and for emergency supply in the event of a grid failure, while the recently constructed Peleduy-Mamakan grid will provide a cheaper source of energy and a reduction in the quantity of diesel generators used.

Infrastructure at the subsidiaries' operating sites is by nature transitory and variable according to the type and location. Sufficient facilities are provided at the sites for workers' accommodation, equipment maintenance and fuel storage. The sites are serviced from the settlements in the area, such as Kropotkin and Marakan, where the subsidiaries' stores and workshops are based. Much of the major supply and equipment repair is conducted during winter when the operating sites are shut down.

*6. Flowchart*

**Dredging processing flowchart is below.** **Surface separation processing flowchart is below.**




*7. Operational results*

The table below presents an overview of the Group's operations at the Alluvials.

| | *Year ended 31 December* | | | *Nine months ended 30 September* |
|---|---|---|---|---|
| | *2016* | *2015* | *2014* | *2017* |
| Sand washed (000 $m^3$) | 8,611 | 9,370 | 9,139 | 7,250 |
| Average grade ($g/m^3$) | 0.61 | 0.56 | 0.65 | 0.55 |
| Gold production (koz) | 168.5 | 168.3 | 189.7 | 115.9 |

In 2016, the Group washed 8,611 thousand cubic meters of sands at Alluvials, as compared to 9,370 thousand cubic meters of sands in 2015, a decrease of 8 per cent, reflecting an increased number of hydraulic sluicing sites. In 2015, sands washed volumes increased by 3 per cent, as compared to sands washed volumes of 9,139 thousand cubic meters in 2014.

Average grade was 0.61 $g/m^3$ in 2016, as compared to 0.56 $g/m^3$ in 2015, an increase of 9 per cent due to the increased number of hydraulic sluicing sites with higher average grades compared with dredging sites. In 2015, average grade decreased by 14 per cent, as compared to average grade of 0.65 g/m3 in 2014, due to grade issues at several production sites.

In 2016, the Group produced 168.5 thousand ounces of gold, as compared to 168.3 thousand ounces of gold in 2015. In 2015, gold production decreased by 12 per cent, as compared to gold production of 189.7 thousand ounces in 2014, due to lower average grades.

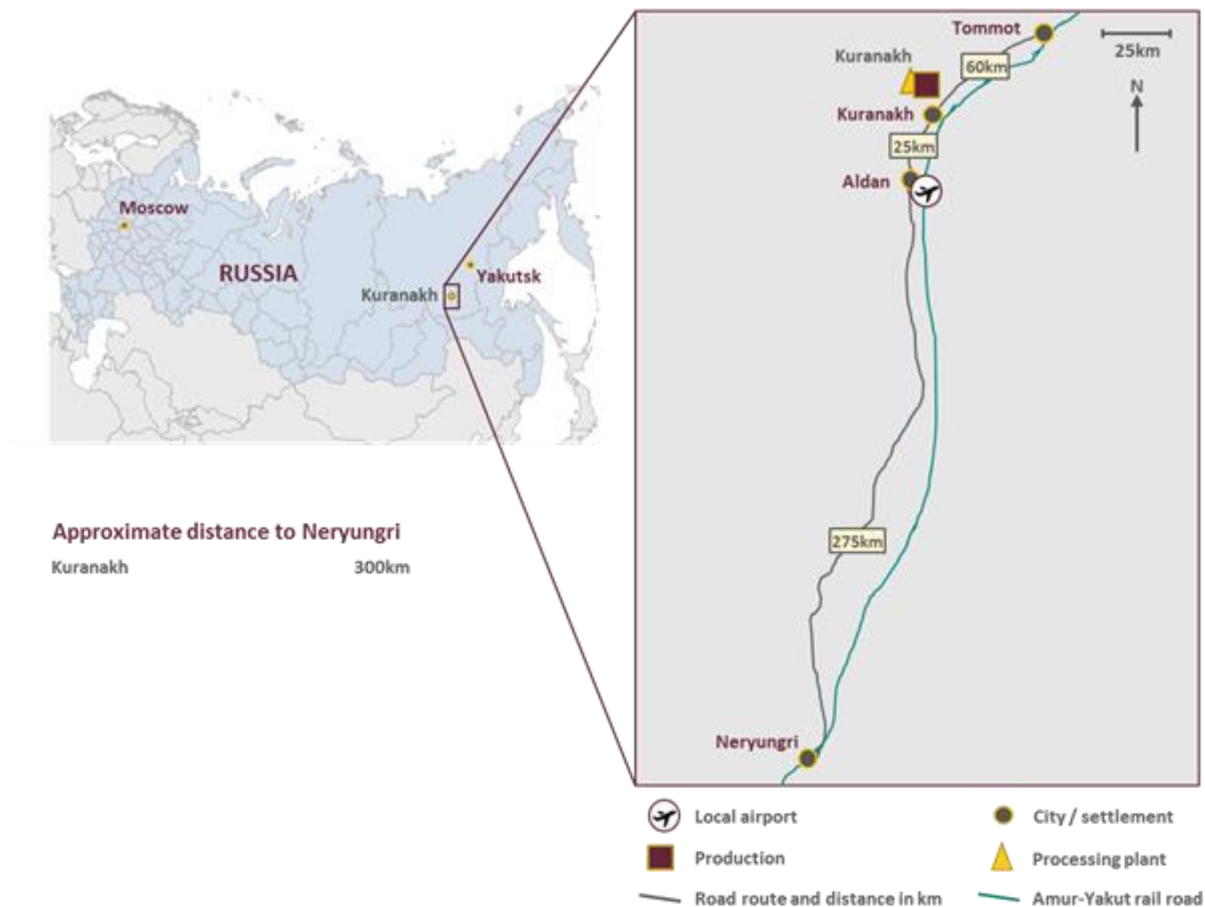
**Yakutia region**

***Kuranakh***

*1.* *Location and history*

The Kuranakh gold deposit is situated in the Aldansky District of the Republic of Sakha (Yakutia) in Eastern Siberia. The mine is located approximately 400 km south of the Yakutia capital city of Yakutsk, 300 km north of the transportation hub of Neryungri and 25 km north of the service center of Aldan. The town of Kuranakh is remote and access is by gravel road from either Yakutsk or Neryungri via Aldan.

The map below shows the location of Kuranakh.




Alluvial gold production from the Aldansky District began in the 1920's and prospecting and mapping of bedrock exposures in alluvial workings during the initial stages of exploration probably led to the discovery of the Kuranakh gold deposit. In 1956, open pit mining of gold ore at Kuranakh started with ore being transported 170 km to another plant for processing. In 1965, the on-site processing facility at the Kuranakh mine commenced operation. By 1991, a number of subsequent expansions and modifications were made and the Kuranakh plant capacity reached 3.6 mtpa.

In 2005, the Group acquired Aldanzoloto, which owns the Kuranakh mine. In 2008, the Group commenced exploration work at the field. The Group completed works on the scoping study and reserves assessment in 2009. In 2011, the Group initiated an extensive exploration and de-watering at the Kuranakh field.

The operating site is supplied by a 220 kV grid line and dedicated sub-station. A coal-fired station provides power to the general area and two coal-fired boilers provide heating for the Kuranakh mine operations and the local township. Fresh water is supplied to the mine and local settlement from a number of local bore holes. Industrial water is also abstracted from the Kuranakh River. A vehicle and mobile equipment maintenance shop, as well as a laboratory, are present to service the on-site operations. A significant social infrastructure has been established by the Group in the region, with full medical facilities located at Aldan. Employees live in the local town of Kuranakh, which is located close to the main operating facilities.

*2. Geology and mineralization*

The orebodies which comprise the Kuranakh gold deposit are located over a distance of 30 km.

Gold mineralization occurs as sub-horizontal lenses following the stratigraphy and structural depressions. Specifically, the mineralization is associated with reddish-brown sandy limonitic claystone that forms at the base of the Jurassic sandstone near the contact with the Cambrian limestone.

Thickness of mineralization ranges from meters to tens of meters. Contacts or limits to the mineralization appear to be gradational and diffuse. All material to be mined is oxidized. The depth of mineralization ranges from near the surface to possibly greater than 100 m, with much of the current mining targeting material ranging from 30 m to 60 m below the surface. Gold is fine grained, occurs as free particles and is associated with iron oxide minerals.

*3. Reserves and resources*

Total Proved and Probable Ore Reserves at Kuranakh as at 31 December 2016 were estimated to be 136 mt of ore, grading 1.0 g/t gold for 4.5 moz of contained gold as classified and reported according to the JORC Code.

Total Measured and Indicated and Inferred Mineral Resources, including stockpiles, at Kuranakh as at 31 December 2016 were estimated at 248 mt of ore, grading 1.2 g/t gold for 9.2 moz of contained gold as classified and reported according to the JORC Code.

*4. Mining*

The Group extracts ore at Kuranakh through a series of shallow open pits from which ore is excavated utilizing conventional drill, blast, rope shovel loading and truck haulage technology. Ore haulage distances from these pits to the stockpile range from 6 km to 25 km. The travel surfaces for the pit haulage roads are suitable for the mine's haulage fleet. Most pits are 70 m to 80 m deep, with the deepest, Porfirovoye, approximately 120 m deep. Waste and low-grade ore is hauled to nearby storage facilities by 120 tonnes to 130 tonnes capacity dump trucks. Ore is hauled to the ROM pad by 55 tonnes to 90 tonnes capacity dump trucks. Most material is drilled and blasted before excavation.

According to the Group's current life of mine plan, the mine life of Kuranakh allows for 22 years of open pit mining until 2039 based on 2016 production volumes.

The mine utilizes a fleet of Russian and Western mining equipment supplied by a variety of different manufacturers, consisting of: one EKG-10 face shovel with a bucket capacity of 10 $m^3$, one EKG-8 face shovel with a bucket capacity of 8 $m^3$, two Hitachi EX1200 with a bucket capacity of 6.5 $m^3$, one Komatsu PC-2000 with a bucket capacity of 10 $m^3$; and a fleet of BelAZ 7555 (55t), 75145 (120t) and 75131 (130t) and Komatsu HD785 (90t) haul trucks.

5. *Processing*

The Group transfers the ore from the Kuranakh mines by truck to its processing plant to recover gold for refinement. The Group's main processing facility has been in operation since 1965 and currently employs cyanide leach and RIP gold recovery technology.

The processing circuit includes primary crushing, primary grinding in an autogenous grinding ("**AG**") mill, secondary and tertiary grinding in a ball mill, and a sorption unit followed by electrowinning facility to recover gold from concentrate. The Kuranakh ores are completely oxidized, and most of the gold is readily available for leaching. Sodium cyanide leach solution is added in the primary ball milling stage.

The tailings storage facility is located 3 km away from the mill and the tailings are transported by gravity via pipeline system. The facility is currently operating on its fifth lift and is permitted for a sixth, which is expected to provide storage for tailings until 2021.

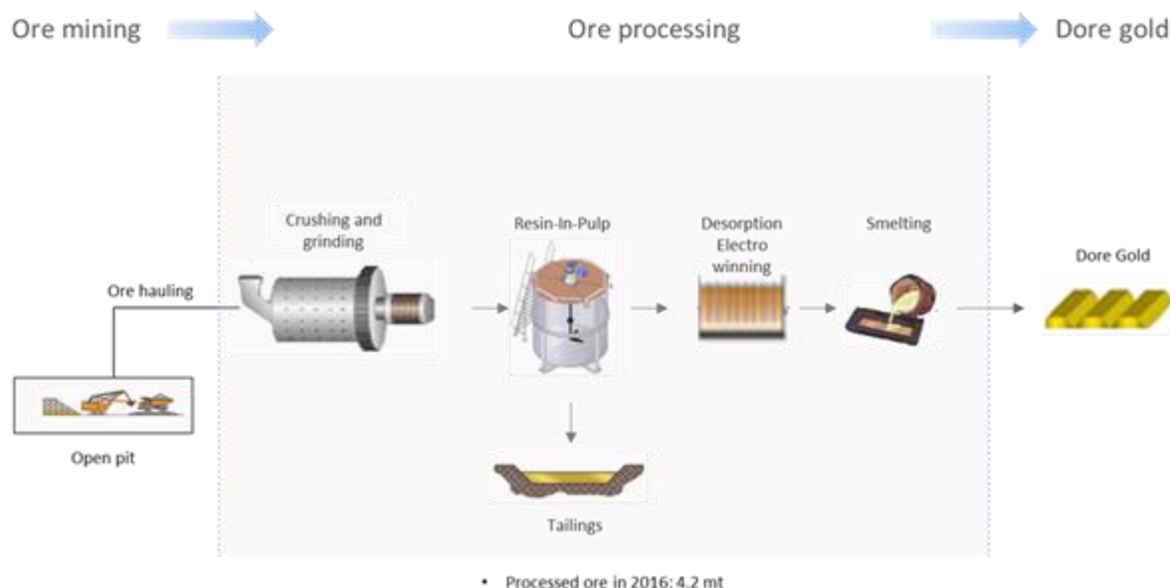
As part of its expansion program for the mine, the Group has developed a comprehensive multi-step plan for the Kuranakh operations upgrade. Since 2014, the Group has implemented a number of efficiency improvement initiatives at Kuranakh on both the mining and processing elements, including blasting works enhancement, blending of ore fed to the mill to improve its chemical and mineralogical composition, optimization of reagents' consumption and intensification of the thickening process. These initiatives resulted in a substantial improvement in the recovery rates to over 88 per cent and TCC/oz moving from the tenth decile to the third decile of the global cash cost curve.

The Group is currently executing a two-stage capacity expansion program at Kuranakh mill to increase throughput capacity from 3.8 mtpa to 5.0 mtpa by replacing equipment and increasing the utilization rate of the ore-blending complex. The mill is currently operating at a throughput capacity of 5.0 mtpa.

In addition to its estimated open pit Ore Reserves of 3.2 million ounces at an average grade of 1.4 g/t, the Kuranakh deposit contains in excess of 62 million tonnes of low-grade ore with an average grade of 0.6 g/t, which has been stockpiled during the operations at Kuranakh. A heap-leaching facility with a processing capacity of 1.5 mtpa was launched at Kuranakh to produce gold from low-grade and out-of-balance ores of the Kuranakh deposit, which were stockpiled during mining operations in previous years. The facility produced approximately 0.6 koz of doré alloy in 2017.

6. *Flowchart*

The ore processing flowchart for the Kuranakh Mill is set forth below.



## 7. *Operational results*

The table below presents an overview of the Group's operations at the Kuranakh mine and processing facilities.

| | *Year ended 31 December* | | | *Nine months ended 30 September* |
|---|---|---|---|---|
| | ***2016*** | ***2015*** | ***2014*** | ***2017*** |
| ***Mining*** | | | | |
| Total rock moved (kt) | 25,530 | 24,771 | 23,165 | 24,157 |
| Strip ratio (t/t) | 5.0 | 5.2 | 4.8 | 4.3 |
| Ore mined (kt) | 4,257 | 3,996 | 3,991 | 4,554 |
| Average grade in ore mined (g/t) | 1.29 | 1.31 | 1.27 | 1.16 |
| ***Processing*** | | | | |
| Ore processed (kt) | 4,223 | 3,909 | 3,785 | 3,525 |
| Head grade (g/t) | 1.30 | 1.31 | 1.29 | 1.28 |
| Gold recovery (%) | 88.2 | 88.2 | 86.8 | 88.5 |
| Gold production (koz) | 159.7 | 144.8 | 137.0 | 123.1 |

Over the last four years, the Group successfully improved operations at Kuranakh with the implementation of mining and processing initiatives, which resulted in moving the Kuranakh operations from the tenth decile of the 2013 global cost curve to the third decile of the 2016 global cost curve, according to Metals Focus' Quarterly Gold Mine Cost Service report. The Group optimized ore transportation, improved logistics and enhanced blasting works. In addition, several processing initiatives were implemented, including blending of ore feed, optimization of reagents mixing, intensification of thickening process and decreasing equipment downtimes. In addition, the Group optimized new equipment purchases. These initiatives contributed to improvement of the profitability of the Kuranakh deposit. The Adjusted EBITDA margin of the Kuranakh operations increased to 53 per cent in 2016, an increase of 38 percentage points compared to an Adjusted EBITDA margin of 15 per cent in 2013. TCC at the Kuranakh deposit decreased to US$499/oz in 2016 as compared to US$598/oz in 2015, although AISC increased to US$782/oz in 2016 as compared to US$748/oz in 2015. In addition, recoveries increased to 88.2 per cent in 2016 from 86.8 per cent in 2014.

In 2016, the Group mined 4,257 thousand tonnes of ore at Kuranakh, as compared to 3,996 thousand tonnes of ore in 2015, an increase of 7 per cent in order to provide feed for the expanded processing capacities. In 2015, ore mined volumes were flat, as compared to ore mined volumes in 2014 of 3,991 thousand tonnes. The stripping ratio was at an average of 5.0 t/t in 2016, as compared to 5.2 t/t in 2015 and 4.8 t/t in 2014, a decrease of 4 per cent and an increase of 8 per cent, respectively. In addition, the average grade in ore mined was relatively stable over the last few years with 1.29 g/t in 2016, 1.31 g/t in 2015 and 1.27 g/t in 2014.

In 2016, the Group processed 4,223 thousand tonnes of ore, as compared to 3,909 thousand tonnes of ore in 2015, an increase of 8 per cent due to implementation of the first stage of the expansion processing efficiency improvement initiatives, including improved performance of the thickening circuit and improved ore blending. In 2015, ore processed volumes increased by 3 per cent, as compared to ore processed volumes of 3,785 thousand tonnes of ore in 2014.

Recoveries were at an average of 88.2 per cent in both 2016 and 2015. In 2015, recoveries increased to 88.2 per cent, as compared to recoveries of 86.8 per cent in 2014, due to the implementation of efficiency measures, including improved performance of the sorption unit after the optimal reagent mix was selected, as well as increased productivity for the agitators and one of the thickeners.

In 2016, the Group produced 159.7 thousand ounces of gold, as compared to 144.8 thousand ounces of gold in 2015, an increase of 10 per cent due to higher volumes of ore being processed. In 2015, gold production increased by 6 per cent, as compared to gold production of 137.0 thousand ounces in 2014, due to higher processing volumes and recoveries. In 2017, the Kuranakh mill had an average hourly throughput of 779 tonnes per hour.

**Magadan region**

***Natalka***

*1.* <u>*Location and history*</u>

The Natalka gold deposit is located in the Tenkinskiy District of the Magadan Region of northeast Russia, approximately 400 km northwest of the city of Magadan and 130 km from the district center Ust-Omchug. Access to the mine site from Magadan is via sealed road (60 km) and gravel road (the rest). The nearest communities are the villages of Matrosova and Omchak that lie 3 km west of the mine with a combined population of approximately 3,000 people and Ust-Omchug with a population of 5,000.

The map below shows the location of Natalka.

In 1939-1941, the Omchak river valley was explored and several gold placers were discovered on the right streams of Omchak river, Natalka and Pavlik brooks. The Natalka deposit was discovered in 1942. In 1944, pilot mining using conventional underground stoping methods at the Natalka deposit was launched. In 1945, the Natalka deposit was incorporated under the entity Rudnik Imeni Matrosova ("**Matrosov Mine**"). In 1972, a processing plant was built.

In August 2003, the Government auctioned a 38 per cent stake in Matrosov Mine, which controlled the Natalka deposit license. The Group won the auction and completed the acquisition of the stake in 2004. Over the course of the period from 2005 to 2008, the Group consolidated 100 per cent of Matrosov Mine and, by extension, the Natalka deposit.

Following the suspension of all mining operations 2004, the Group began a major review of the project geology and commenced an exploration program aimed at developing the full resource potential of the deposit.

In 2004-2006, the Group completed mineral reserve studies and obtained approval for the reserves from the Russian State Reserves Commission ("**GKZ**") in December 2006. In addition, the Group commenced a small scale pilot plant development.

In 2007, Micon International completed an audit of the estimates of Ore Reserves and Mineral Resources for the Natalka deposit. Micon International reported Proved and Probable Ore Reserves totaling 1,125 mt of ore, grading 1.13 g/t gold for 40.8 moz of contained gold as classified and reported according to the JORC Code.

After the pilot plant was launched with a capacity of 100 thousand tonnes of ore per year in July 2008 and smelting of 5 koz in May 2009, the Group approved the construction of a mining complex at the Natalka deposit in 2010. Construction of the pilot plant and smelting of the first gold bullion significantly reduced the project execution risks and increased the Group's confidence in the processing flowsheet. Initial construction of the mining complex started in 2012.

In February 2012, Micon International presented updated Ore Reserve and Mineral Resource studies. Under the updated report, Proved and Probable Ore Reserves at Natalka were estimated to be 614 mt of ore, grading 1.6 g/t gold for 31.6 moz of contained gold as classified and reported according to the JORC Code.

In 2013, the Group transferred the majority of its mining and processing equipment, including haulage trucks, loaders and gravity concentrators, to the Natalka site. In the first quarter of 2013, active full-scale mining was launched, showing a substantial deviation in gold content from the mineral resource block model.

In December 2013, the Group initiated a review of the resource block model and decided to review the Natalka project and to postpone the commissioning of the mill, halting construction works at the Natalka deposit. In early 2014, the stockpiles of ore mined in 2013 were compared to the block model tonnes and grades based on drilling and bulk sampling. The results showed a substantial deviation in gold content from the mineral resource block model.

As part of the review process, Micromine developed a new block model and reported a Mineral Resource estimate according to the JORC Code, while AMC prepared an updated mine plan based on the Micromine resource model and reported an Ore Reserve estimate according to the JORC Code in February 2015. To provide greater confidence in the new resource model, a verification drilling program was designed and completed in 2014. Based on the new resource block model, total Proved and Probable Ore Reserves at Natalka were estimated to be 319 mt of ore, grading 1.58 g/t gold for 16.2 moz of contained gold as classified and reported according to the JORC Code, while total Measured, Indicated and Inferred Mineral Resources were estimated to be 36.8 moz of gold with a grading of 1.5 g/t, a 38 per cent reduction as compared to the previous estimates of 59.7 moz with a grading of 1.70-1.74 g/t. This reduction was mainly due to input data refinement, including exclusion of the historical Soviet-era underground sampling dating as far back as 1945, due to a lack of quality assurance / quality control information and the exclusion of low quality underground channel sampling data collected for the period from 1945 to 2004, which had a strong bias with higher gold grades and indicated more continuous mineralization than was evident from drilling samples. These Ore Reserve and Mineral Resource estimates have been revised again by AMC in the AMC Report: see "—*3. Reserves and resources*" below.

In addition to the development of the new block model and the execution of the verification drilling program, in 2014 to 2015 the Group also carried out a critical flaws check on the mill's design with the assistance of SNC Lavalin, conducted engineering solutions analysis, and implemented a grade

control program with the assistance of Gorge Boucher, an independent mining consultant. As a result of these initiatives, the Group decided to implement a scheme for technological optimization with the assistance from Hatch Ltd, a leading technological engineering consultant.

An initial plan to construct a US$2.6-3.0 billion 3-stage complex with peak production of 40 million tonnes of ore per annum has been abandoned in favor of a capital expenditure-efficient plan to treat 10.1 million tonnes of ore per annum. In 2016, the technological scheme optimization was finished. The revised scheme included changes to the plant flowsheet to remove the flotation circuit and to only proceed with a 3-stage gravitation as the tests of ore performed in both the laboratory and at the pilot plant revealed high susceptibility of ore to gravitation. The revised scheme resulted in improved financial parameters with reduced capital expenditure and operating costs, albeit lower gold recovery, with total planned production reducing from 900 koz to approximately 420-470 koz. Flotation technology might be considered as a potential longer-term development option, depending on the results of technological mapping of the deeper horizons of the Natalka ore body.

Construction was re-started in 2016, with the development of Natalka resulting in approximately 5,000$m^3$ of concrete poured, approximately 500 tonnes of steel structures installed, approximately 300,000$m^3$ of ground moved and approximately 350 tonnes of equipment installed. In December 2016, construction of the primary crushing and main conveyor complex, including a 1 km underground tunnel, one of the major remaining infrastructure units, was completed. By the end of March 2017, the Group delivered the remaining concentration equipment to the site. The gravity concentrators and electrowinning cells have subsequently been assembled, while the installation of thickeners is progressing as planned. The construction of power facilities and auxiliary infrastructure is on-going. The total investment in the project from 2012 to 2016 amounted to approximately US$2.0 billion.

A testing program was implemented at the pilot plant in 2016, producing 5.7 koz and confirming the estimated ore grades and recovery rates of the project. The construction works are currently on-going and are expected to expand during 2017, with the works at the grinding circuit and the gravity circuit expected to be finalized by the fourth quarter of 2017. Mining was relaunched in January 2017. The Group commissioned the Natalka project in September 2017, which is being followed by an approximately 12 months ramp-up period to reach the production run-rate of approximately 420 koz (based on a mine life of 2019-2046) to 470 koz (based on a mine life of 2019-2042) of annual gold production.

The Natalka power supply system connects to the power transmission grid in the Tenkinskiy District. The supply voltage is 110 kV. The main sources of power for this district are the Kolyma hydro power plant with an installed electric capacity of 900 MW, the Arkagala coal power plant and the Magadan HPP with installed electric capacities of 224 MW and 96 MW, respectively. These generating stations are part of the Central Electrical Power Unit of the Magadan Electrical Power System. The Central Electrical Power Unit works independently from other power units of this system and from the Eastern Consolidated Power System.

As part of the broader development strategy of Natalka, the Group is developing the new high-voltage power line Ust-Omchug-Omchak to link the Natalka deposit and other ventures in the region with Ust-Srednekanskaya HPP. Notwithstanding the fact that Natalka currently has sufficient energy supply for a throughput capacity of 10.1 mtpa, the grid is required to ensure the stability of the power supply and to provide additional power in the event of further potential increases in throughput capacity. The project is subsidized by the state in the form of a government grant. The total amount of the government grant to be distributed by the Ministry of Development of the Far East for the construction was RUB 8.8 billion (US$151 million at the average US$/RUB exchange rate for the nine months ended 30 September 2017). The construction plan of the grid is currently being finalized and completion of construction and subsequent commissioning is scheduled for 2019, which is expected to significantly decrease the current electricity tariff.

The Natalka operations site will be heated by the boiler house with three boilers: two large boilers with a nominal capacity of 15 Gcal/h each and a smaller boiler with 3 Gcal/h to cover operations in the warm season. In addition, the Natalka project envisages construction of maintenance and repair facilities and various consumables storages.

Natalka can be accessed from Magadan via a relatively well-maintained all-weather road. There is a small airstrip utilized by small planes or helicopters located near the mine. The port of Magadan has the capacity for large ships suitable to transport the majority of the construction equipment and materials required for the Natalka project.

*2. Geology and mineralization*

The Natalka mineralization is hosted in Upper Permian carbonaceous sediments, principally, black shales. The main mineralization zone is developed within the volcanogenic-sedimentary sequence.

Gold mineralization occurs as low-sulphide quartz veins alternating with small veins of arsenopyrite and pyrite mineralization. The mineralization zones extend for approximately 4.5 km along strike with continuity down dip to 700 m below the surface. Gold mineralization zones have a north-west to south-east trend, with a vertical to steep north-east dip. Thickness of the host varies from 50 m to more than 400 m. The gold occurs as relatively coarse particles or finely disseminated particles in a sulphide host (arsenopyrite).

*3. Reserves and resources*

Total Proved and Probable Ore Reserves at Natalka as at 31 December 2016 were estimated to be 293 mt of ore, grading 1.7 g/t gold for 16 moz of contained gold as classified and reported according to the JORC Code.

Total Measured and Indicated and Inferred Mineral Resources at Natalka as at 31 December 2016 were estimated at 558 mt of ore, grading 1.9 g/t gold for 34 moz of contained gold as classified and reported according to the JORC Code.

*4. Mining*

The Group plans to extract ore at Natalka through open pit mining at the Natalka pit using conventional excavator and truck techniques.

According to the Group's current life of mine plan, the mine life of Natalka is expected to allow for 31 years of open pit mining based on anticipated production volumes.

Currently, the works on primary ore crushing facility are being completed, whereas a gyratory crusher and a bridge crane were installed. The crushed ore will be transported to the processing facility via the main conveyor tunnel. The mine is expected to utilize a fleet of Russian and Western mining equipment supplied by a variety of different manufacturers, consisting of: Atlas Copco D65 and DML blast hole drills; Komatsu WA900 FEL 11.5 $m^3$ bucket capacity and PC4000 22$m^3$ bucket capacity hydraulic shovels; Caterpillar 994Q FEL 17$m^3$ bucket capacity wheel loader; and a large mixed fleet of Komatsu HM400 (36.5t), HD1500 (144t) and 730E (181t) haul trucks.

*5. Processing*

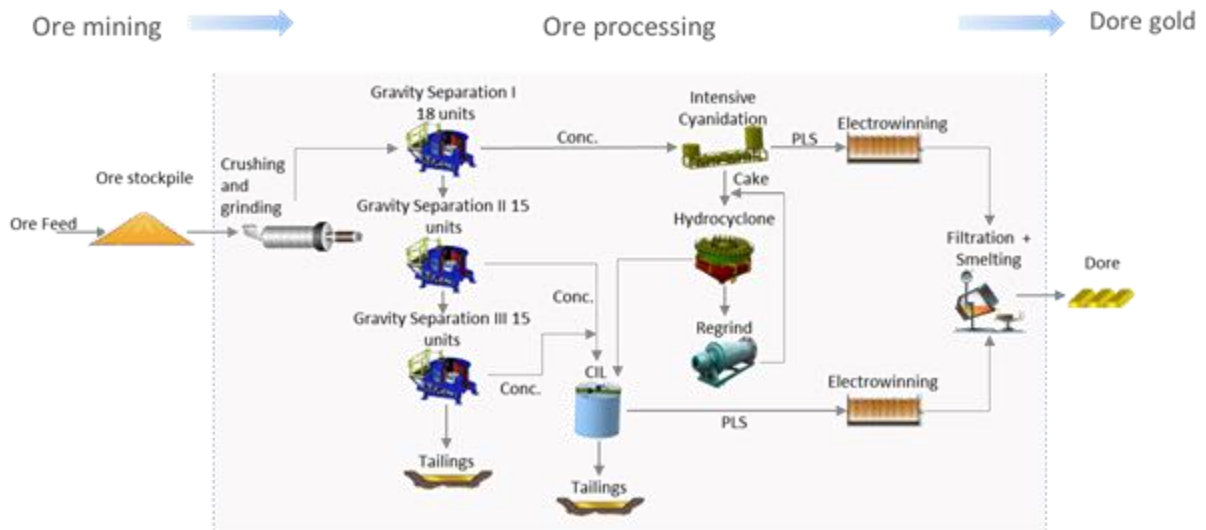
At the Natalka production site, the Group employs the main crushed ore conveyor tunnel to transport crushed ore from mining site to mills. The Group's main processing facility was commissioned in September 2017. The plant is a gold concentration and cyanidation facility, and the main process areas include primary crushing, coarse ore storage, SAG and ball milling circuits, three stages of gravity separation, intensive cyanidation, CIL circuit, conventional carbon treatment circuit, electrowinning, smelting, cyanide destruction and tailings. The plant design capacity is 10.1 mtpa,

though it may be able to operate at 11.1 mtpa of ore processing capacity. In 2016, Hatch Ltd carried out an assessment of a potential increase in the ore processing capacity if existing equipment were to be used. As a result of the assessment, a number of measures were identified that would allow the processing capacity to be increased to 11.1 mtpa.

The system of tailings storage facility is located approximately 1 km from the plant. The system consists of temporary, main and sorption tailings storage facilities. The temporary tailings storage facility serves as a reservoir for safe disposal of 29 mt of tailings for three years of operation. The main tailings storage facility is expected to accommodate 290 mt of final tailings. The sorption tailings storage is intended to be used for the stacking of 723 thousand $m^3$ of leaching cake.

*6.* *Flowchart*

The ore processing flowchart for the Natalka Mill is set forth below.



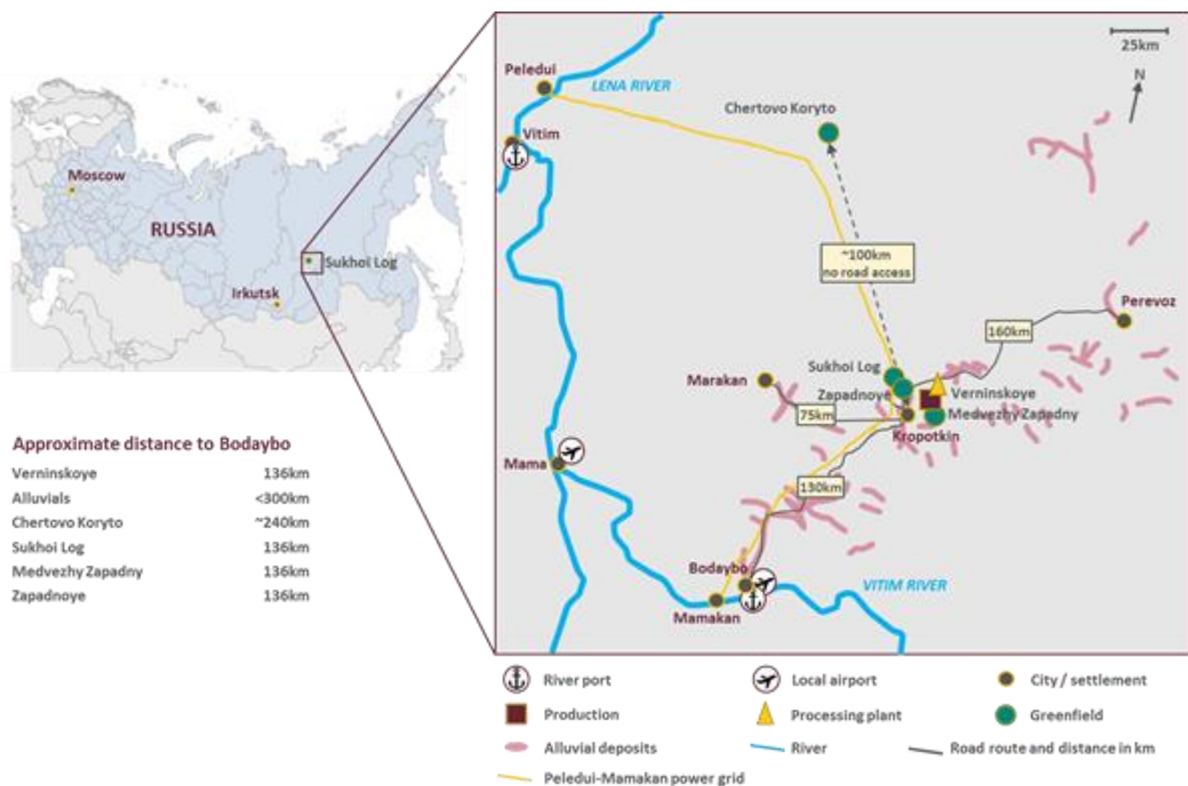
## Advanced stage exploration projects

### *Sukhoi Log*

*1. Location and history*

The Sukhoi Log gold deposit is located in the northern part of the Bodaybo administrative district, Irkutsk Region, close to the Verninskoye mine. The deposit lies 6 km from Kropotkin settlement, which is approximately 130 km northeast of Bodaybo. Bodaybo is located on the Vitim River, which provides seasonal access to the Lena River ports. There is a regular scheduled air service to Bodaybo from the regional capital Irkutsk located 900 km by air, and 1,440 km by road from Bodaybo. Bodaybo is also accessible to the south by a 220 km all-weather gravel road from Taksimo on the Baikal-Amur railway.

The map below shows the location of the Sukhoi Log deposit.




The Sukhoi Log deposit was discovered in 1961 when prospecting and evaluation works were conducted during the Bodaybo expedition at the Sukhoi Log gold field between 1959 and 1963. Following the expedition, an exploration program aimed at developing the full mineral resource potential of the deposit was launched. An extensive exploration program was conducted between 1971 and 1977, which included 210 km of diamond core drilling, three large bulk samples and over 80,000 gold assays. In 1977, Sukhoi Log deposit reserves of categories B+C1+C2 were approved by the GKZ. In 1978 to 1979, the exploration program focused on the Sukhoi Log flanks, which led to the Northwestern section of the Sukhoi Log deposit being identified and assessed to contain reserves of C2 category.

A further feasibility study of Sukhoi Log was undertaken in 1984 and, in the same year, the USSR Government issued a mining claim for the deposit to Lenzoloto. Lenzoloto subsequently applied for and obtained the license for the Sukhoi Log deposit in 1992, with the company being reorganized into CJSC Lenzoloto. In 1994, Star Technology Systems, an Australian mining company and shareholder

of Lenzoloto at that time, contracted Steffen Robertson and Kirsten and Bateman Minerals and Industrial, both international mining consultants, to undertake a feasibility study of the deposit.

In 1994-1997, Lenzoloto had been developing the infrastructure of the deposit. However, in 1997 Star Technology Systems failed to comply with the license obligations and ultimately lost its rights to the deposit.

In 1998-1999, the Canadian company Placer Dome INC, in cooperation with the Bodaybo expedition, carried out verification drilling, sampling, analytical and technological research within the outline of the B+C1+C2 categorized reserves. These works confirmed the geology, reserves calculation and qualities of the ores from Sukhoi Log which had initially been noted during the exploration works. Between 1961 to 1999, an aggregate 324 km of drilling has been performed by various expedition programs, while nine engineering studies were completed between 1986-2007.

In 2005-2008, Central Research Geological Prospecting Institute of Non-Ferrous and Precious Metals (“**TsNIGRI**”) was commissioned by the Rosnedra to carry out an audit of the reserves and resources of the Sukhoi Log deposit and to prepare a feasibility study. As a result of the audit, the gold reserves were estimated to be 930.3 mt of ore, grading 2.1 g/t gold for 62.8 moz of contained gold according to the GKZ. The feasibility study assumed annual ore throughput at Sukhoi Log to be 31 mtpa, resulting in an estimated annual production of 1.9 moz of gold.

On 21 February 2017, following an auction process instituted by the Russian Government, the Rosnedra issued a license for the development of the Sukhoi Log deposit to SL Gold.

The main freight transportation to Sukhoi Log could be carried out by year-round 220 km road from Taksimo railway station, a part of the Baikal-Amur rail line, to Bodaybo and the year-round regional 130 km road from Bodaybo to Kropotkin. These roads are expected to have sufficient capacity to cover the early phases of development of the Sukhoi Log deposit. At later stages of the development, in order to cover large-scale construction and the mine development phase, the road from Bodaybo to Kropotkin will need to be reconstructed, while the construction of a bridge across the Vitim River may also be required.

The current power infrastructure at Bodaybo is insufficient to cover the power supply of 120 MW to 200 MW needed for the full-scale production at Sukhoi Log. There are two options available to the Group to supply power to the Sukhoi Log deposit. The first option being considered is the supply of power via the Taksimo Substation from the Unified National Power Grid, located south of the Sukhoi Log deposit, which is due to be launched with a capacity of 180 MW in 2021. The second option being considered is the supply of power to the field from Viluyskie HPP through the Peleduy–Mamakan 220 kV grid project. The commencement of the second phase of the Peleduy–Mamakan 220 kV grid project, which is expected to be completed and subsequently launched with a capacity of 180-340 MW in 2020, will ensure there is sufficient power supply for Sukhoi Log during the construction phase at potentially low capital expenditure due to the buyout of the grid by the FGC.

*2. Geology and mineralization*

Sukhoi Log, the largest undeveloped gold deposit in Russia, is located within a complicated regional structure known as the Bodaybo synclinorium. The host rocks comprise alternating beds of carbonaceous and calcareous siltstone, argillites, shales and sandstones. The orebodies of the deposit are structurally controlled by a shear zone along the axis of an anticline, with veinlet, stringer, porphyry, quartz, gold and sulphide mineralization associated with the richest carbon-bearing layers. Gold mineralization occurs both within the pyritic shales and in thin bedding-parallel pyrite-quartz veins, which have been folded by the main deformation. The mineralization covers an area of 3,000 m along strike and 1,500 m across strike. The depth of mineralization ranges from near the surface to between 1,000 m to 1,500 m in depth.

The mineralized zone forms a shallowly dipping tabular body, parallel to the axial plane of the fold, extending for more than 2,000 m along strike and 700 m down dip, forming a centro-symmetric zoning about the axis of the tight, overturned synclinorium. This provides for a low stripping ratio of less than 3.0 t/t.

The adjacent Zapadnoye (Western) deposit had been previously mined from 2004, with the Group suspending its operations in 2011.

*3.* *Reserves and resources*

Total reserves were estimated by Russian state authorities at 62.8 moz with an average grade of 2.1 g/t (53.3 moz with a grading of 2.0 g/t for open pit mining, and 9.5 moz with a grading of 2.8 g/t for underground mining), as classified according to the Russian Standards (GKZ).

Total Inferred Mineral Resources as at 31 December 2016 were estimated at 887 mt of ore, grading 2.0 g/t gold for 58 moz of contained gold as classified and reported according to the JORC Code.

The Group and AMC have had limited time to review the available data for Sukhoi Log. To reflect the uncertainty that remains until reviews of the resource data and modifying factors are complete, the estimate has been classified and reported according to the JORC Code as an Inferred Mineral Resource. The Group plans a further review of the data used to develop the resource model grade estimates, and it is possible that the resource information currently available and included in this Prospectus with regard to Sukhoi Log may change after this review, perhaps materially.

*4.* *Next steps*

The Group expects that development of the Sukhoi Log deposit should significantly enhance the Group's existing production growth profile.

In November 2017, the Group started a 180,000 meter drilling campaign at the Sukhoi Log deposit, which is scheduled to last two years and will provide the basis for the Group to update the block model for the deposit and provide both Ore Reserve and Measured and Indicated Mineral Resource estimates in accordance with the JORC Code.

The Group has instructed Hatch Ltd and SRK to conduct a scoping study, which is expected to be completed by mid-2018, and intends to conduct a feasibility study, which is currently expected to last for approximately four years, with the assistance of international mining and engineering consultants. Based on the results of the feasibility study, the Group will evaluate options to start construction at Sukhoi Log.

Given that the Sukhoi Log, Verninskoye and Zapadnoye deposits all belong to the Marakan-Tunguska ore cluster and are believed to have a similar mineral and chemical composition, the Group will evaluate the applicability of the processing solutions implemented at Verninskoye to the Sukhoi Log deposit. The Group already has data collected from its operations at Zapadnoye from 2004 to 2011, which has been evaluated for the applicability of Zapadnoye's processing plant to Sukhoi Log. While in operation, the Zapadnoye processing plant had low recovery rates of below 77 per cent. The drawback of the Zapadnoye process was the absence of the flotation cycle, resulting in a higher loss of gold in gravity tailings. As a result, in 2015, a new method of the processing of ore from Zapadnoye based on the current method used at Verninskoye was developed, with recovery rates of over 90 per cent achieved.

The opportunity to carry out pilot tests at the Verninskoye processing plant, which requires no additional construction capital expenditure, may make it possible to apply the Verninskoye flowsheet model to Sukhoi Log.

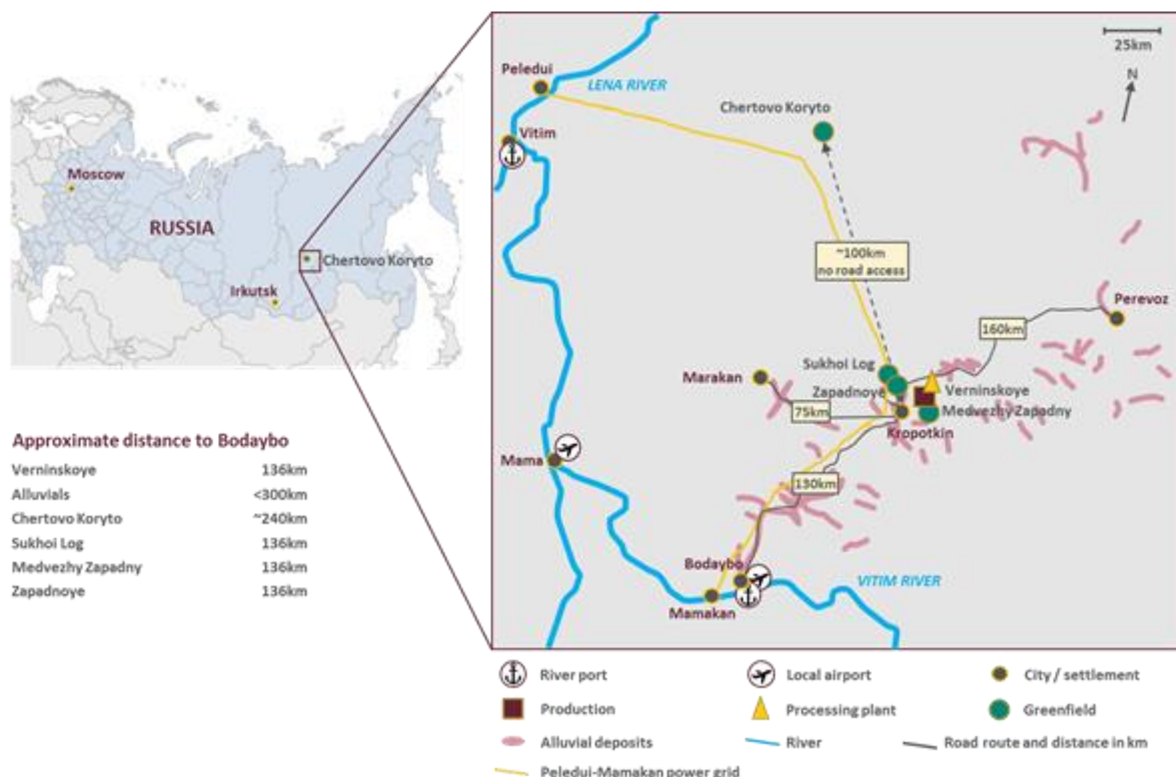
The Sukhoi Log, Verninskoye and Zapadnoye deposits, by virtue of their close proximity, also share numerous synergies which have the potential to create an Irkutsk regional hub through the optimization of processing facilities and making use of potential economies of scale. The utilization of existing transportation routes, logistics and power infrastructure and the Group's ability to source a skilled workforce from Verninskoye will aid the construction and subsequent operation of the Sukhoi Log mine.

***Chertovo Koryto***

1. *Location and history*

The Chertovo Koryto gold deposit is located in the Irkutsk region in the northwest part of the Bodaybinskiy administrative district, approximately 200 km northeast of the regional center of Bodaybo and approximately 100 km away from the currently producing Verninskoye deposit. The Chertovo Koryto deposit lies in a mountainous area where several gold rich placer deposits have been exploited.

The map below shows the location of the Chertovo Koryto deposit.




The Chertovo Koryto deposit was discovered in 1962. In 2004, the Group acquired Tonoda, which holds the license for the Chertovo Koryto deposit, and exploration works on the deposit were conducted from 2006 to 2008. In 2011, the Group tested the heap leaching production at the Chertovo Koryto

2. *Geology and mineralization*

Gold mineralization occurs in gold-bearing quartz-sulphide veins and associated with disseminated sulphide minerals (pyrite, pyrrhotite and arsenopyrite) within the sedimentary rocks. Minor chalcopyrite, sphalerite, galena and bornite sulphides are also recorded. The overall mineralized zone dips generally 10° to 20° towards the west, with many drillhole intercepts of 80 m to over 100 m in

thickness. All mineralization is considered to be fresh or primary from near-surface below a thin layer of soil or alluvial material.

Gold occurs principally as native gold particles; however, there is a small proportion of refractory gold. Gold particles show a close relationship with sulphide minerals and coarse quartz grains.

*3. Reserves and resources*

Total Proved and Probable Ore Reserves at Chertovo Koryto as at 31 December 2016 were estimated to be 62 mt of ore, grading 1.5 g/t gold for 3.1 moz of contained gold as classified and reported according to the JORC Code.

Total Measured and Indicated and Inferred Mineral Resources as at 31 December 2016 were estimated at 75 mt of ore, grading 1.5 g/t gold for 3.6 moz of contained gold as classified and reported according to the JORC Code.

*4. Next steps*

The Group is planning to develop the Chertovo Koryto deposit via open pit operations and a processing plant employing gravity concentration option with a capacity of up to 3.5 mtpa of ore. The preliminary production schedule anticipates the launch of processing at Chertovo Koryto to be in approximately 62 months; at least half of this period will be required to establish a road connection and to prepare the site for future construction. As Chertovo Koryto is currently connected to Verninskoye by tracks, which renders the site inaccessible in the winter months and constitutes a 9 to 12 hour journey, the success of the project is dependent on the construction of a new 134 km all-weather road from Chertovo Koryto to Verninskoye. The site will be powered by the nearby Peleduy–Sukhoy Log line, requiring only the construction of a short spur line and high-voltage switchyard.

As a result of the close proximity of the recently-acquired Sukhoi Log deposit to Chertovo Koryto, the strategy and timeline of the development of the latter may be adjusted to exploit synergies in the coordinated development of both assets.

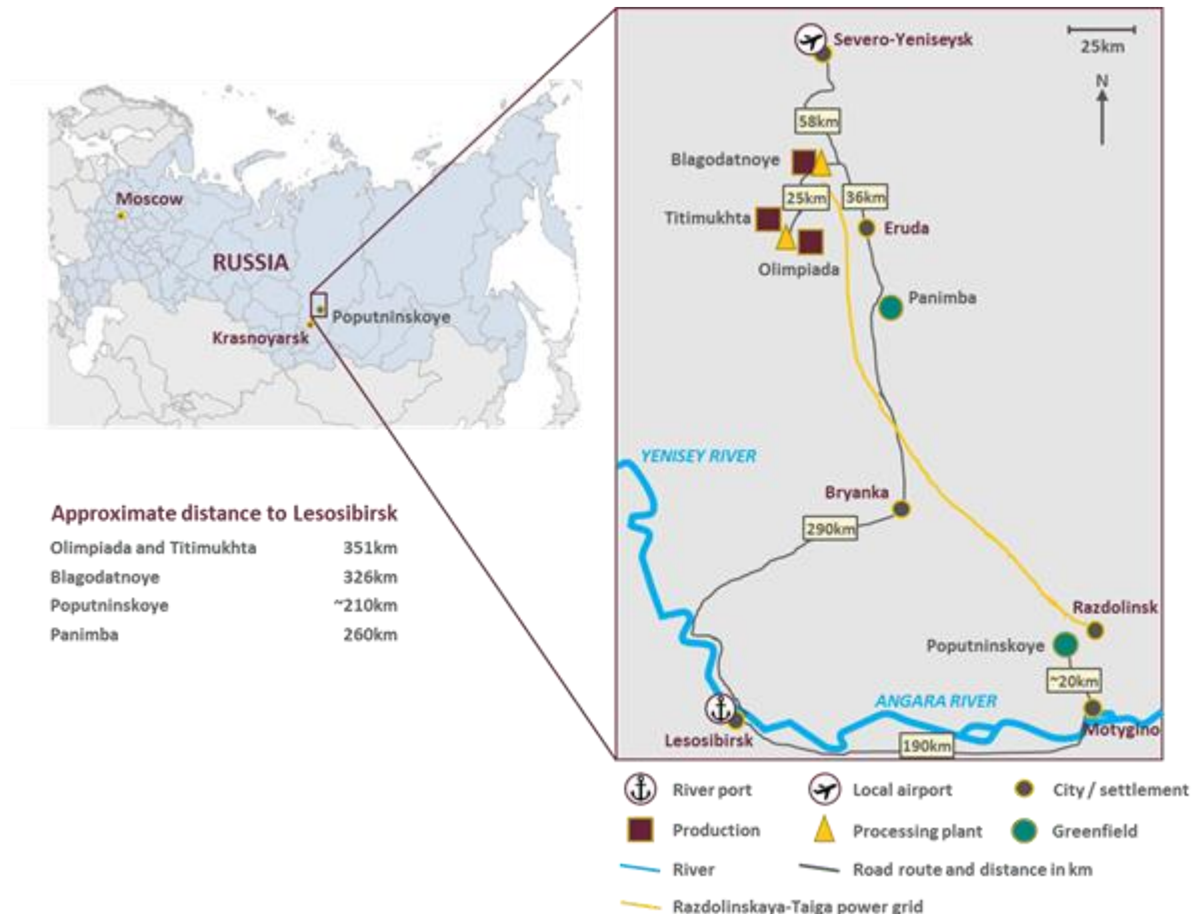
## Early stage exploration projects

### *Poputninskoye*

*1. Location and history*

The Poputninskoye deposit (which is the largest and the most advanced deposit of the Razdolinsky ore cluster) is located in the Krasnoyarsk region. The Poputninskoye deposit is located near Razdolinsk settlement and 15 km to 24 km from Motygino settlement.

The map below shows the location of the Poputninskoye deposit.




The Group acquired the license for the Poputninskoye deposit in 2005. The Group has been conducting exploration works at the Poputninskoye deposit since 2006. In 2012-2013, the Group performed an exploration and scoping study at the Poputninskoye deposit.

In the middle of 2015, the pilot program was launched on the Poputninskoye deposit to confirm the deposit's prospects and define the optimal technology for ore treatment. During pilot mining at the Poputninskoye deposit, the Group produced 4 and 5 thousand ounces of doré gold in 2015 and 2016, respectively. In order to obtain further information on the ore characteristics, mining at Poputninskoye switched focus to oxide ores in 2015, before being switched to sulphide ores in 2016.

*2. Geology and mineralization*

The Razdolinskoye mineralization area hosts the Poputninskoye deposit and eight additional prospects and exploration areas. These additional prospects are Antoninovskoye, Rudnichnoye, Svetloye, Zmeinoye, Ust-Bogolubovskoye, Perevalnoye, Osinovoye and Zapadnoye. The Poputninskoye

deposit area is predominantly composed of Proterozoic, Early Riphean middle subformation of Kordinaskaya formation, which is a part of the Panimba volcanic-sedimentary unit. The Poputninsky intrusive has a 150 m to 300 m wide U-shape that strikes for 2 km. The Razdolinskoye mineralization has been regionally metamorphosed to green-schist facies. The gold mineralization of the Poputninskoye deposit is related to sericite (muscovite)-chlorite schists of a low-temperature metamorphic stage that is common for the gold mineralization along the Yenisey Ridge. The Poputninskoye deposit mineralization zones are represented by disseminated, vein disseminated sulphide mineralization in mica-carbonate-quartz, fuchsite-quartz-carbonate and carbonate-chlorite-quartz-plagioclase metasomatic rocks.

The Zmeinoye deposit comprises quartz vein and stringer type gold and sulphide mineralization. Mineralization is localized in the quartz-sericite, quartz-sericite-chlorite and quartz-mica schist exposed in varying degrees of hydrothermal-metasomatic alteration. Primary sulphides are mainly pyrite and arsenopyrite. The main zone is approximately 50 m thick and steeply dipping. Mineralization was traced over a distance of 800 m on the surface, based on litho-geochemistry and geophysical data and is known to extend to a depth of more than 100 m.

*3. Reserves and resources*

Total Measured and Indicated and Inferred Mineral Resources for Poputninskoye as at 31 December 2016 were estimated at 42 mt or ore, grading 3.2 g/t gold for 4.3 moz of contained gold as classified and reported according to the JORC Code.

Total Measured and Indicated and Inferred Resources for Zmeinoye as at 31 December 2016 were estimated at 2.9 mt of ore, grading 4.6 g/t gold for 0.43 moz of contained gold as classified and reported according to the JORC Code (2004).

*4. Next steps*

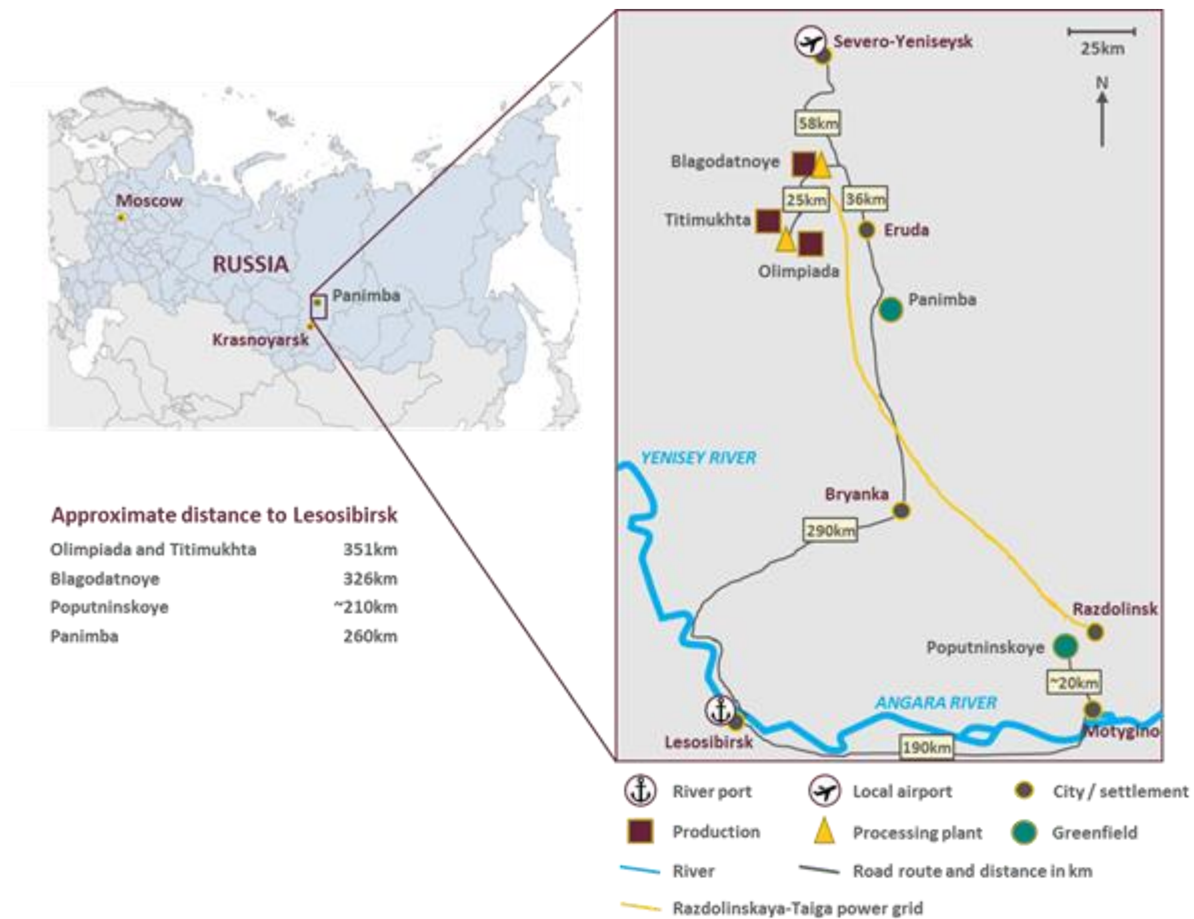
Several options are currently being evaluated by the Group for Razdolinskoye, including agreements with neighboring third party mines or building a small mill and selling concentrate to off-takers.

***Panimba***

*1. Location and history*

The Panimba deposit is located within the Severo-Yeniseysk district of the Krasnoyarsk region, approximately 115 km from Krasnoyarsk city, next to the main highway Severo-Yeniseysk – Krasnoyarsk.

The map below shows the location of the Panimba deposit.




The Group acquired the license for the Panimba deposit in 2004. The Group has been conducting exploration works at the Panimba deposit since 2005. In 2010, field work at Panimba was undertaken and a feasibility study was submitted to the Russian regulators, which presented a mineral reserve statement and an economic analysis of the project. In 2012-2013, the Group performed an exploration and scoping study at the Panimba deposit.

2. *Geology and mineralization*

The Panimba gold deposit occurs in an area of complex folding and five distinct mineralized zones. Of these zones, the Mikhailovsky and Zolotoye zones are considered to be the most important, whereas the Tavlik and Shalokit zones, which are more recent discoveries, are currently the least explored.

The Mikhailovsky Zone was divided into three orebodies (M1 to M3) which are mostly composed of mylonitised and cataclastic finely nodular carbonaceous-quartz-sericite schist, heavily silicified, and with up to 10 per cent sulphide content. Mineralization tends to be disseminated, although there are quartz stringers that are typically thin (1 mm to 15 mm), sinuous and oriented in various directions. The stringers commonly carry sulphide mineralization comprising of pyrite, pyrrhotite and arsenopyrite and finely disseminated gold. Ore zones tend to be sinuous and vary in strike length (tens to hundreds of meters), thickness (up to 50 m) and dip extent.

The Zolotoye zone is an assemblage of cross-cutting quartz veins and stringers which are generally concordant with the main structural elements in the area. The mineralization has been likened to a linear stockwork deposit, although with a complex morphology. Mineralization was traced to over 600 m depth. In total, some six ore zones and 33 lenses have been identified to date.

*3. Reserves and resources*

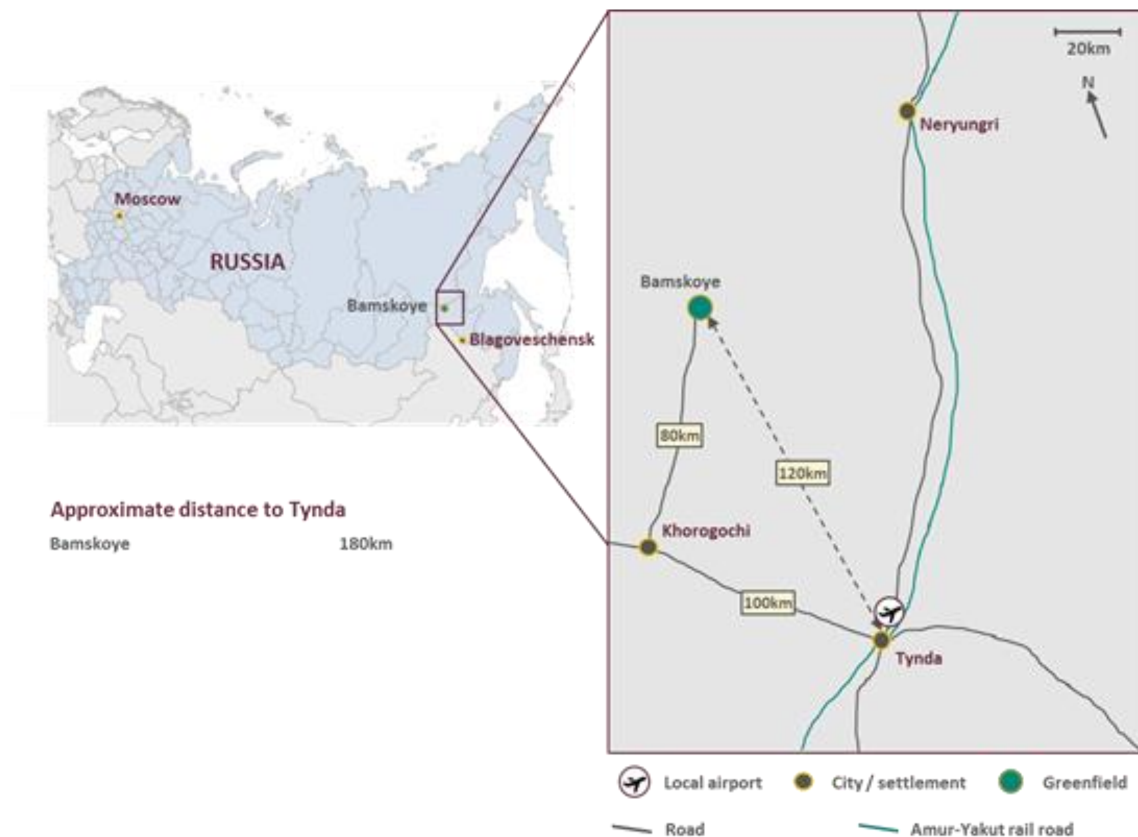
Total Measured and Indicated and Inferred Mineral Resources at Panimba as at 31 December 2016 were estimated at 40 mt of ore, grading 2.0 g/t gold for 2.6 moz of contained gold as classified and reported according to the JORC Code (2004).

***Bamskoye***

*1. Location and history*

The Bamskoye gold deposit is located 120 km north of Tynda, the principal city of the Tyndinskiy area of northeastern Amur region, eastern Siberia; and 80 km away on a year-round road to the Khorogochi rail station.

The map below shows the location of the Bamskoye deposit.




Gold mineralization at the Bamskoye deposit was located in 1979 through regional geochemical surveys, while follow-up work between 1985 and 1989 identified the mineral potential of the gold deposit. In 1990-2003, the detailed exploration work was conducted together with the commissioning of a trial open pit and heap leaching operation at Apsakan satellite. In 2005, the Group acquired the license for the Bamskoye deposit at the state auction. Between 2006 and 2008, the Group completed extensive exploration works and a resource model, as well as conducted multiple metallurgical tests. In 2009, the Bamskoye deposit reserves were approved by the GKZ and, due to the significant reserve base, was assigned strategic status. In 2010-2014, the Group obtained the necessary permits for further exploration and development of Bamskoye from the Russian government.

In May 2015, the Group received the approval from the Russian Government with a detailed schedule of the exploration and mining works planned at the Bamskoye deposit. In late 2015, the second stage of the exploration program of Bamskoye was initiated and is due to be completed in 2017.

*2. Geology and mineralization*

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

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

*3. Reserves and resources*

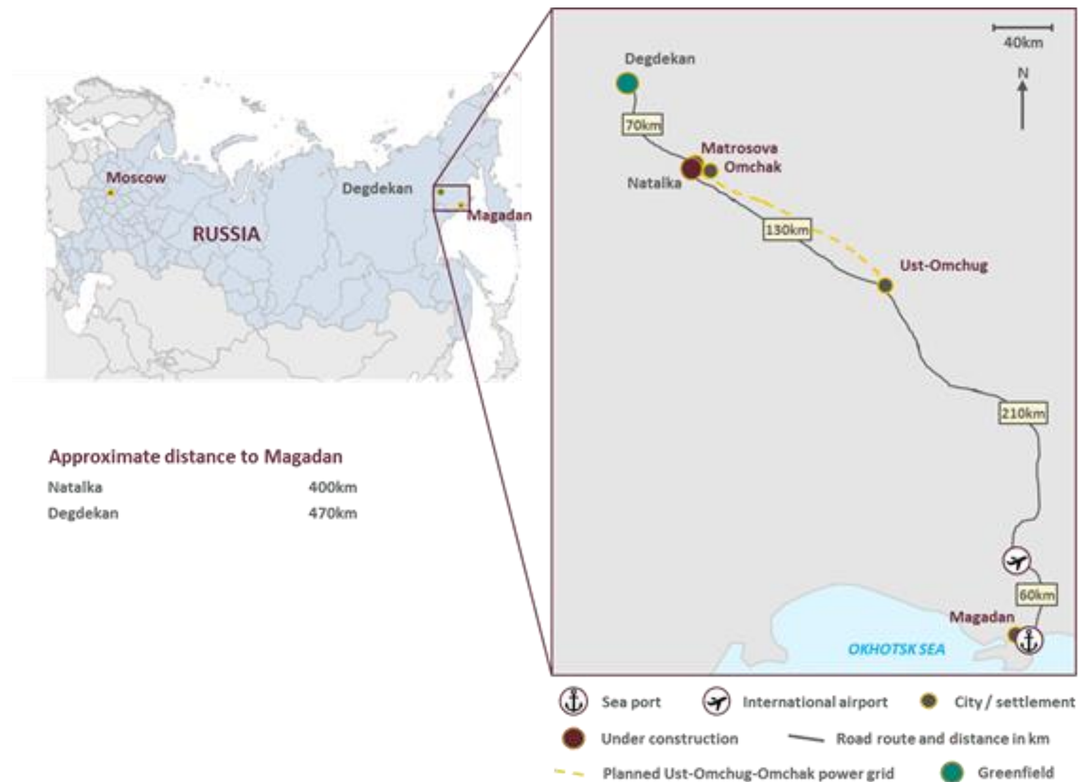
Total Measured and Indicated and Inferred Mineral Resources at Bamskoye as at 31 December 2016 were estimated at 20 mt of ore, grading 1.8 g/t gold for 1.1 moz of contained gold as classified and reported according to the JORC Code.

***Degdekan***

*1. Location and history*

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

The map below shows the location of the Degdekan deposit.




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

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

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

2. *Geology and mineralization*

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

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

3. *Reserves and resources*

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

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

***Burgakhchany***

1. *Location and history*

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

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

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

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

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

*2. Geology and mineralization*

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

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

*3. Reserves and resources*

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

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

**Trading Update for the Fourth Quarter and Twelve Months Ended 31 December 2017**

PJSC Polyus published its trading update for the year ended on 31 December 2017 on 16 January 2018, which is attached hereto as Annex I. The key highlights include:

- An increase in total gold output to 2,160 koz in 2017, representing an increase of 10 per cent as compared to the year ended 31 December 2016.
- An increase of the volumes of ore processed to 28,663 kt in 2017, which represents an 8 per cent increase as compared to the year ended 31 December 2016. This increase was driven by higher volumes of ore being treated at PJSC Polyus' core assets following the completion of a number of expansion projects.
- An increase in the volumes of ore mined to 37,810 kt in 2017, a 27 per cent increase from the year ended 31 December 2016.
- Annual gold sales estimated to have amounted to US$2,684 million in 2017 with an average selling price (including the impact of the SPPP) of US$1,270/oz, broadly in line with the LBMA spot price.

**Strategic Asset Review**

In 2014, the Group commenced a comprehensive review of its assets, with a view to monetizing its substantial resource base, identifying additional low-risk growth opportunities and optimizing its development pipeline. In March 2015, the Group developed the Strategic Asset Review Program to develop low-risk, low-cost brownfield projects. The review resulted in a number of medium-scale initiatives at its core assets at the Krasnoyarsk, Irkutsk and Yakutia business units, with the potential

to deliver up to approximately 480 thousand ounces per annum (excluding the Natalka project and the gold equivalent impact from the additional BIO circuit (BIO-4)) of incremental gold production. The Group's gold production totaled approximately 2.0 million ounces in 2016 and approximately 2.1 million ounces in 2017. In the mid-term, the Group's annual production target is at least 2.8 million ounces of gold to be produced by 2019. Achievement of these target projections depends on various factors, including market conditions, successful implementation of our development and expansion projects, and various operational and other risks described elsewhere in this Prospectus. Under the Strategic Asset Review Program, the brownfield projects include:

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

As of the end of 2017:

- the reconfiguration of Mill No. 1 to process higher-grade ore from the Olimpiada deposit was completed in September 2016;
- the throughput run rate at the Blagodatnoye Mill was stabilized at 8.0 mtpa and reached a run rate of 8.1 mtpa;
- the throughput run rate at the Kuranakh Mill reached 5.0 mtpa;
- the throughput run rate at the Verninskoye Mill reached 2.7 mtpa and the Group is now implementing initiatives to proceed with further capacity expansion;
- four out of eight units of an additional bio-oxidation circuit (BIO-4) at Olimpiada's Mills No. 1, 2 and 3 complex have been launched;
- heap leaching operations at Kuranakh have been implemented, with further ramp up expected with the start of the leaching season in 2018; and
- column tests continued at the Blagodatnoye heap leaching project site.

The Group is currently studying other options to further develop its existing operations in the Krasnoyarsk region, including further throughput capacity expansion.

**Disposal of Nezhdaninskoye**

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

Nezhdaninskoye project of certain operational and financial criteria, payable upon the commissioning of the Nezhdaninskoye deposit and construction of the processing plant.

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

On 30 June 2017, PJSC Polyus declared a special dividend of US$100 million from the proceeds of the sale of the Group's interest in Nezhdaninskoye. The Group paid its shareholders the special dividend in July to August 2017.

**Supplies**

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

***Electricity***

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

There is a lack of power grid facilities in the Krasnoyarsk region (Olimpiada, Titimukhta and Blagodatnoye deposits). As a result, the Group is required to use more expensive captive generators, reducing the security of the energy supply for existing operations. In 2016, the Group completed the construction of a 228 kilometers grid (the Razdolinskaya-Tayga grid) as part of its broader strategy towards the development of the Olimpiada and Blagodatnoye business units. The Group connected the Olimpiada and Blagodatnoye business units with Boguchanskaya HPP, providing the Olimpiada and Blagodatnoye business units with power at attractive rates and improving the reliability of the power supply. The Razdolinskaya-Taiga grid line is expected to be bought out by the Federal Grid Company for the capital cost of the project plus interest accrued or approximately RUB 6.6 billion (approximately US$102 million). Payments will be made in tranches until 2026. In December 2017, an acceptance certificate was signed between JSC TaigaEnergoStroy and the FGC.

In 2016, the Group also completed the construction of the 280 kilometer-long 110 kV Peleduy–Chertovo Koryto–Sukhoy Log power grid with a capacity of 51 MW, the first phase of the Peleduy–Mamakan 220 kV grid, as part of its broader strategy towards the development of Irkutsk business unit. The grid, consisting of the installation of 881 pylons, connects Viluyskie HPP with the Verninskoye and Chertovo Koryto deposits, providing the Irkutsk business unit with power at attractive rates and improving the capacity and reliability of the power supply. The Group plans to increase the voltage of the Peleduy-Chertovo Koryto-Sukhoy Log power grid to 220 kV, construct the second 220 kV chain of the Peleduy-Chertovo Koryto-Sukhoy Log power grid and 220 kV substation at the Sukhoi Log deposit and upgrade the Mamakan substation. Total capital expenditure for the first phase of the project – the power substation (named Polyus) and the Peleduy–Chertovo Koryto–Sukhoi Log-Polyus grid – amounted to US$90 million. The capital expenditure for the Peleduy-Mamakan grid amounted to a total of RUB 2.9 billion. The FGC bought out the Peleduy-Mamakan grid line for RUB 2.6 billion (approximately US$44 million) in December 2017.

In late 2016, a RUB 9.9 billion (approximately US$152 million at the US$/RUB exchange rate of 65 roubles per US$1.00) grant for the construction of the new high-voltage power line Ust–Omchug–Omchak in the Magadan region was approved for the Group by the state authorities, of which RUB 4.6 billion (US$76 million) has already been received. The 120 kilometer-long grid is intended to link Ust-Srednekanskaya HPP with Natalka and other ventures in the Magadan region in order to

significantly improve the Group's power supply and potentially to reduce the current electricity tariff. Although the construction plan is currently being finalized, construction of the grid is scheduled for completion in 2019. Any new construction relating to the grid will remain the Group's property. The operations are planned to be performed by the Group or by the Group together with MagadanEnergo. The project has additional effects in the form of revenues from the services related to the supply of electricity to third-party consumers and the possibility of extending the Natalka processing plant. Completion of the grid's construction and subsequent commissioning is scheduled for the first quarter of 2019, and the remainder of the government grant is due to be paid in instalments, with the last instalment due upon completion of the grid. The Group expects the total capital expenditure for the project to amount to US$152 million. Following an update to the project documentation, the total amount of the grant was decreased to RUB 8.8 billion (US$151 million at the average US$/RUB exchange rate for the nine months ended 30 September 2017). As a result of this decrease, the 2018 tranche decreased to RUB 1.5 billion (US$27 million). Additionally, RUB 492 million (US$8 million) was re-allocated from the 2018 tranche to the 2017 tranche.

***Transportation***

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

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

***Consumables***

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

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

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

***Purchase of ore produced by third parties***

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

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

***Capital expenditures***

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

The following table shows the Group's capital expenditures by project for the periods indicated. For a description of capital expenditures for the nine months ended 30 September 2017 and 2016 and for the years ended 31 December 2016, 2015 and 2014, see "*Operating and Financial Review—Discussion of Results of Operations*".

| | ***Year ended 31 December*** | | | ***Nine months ended 30 September*** |
|---|---|---|---|---|
| ***(in millions of U.S. dollars)*** | ***2016*** | ***2015*** | ***2014*** | ***2017*** |
| Natalka | 215 | 113 | 308 | 305 |
| Olimpiada | 80 | 39 | 56 | 93 |
| Blagodatnoye | 20 | 13 | 17 | 30 |
| Verninskoye | 24 | 21 | 38 | 23 |
| Alluvials | 16 | 5 | 17 | 17 |
| Titimukhta | – | 1 | 6 | – |
| Kuranakh | 33 | 10 | 6 | 39 |
| Exploration | 10 | 7 | 6 | 4 |
| Sukhoi Log | – | – | – | 9 |
| Other (including power projects) | 70 | 59 | 71 | 26 |
| **Total** | **468**[(1)] | **268** | **525** | **546** |

**Note:**

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

## Refining

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

### *Krasnoyarsk refinery – OJSC Krastvetmet*

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

### *Prioksky refinery – JSC Prioksky Plant of Non-Ferrous Metals*

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

## Sales

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

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

| | *Year ended 31 December* | | | *Nine months ended 30 September* |
|---|---|---|---|---|
| | *2016* | *2015* | *2014* | *2017* |
| Gold sales (koz) | 1,915 | 1,768 | 1,691 | 1,561 |

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

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

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

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

**Polyus Project**

The Group carries out project design and engineering centrally through LLC Polyus Project. As of 30 September 2017, there are approximately 167 employees of LLC Polyus Project involved in designing and engineering works for the Group, including designing of industrial plants and equipment, preparation of project documentation, engineering, surveying land plots and general project planning. LLC Polyus Project is also responsible for preparing project documentation on demolition, dismantlement and shut-down of buildings and construction projects, inspection of environmental and fire controls and the on-going inspection of various construction projects of the Group. LLC Polyus Project has a proven track record of successful completion of projects, including both optimization projects and the construction of mines from the greenfield stage, such as the Blagodatnoye mine. LLC Polyus Project is currently involved in modernization works at the Olimpiada, Titimukhta and Blagodatnoye mines. LLC Polyus Project reconfigured the Mill No. 1 processing plant, undertaken in order to treat higher-grade ore from Olimpiada. The reconfiguration was completed in September 2016, increasing the plant's throughput capacity to 3 mtpa as compared to 2.4 mtpa previously. In addition, LLC Polyus Project is implementing initiatives to upgrade the Blagodatnoye mill, improving recovery rates and increasing the throughput capacity from 6.0 to 8.0 mtpa by upgrading and debottlenecking the existing processing flows. LLC Polyus Project is also the general design contractor for JSC Matrosova Mine (Natalka), JSC Aldanzoloto GRK (Kuranakh) and JSC Polyus Verninskoye (Verninskoye).

**Total Optimization Program (TOP)**

In 2014, as part of its focus on operational excellence and cost discipline, the Group launched the TOP to streamline the implementation of capital expenditure-light operational improvements across its business. The TOP's objective was to introduce quick measures with a proven economic effect and that do not require investment in excess of RUB 35 million per initiative. Such measures have a payback period of not more than two years. The improvement in efficiency of the Group's operations is due to the standardization of business processes, increased productivity and a reduction in losses.

The TOP was initially only launched at the Krasnoyarsk mines (the Olimpiada and Blagodatnoye business units), where a total of 164 initiatives have been implemented since 2014. For example, following the review of the drive layout for the wet SAG mill (7x7) No. 10, the Group decided to replace an intermediate shaft with a lighter, hollow shaft with two bearing supports. This resulted in the reduction in pressure emitted from components and an even distribution of the load between both sides of a ring gear. The installation of a ring gear with a smaller diameter helped increase the shell rotation rate during repair works leading to shorter downtime, and a new design of the drive enabled the changing of a pinion together with a semi-coupling and a ring gear that reduced idle time at the mill. The implementation of this initiative resulted in a reduction of the mill drive downtime from two 60 hour periods each year to one 48 hour period per year; a decrease in the spare parts consumption rate from 10 to 4 per year for bearings and from 5 to 2 per year for pinions; and the additional recovery of 85 kg of gold per year. The Adjusted EBITDA effect of this initiative is estimated to be US$8.4 million.

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

The TOP has also had a positive impact on the Group's other business units, such as Verninskoye and Alluvials. With respect to the Group as a whole, the Group estimates that the TOP delivered a US$94 million positive impact on the Group's earnings in 2015 from 88 initiatives and a US$150 million positive impact on the Group's earnings in 2016 from 190 initiatives. By business unit, the Group estimates that the TOP has delivered a positive impact on Adjusted EBITDA in 2017 from 283 implemented initiatives as follows: Olimpiada and Blagodatnoye business units: US$99.8 million from 76 initiatives; Verninskoye: US$20.4 million from 86 initiatives; Kuranakh: US$12.9 million from 101 initiatives; and Alluvials: US$4.9 million from 20 initiatives. The Group expects further improvement in 2018.

**Polyus Production System**

The Polyus Production System (the "**PPS**") seeks to reinforce a lean production culture and a system of continuous improvement of processes, quality and labor organization in order to ensure the Group's competitive advantage. The PPS comprises of five key elements:

(1) operating system (efficient process model: production, service and administrative processes; advanced toolbox to ensure continuous improvement; development and implementation of clearly defined operational standards; methodology to identify and implement best practices throughout the organization);

(2) management system (efficient organizational structure; system of goal-setting in connection with business objectives, breakdown of objectives at all levels; compensation and benefits policy offering an incentive to achieve ambitious targets; system of regular employee performance reviews; efficient meeting and reporting system; regular audits to sustain and improve the system);

(3) training and education (system of training programs for all levels; knowledge control system; skill matrices and skills development; knowledge management and sharing);

(4) mentality and behavior (corporate values and principles; development of corporate culture promoting efficiency; nurturing leaders to change the corporate culture; regular communication of objectives and priorities; feedback and discussion of efficiency at all levels); and

(5) project management (planning and implementation of improvement initiatives; project management procedures for on-going projects; assurance that results are achieved).

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

In order to promote this culture of continuous improvement throughout the Group, the following seven key principles of the PPS were developed, which reflect working practices that the Group seeks its employees to apply to their work on a daily basis:

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

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

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

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

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

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

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

The Group has been implementing the PPS since 2015. By the end of 2017, approximately 60 per cent of the Group's production, service and maintenance areas will be implementing the PPS, which has already resulted in the implementation of more than 6,000 initiatives and the standardization of more than 1,000 operations. In order to ensure the active involvement of the Group's employees, 5,500 people have been given numerous training sessions and seminars on the application of production system tools and methods.

The current priorities of the PPS are:

- quality of implementation with regular audits of the PPS' development;
- focus on improving operational KPIs from the implementation of the PPS' tools and methods;
- training of managers and supervisors through workshops and individual projects; and
- maximum involvement of the Group's personnel and expansion to administrative and support functions.

**Research and Development**

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

The Group established its research and development center in 2004 in the city of Krasnoyarsk to support its exploration, mining and ore processing activities. The center employed 82 researchers and other staff as at 1 November 2017. The center has performed over 500 research and development projects, of which over 80 per cent have been implemented into the Group's production processes, while the Group has successfully obtained patents for 32 inventions. The center uses technologically advanced instruments, including an atomic-emission spectrometer, a spectrophotometer and an atomic-absorption spectrometer, and comprises of the following laboratories:

- ***Mineralogical laboratory***, which studies ores from the deposits to which the Group holds licenses to optimize exploration, production and ore processing. This laboratory accumulates data on mineral and chemical composition, the structural and textural features of bed-rocks and ores and the behavior of ores during processing and gold extraction rates.
- ***Geomechanics and engineering laboratory***, which develops technologies for mining, mine engineering and mine construction. Its activities include the study of the physical and technological properties of rocks and soils and the evaluation of the stability of pit benches and walls. This laboratory is developing a proprietary database to record the physical and technological parameters of ores and rocks from the deposits to which the Group holds licenses.
- ***Biotechnology laboratory***, which develops technologies and carries out complex research on improving the biotechnological schemes for processing gold-loaded ores and concentrates received from them. They are also engaged in the study and use of associations of microorganisms for the industrial problems of bio-oxidation gold-loaded ores and concentrates; improving research techniques and the operative control of processes of bio-oxidation of mineral raw materials; improving production schedules for bio-oxidation of mineral raw materials; introducing developed biotechnologies in manufacture; studying optimum technological parameters of processes for bio-oxidation of ores and concentrates; and carrying out trials and industrial tests on the basis of technological parameters and bio-oxidation modes. The Group employs the inventions in biotechnological sphere to process refractory ores of the Olimpiada deposit. Specially breaded bacteria oxidize the sulphide minerals in the ore and liberates the occluded gold for subsequent recover via leach extraction. In order to increase the stability and high productivity of the bio-oxidation mills, chemoautotrophic microorganisms are added to the process under acidic conditions (pH less than 2.0). Currently, JSC Polyus is a patent holder for patented technologies of bacterial processing of refractory gold bearing sulphide ores and patented technology for the addition of microorganisms in the process, while the technology itself is protected by the BIONORD® trademark. In order to increase gold recovery and to decrease reagent costs at the process stage of the hydrometallurgical section, the addition of microorganisms active in acidic conditions (pH 7.5-8. 0) was the selected approach. This process underwent various pilot plant tests, with preliminary tests indicating that the use of the microorganisms decreases reagent costs by more than 40 per cent, while increasing the gold recovery rate. Some pilot plant tests on biodegradation of rhodanides and cyanides that have been conducted at sorption tails of the Olimpiada mill have shown that the selected addition of microorganisms fully oxidizes rhodanides and cyanides in concentrations of 1600 mg/l and 50 mg/l, respectively. By employing this process, the Group's operations have significantly decreased their detrimental impact on the environment.
- ***Ore-processing laboratory***, which is one of the core divisions of the research and development center. It develops flotation, gravitational enrichment, magnetic separation, concentration, filtration and other technologies for ore processing.

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

**Sustainable development**

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

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

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

The Group seeks to strengthen its sustainability management system through its governance framework. The Group has developed a new set of sustainability standards and policies, which complies with the requirements and recommendations of both the ICMM and the International Financial Corporation ("**IFC**"), and has introduced principles and procedures to address key aspects

of sustainability, including social and environmental impact assessments, the sustainable use of natural resources, human rights and community engagement.

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

**Environmental**

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

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

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

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

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

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

*Cyanide neutralization*

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

*Rational use of natural resources*

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

*Protection and rehabilitation of land*

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

*Waste management*

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

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

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

***Water use and water resource protection***

The water supply for the Group's utility and production needs is drawn from local surface water bodies and underground sources. The Group targets the efficient and sustainable use of water resources and the establishment of closed water supply systems, enabling the Group to effectively recycle water for its main production processes at its processing plants at the Olimpiada, Kuranakh and Verninskoye mines. Water treatment remains a priority issue for the Group. The Group plans to conduct a water balance assessment at each business unit and is in the process of developing water management and water balance plans for the Olimpiada and Verninskoye mines and updating the existing plan for Natalka. The Group plans to implement an integrated detoxification system that can treat heavy metals, different types of cyanide, sulphates, conductivity, turbidity and other types of contaminants at the Olimpiada mine. Progress was made at the Olimpiada mine site, where new additional sewage treatment facilities are being constructed. After the construction, which is expected to be completed in 2017, additional environmentally efficient water treatment methods will be available. Yakutia Kuranakh business unit, as a representative of Unified State System of Aquatic Resources Environmental Monitoring, implements the Bolshoy Kuranakh river state environmental monitoring program within its operating area.

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

***Protection of air, energy efficiency and emission of greenhouse gases***

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

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

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

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

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

**Health and Safety**

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

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

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

***Health and Safety statistics***

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

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

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

**Note:**

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

All of the Group's business units have health service facilities and perform regular medical checks of employees working in health hazard areas. Medical aid posts are established at all of the Group's business units to carry out a medical inspection on employees before their shift begins, during working hours and at the end of their shift. The Group also provides medical care accessibility, which in practice results in a sufficient quantity of medical units, health centers, first-aid boxes on sites and available ambulances. The Group has developed an emergency medical response plan and established

contracts with health care centers and air medical services for all operational business units. In 2015, the Verninskoye mine site obtained a license to carry out medical examinations (pre-/post-travel), as well as drug and alcohol checks, and the majority of the Group's health management system performance targets were achieved. In 2015, the Group's total expenditure on health and safety was RUB 347.7 million (US$5.7 million at the average US$/RUB exchange rate for the year).

The international standard for reporting industrial accidents is the LTIFR. An incident becomes registered as a Lost Time Injury when a worker loses a single shift. In 2015, as a result of the Group's focus on the implementation of its health and safety management systems and the introduction of risk assessment mechanisms, LTIFR continued to decrease to 0.08 in 2015, an 11 per cent decrease as compared to 2014 (though LTIFR increased to 0.13 in 2016 and, as of the end of 2017 was 0.10). The Group uses a 200,000 man hour denominator in accordance with GRI requirements (Sustainability Reporting Guidelines).

### *Health and Safety training*

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

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

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

## Insurance

The Group has implemented a property risk insurance program that is renewable on an annual basis that provides coverage for the replacement of key production equipment, buildings and structures, and for losses resulting from a temporary disruption in production. The policy covers the main business units: JSC Polyus, JSC Polyus Verninskoye, JSC Aldanzoloto GRK, and Mamakan Hydro Power Plant. The coverage is on an all-risks basis, including pollution clean-up, strikes, civil commotions, construction, and damage or collapse of the tailings dam. The total insured sum under the insurance policy amounts to US$4,045 million (US$2,063 million for direct physical loss or damage and machinery breakdown and US$1,982 million for business interruption), with liability for each event that results in a loss being incurred by the Group capped at US$400 million. Significant costs relating to operational property damage, machinery breakdown and business interruption will be covered under the insurance program over the policy excess limits. Most of the coverage has been placed with the London insurance providers rated A- and higher by S&P. To mitigate the risks of transportation of its valuable cargo, the gold mining companies of the Group have cargo agreements with specialized transport companies that include cargo insurance. Shipments are insured with reputable Russian insurance companies.

## Employees

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

| | *As at 31 December* | | | *As at 30 September* | |
|---|---|---|---|---|---|
| ***Business unit/location*** | ***2016*** | ***2015*** | ***2014*** | ***2017*** | ***2016*** |
| Krasnoyarsk business unit | 5,364 | 5,545 | 5,605 | 5,528 | 5,171 |
| Irkutsk (alluvial) business unit | 3,211 | 3,091 | 2,368 | 1,387 | 3,610 |
| Irkutsk (ore) business unit | 1,541 | 1,598 | 1,600 | 3,074 | 1,500 |
| Yakutia (Kuranakh) business unit | 1,802 | 1,883 | 1,821 | 1,824 | 1,773 |
| Magadan business unit | 850 | 784 | 1,262 | 1,341 | 918 |
| Services | 5,087 | 4,831 | 4,818 | 5,158 | 5,054 |
| Moscow headquarters | 403 | 389 | 337 | 483 | 439 |
| **Total** | **18,258** | **18,121** | **17,811** | **18,795** | **18,465** |

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

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

### *Trade union*

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

### *Salaries*

The wages, salaries and other benefits the Group pays its employees are intended to facilitate recruitment and retention of qualified personnel to the remote areas where the Group operates. In the first nine months of 2017, the wages, salaries and other staff costs component of cost of gold sales increased by 30 per cent compared to the first nine months of 2016, and decreased by 5 per cent in 2016 as compared to 2015, and by 25 per cent in 2015 as compared to 2014; however, as all of the Group's labor expenses are denominated in roubles, the depreciation of the rouble was a key factor in this decline in labor costs, despite the effect of annual salary indexation. See "*Operating and Financial Review—Cost of gold sales*".

Employee salaries comprise of a base salary payment, which is calculated based on the employee's grade and position and, if applicable, for example in the case of mine workers, the number of hours worked. The base salary is indexed for inflation on an annual basis. The base salary may be supplemented with a discretionary performance-linked bonus, paid on an annual basis, and/or with hardship compensation established under Russian law for work in the far north and/or in particularly difficult or dangerous conditions. Approximately 23 per cent of the Group's employees work in the Yakutia and Magadan regions, in the far north of Russia. In addition, employees are entitled to a

range of benefits under the terms of the collective bargaining agreement. The Group also offers its employees to participate in a supplementary medical insurance program.

***Professional development***

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

***Facilities***

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

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

On 22 December 2016, the board of directors of PJSC Polyus approved a Long Term Incentive Plan (LTIP) according to which the members of top management of the Group are entitled to a conditional award in the form of PJSC Polyus' ordinary shares linked to the achievement of a combination of financial and non-financial performance conditions set by the board of directors for three-year performance periods. A total of up to 18 executives are currently entitled to participate in the LTIP.

The LTIP stipulates three rolling performance periods (*i.e.*, 2016-2017, 2016-2018 and 2017-2019). The total number of shares that may be distributed under the LTIP is up to 1,913,200 shares (approximately 1.43 per cent of PJSC Polyus' total share capital), which can be granted from newly issued ordinary shares, treasury shares, or otherwise. At the end of each performance period the shares will be transferred to the members of top management depending on whether the performance conditions have been achieved.

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

- ***Absolute Total Shareholder's Return KPI*** (weight – 30 per cent) is calculated as CAGR for the three upcoming years, with the preceding year's actual results used as the baseline;

- ***Adjusted EBITDA KPI*** (weight – 30 per cent) is calculated as the sum of absolute values for the applicable performance period;

- ***Gold Production KPI*** (weight – 25 per cent) is calculated as the sum of absolute values for the applicable performance period;

- ***Safety Culture Level KPI*** (weight – 15 per cent) is calculated as the moving average rating of the independently assessed safety culture level for the applicable performance period.

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

**Regional Investment Project Regime**

On 23 June 2016, Russian tax law was amended to simplify the procedure for the application of tax incentives for companies registered in the Far East of Russia and the Transbaikal region. As a result of the amendment, such companies are entitled to claim tax relief relating to taxable profits and tax on mining, provided that they implement a regional investment project ("**RInvP**") that satisfies the following conditions: (i) the location and implementation of the RInvP must be in one of the regions specified in the Tax Code; (ii) the company is required to invest at least RUB 500 million within five years of the commencement of the RInvP, but not earlier than 1 January 2013; and (iii) revenues from the sale of goods produced following the implementation of the RInvP must be not less than 90% of all revenues considered in determining the taxable profits for income tax purposes. In addition to reducing federal income tax to zero for companies meeting the above criteria, Russian tax law provides each region specified in the Tax Code with the ability to further reduce regional income tax to zero per cent. Unless any such region reduces the regional income tax rate, the standard regional income tax rate of 17 per cent continues to apply until 2020, whereupon the rate increases to 18 per cent.

JSC Polyus Verninskoye, a 100 per cent subsidiary of JSC Polyus operating in the Irkutsk region of the Russian Federation, as expected, satisfied the above criteria and started to apply a zero per cent tax rate (i) from August 2016 on tax on mining and (ii) from January 2017 on income tax. However, as a result of in-house auditing, the Russian tax authorities, while confirming that JSC Polyus Verninskoye was entitled to apply a zero per cent tax rate for federal income tax, challenged the Group's application of a reduced regional income tax rate. Following further analysis of the legal grounds and practicalities of defending the Group's position in the context of a lack of clarity and the complex nature of the relevant tax law, the Group's management has decided to discontinue the application of a zero per cent regional income tax rate in respect of Verninskoye's RInvP and is now applying the following (reduced) regional income tax rates: 17 per cent for 2017 to 2021; 18 per cent for 2022 to 2026; and the standard rate of 20 per cent from 2027. The application of the 17 per cent regional income tax rate for 2017 amounted to a US$19 million tax liability for the Group and a net adjustment to the recognised deferred tax assets and liabilities of US$9 million resulted in a net charge to the consolidated statement of profit or loss of US$9 million for the year ended 31 December 2017.

As a result, in the preparation of the annual consolidated financial statement for the year ending 31 December 2017, the Company is expected to recognize an additional one-off adjustment of approximately US$28 million, broken down as follows:

- US$19 million – correction of current income tax for 2017 financial year; and
- US$9 million – reassessment of deferred tax liabilities due to the application of the revised income tax rate as presented above.

In addition, the Russian tax authorities challenged the date of commencement of the RInvP, resulting in the application of the reduced zero rate of tax on mining being postponed from August 2016 to 1 January 2017. The tax on mining that would have been payable by the Group had the Group applied the standard tax rate amounts to US$6 million. While the Group intends to defend its position in court, such amount has been recognized in the Group's consolidated financial statements as a tax reserve. As a result, in the preparation of the annual consolidated financial statement for the year ending 31 December 2017, the Company is expected to recognize an additional one-off adjustment of approximately US$6 million with respect to the 2016 and 2017 financial years.

In the preparation of interim condensed consolidated financial statements for the nine months ended 30 September 2017, the above-mentioned information was not taken into account and, as such, respective adjustments were not reflected.

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

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

**Corporate Social Responsibility**

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

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

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

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

**Recent Litigation**

On 13 March 2017, non-profit organization "National Ecological Fund" (the "**Claimant**") filed a statement of claim with the Arbitrazh Court of the Moscow city against SL Gold and the Russian Federal Subsoil Agency disputing the results of the Sukhoi Log auction granting the license to SL Gold. The Claimant alleged that certain procedural steps in connection with the auction were breached, which resulted in the initial auction price being undervalued, and that exploration and development of Sukhoi Log deposit in the manner contemplated by SL Gold will present significant

additional environmental risks. Following the hearing in the court of first instance on 12 April 2017, all claims of the Claimant were dismissed by the Arbitrazh Court of Moscow. The decision of the court of first instance was upheld by the Ninth Arbitrazh Court of Appeal on 19 July 2017 and the Arbitrazh Court for the Moscow District on 22 November 2017. The Claimant filed a further appeal against the judgments rendered in this case with the Supreme Court of the Russian Federation on 25 December 2017. The Group believes that the claim is meritless and is fully committed to vigorously defending its interests and position.

## Key Financial Information

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

| ***(in millions of U.S. dollars, unless otherwise indicated)*** | ***Year ended 31 December*** | | | | ***Nine months ended 30 September*** | |
|---|---|---|---|---|---|---|
| | ***2016*** | ***2015*** | ***2014*** | ***2013*** | ***2017*** | ***2016*** |
| Gold production (koz) | 1,968 | 1,763 | 1,696 | 1,652 | 1,580 | 1,395 |
| Gold sold (koz) | 1,915 | 1,768 | 1,691 | 1,631 | 1,561 | 1,365 |
| Average realized refined gold price (excluding effect of SPPP) (US$/oz) | 1,250 | 1,159 | 1,277 | 1,385 | 1,254 | 1,265 |
| Average realized refined gold price (including effect of SPPP) (US$/oz) | 1,287 | 1,225 | 1,302 | 1,385 | 1,269 | 1,302 |
| Total cash costs (US$/oz) | 389 | 424 | 585 | 707 | 380 | 387 |
| Total revenue | 2,458 | 2,188 | 2,239 | 2,327 | 1,978 | 1,788 |
| Adjusted EBITDA | 1,536 | 1,278 | 1,018 | 917 | 1,237 | 1,135 |
| Adjusted EBITDA margin (%) | 62 | 58 | 45 | 39 | 63 | 63 |
| Capital expenditures | 468 | 268 | 525 | 1,432 | 546 | 295 |
| Free cash flow (FCF) | 826 | 351 | 282 | (908) | 461 | 654 |
| Borrowing | 4,981 | 2,189 | 1,818 | 1,144 | 4,272 | 4,950 |
| Cash and cash equivalents | 1,740 | 1,825 | 1,213 | 792 | 1,121 | 1,710 |
| Net debt | 3,241 | 364 | 336 | 304 | 3,151 | 3,240 |
| Net debt / Adjusted EBITDA (last 12 months) (x) | 2.1 | 0.3 | 0.3 | 0.3 | 1.9 | 2.3 |

# LICENSES

## Licenses

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

### *Exploration and Production Licences*

| *Facility* | *Term of License Registration/ re-registration* | *Expiry* | *Periods and main terms* |
|---|---|---|---|
| **Krasnoyarsk region** | | | |
| Blagodatnoye deposit[1] | 20.10.2017 | 1.2.2022 | – Achieve full design capacity and production capacity in accordance with the technical design.<br>– Conduct prospecting works in accordance with geological study projects.<br>– Conduct exploration in accordance with exploration projects. |
| Panimbinskaya block | 1.2.2007 | 1.11.2029 | – By 6 December 2010: complete geological study and file report with calculation of reserves.<br>– Commissioning of production capacity for ore mining and processing upon confirmation of reserves.<br>– Prepare project documentation for the development of the license area upon discovery of mineable reserves.<br>– Design capacity is preliminarily set as 300 kg of gold per annum and may be amended upon the results of the geological study during the preparation of technical design. |
| Razdolinskaya block[2] | 4.7.2007 | 1.11.2025 | – By 31 March 2018: file geological study report with calculation of reserves.<br>– By 30 September 2019: prepare technical design.<br>– Achieve full design capacity and production capacity in accordance with the technical design.<br>– Conduct prospecting works in accordance |

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

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

| *Facility* | *Term of License Registration/ re-registration* | *Expiry* | *Periods and main terms* |
|---|---|---|---|
| | | | with geological study projects.<br>– Conduct exploration in accordance with exploration projects. |
| **Amur region** | | | |
| Bamskoye gold ore site[3] | 4.2.2008 | 15.4.2030 | – By 31 December 2017: file report with calculation of reserves upon completion of geological study.<br>– By 30 June 2019: prepare and agree technical design.<br>– By 30 June 2021: commission mine.<br>– Production level and full design capacity term are determined in accordance with the technical design. |
| **Irkutsk region** | | | |
| Chertovo Koryto deposit[4] | 29.4.2016 | 1.1.2020 | – By 1 January 2018: commission mine.<br>– Achieve full design capacity and production capacity in accordance with the technical design.<br>– Conduct prospecting works in accordance with geological study projects.<br>– Conduct exploration in accordance with exploration projects. |
| Pervenets deposit[5] | 16.1.2017 | 1.6.2020 | – Achieve full design capacity and production capacity in accordance with the technical design.<br>– Conduct prospecting works in accordance with geological study project.<br>– Conduct exploration in accordance with exploration project. |
| Verninskoye deposit[5] | 16.1.2017 | 31.12.2025 | – Achieve full design capacity and production capacity in accordance with the technical design.<br>– Conduct prospecting works in accordance with geological study project.<br>– Conduct exploration in accordance with exploration projects. |
| Smezhny area[5] | 16.1.2017 | 10.10.2035 | – By 10 October 2018: file geological report with calculation of reserves.<br>– By 10 October 2019: prepare technical design. |

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

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

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

| *Facility* | *Term of License Registration/ re-registration* | *Expiry* | *Periods and main terms* |
|---|---|---|---|
| | | | – By 10 April 2021: commission mine.<br>– Production level and full design capacity term are determined in accordance with the technical design. |
| Medvezhy Zapadny[6] | 16.1.2017 | 25.2.2033 | – By 25 February 2017: commission mine.<br>– Production level and full design capacity term are determined in accordance with the technical design. |
| Sukhoi Log | 21.2.2017 | 23.2.2037 | – By 22 February 2018: prepare exploration project.<br>– Not later than 12 months after the completion of exploration: file exploration report.<br>– Not later than 36 months after the state expert review of the reserves: prepare and agree technical design.<br>– Mine commissioning, production level and full design capacity terms are determined in accordance with the technical design. |
| **Chukotka autonomous region** | | | |
| East Burgakhchanskaya area[6] | 11.1.2011 | 11.1.2036 | – Not later than 84 months after the registration of the license: complete geological study and file geological study report for state expert review of reserves.<br>– Not later than 9 months after the state expert review of the reserves: prepare exploration project.<br>– Not later than 6 months after the approval of the exploration project: commence exploration.<br>– Not later than 12 months after the completion of exploration: file exploration report for state expert review of reserves.<br>– Not later than 15 months after the state expert review of the reserves following the exploration: prepare technical design.<br>– Not later than 36 months after the approval of the technical design: commission mine.<br>– Production level and full design capacity terms are determined in accordance with the technical design. |
| West Burgakhchanskaya area[6] | 11.1.2011 | 11.1.2036 | – Not later than 84 months after the registration of the license: complete geological study and file geological study report for state expert review of reserves.<br>– Not later than 9 months after the state expert review of the reserves: prepare |

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

| *Facility* | *Term of License Registration/ re-registration* | *Expiry* | *Periods and main terms* |
|---|---|---|---|
| | | | exploration project.<br>– Not later than 6 months after the approval of the exploration project: commence exploration.<br>– Not later than 12 months after the completion of exploration: file exploration report for state expert review of reserves.<br>– Not later than 15 months after the state expert review of the reserves following the exploration: prepare technical design.<br>– Not later than 36 months after the approval of the technical design: commission mine.<br>– Production level and full design capacity terms are determined in accordance with the technical design. |
| Central Burgakhchanskaya area[7] | 11.1.2011 | 11.1.2036 | – Not later than 84 months after the registration of the license: complete geological study and file geological study report for state expert review of reserves.<br>– Not later than 9 months after the state expert review of the reserves: prepare exploration project.<br>– Not later than 6 months after the approval of the exploration project: commence exploration.<br>– Not later than 12 months after the completion of exploration: file exploration report for state expert review of reserves.<br>– Not later than 15 months after the state expert review of the reserves following the exploration: prepare technical design.<br>– Not later than 36 months after the approval of the technical design: commission mine.<br>– Production level and full design capacity terms are determined in accordance with the technical design. |

[7] The license terms were updated (actualized) on 13 March 2017.

*Production Licences*

| *Facility* | *Term of License Registration/ re-registration* | *Expiry* | *Periods and main terms* |
|---|---|---|---|
| **Krasnoyarsk region** | | | |
| Titimukhta deposit[8] | 19.10.2017 | 31.12.2023 | – Achieve full design capacity and production capacity in accordance with the technical design.<br>– Conduct prospecting works in accordance with geological study projects.<br>– Conduct exploration in accordance with exploration projects. |
| Olimpiada deposit (including Vostochny pit and Zapadny pit)[10] | 19.10.2017 | 31.12.2027 | – Achieve full design capacity and production capacity in accordance with the technical design.<br>– Conduct prospecting works in accordance with geological study projects.<br>– Conduct exploration in accordance with exploration projects. |
| **Magadan region** | | | |
| Natalka deposit[9] | 21.6.2016 | 31.12.2036 | – Achieve full design capacity and production capacity in accordance with the technical design.<br>– Conduct prospecting works in accordance with geological study projects.<br>– Conduct exploration in accordance with exploration projects. |
| **Republic of Sakha** (Yakutia) region | | | |
| Yuzhnoye deposit of the Kuranakh ore field[10] | 21.03.2016 | 31.12.2040 | – Achieve full design capacity and production capacity in accordance with the technical design.<br>– Conduct prospecting works in accordance with geological study projects.<br>– Conduct exploration in accordance with exploration projects. |
| Each of Delbe, Kanavnoye, Dorozhnoye, Bokovoye, Porfirovoye, Severnoye, Yakokutskoye, | 28.11.2016 | 31.12.2038 (Bokovoye, Severnoye, Tsentralnoye), 31.12.2034 | – Achieve full design capacity and production capacity in accordance with technical designs.<br>– Conduct prospecting works in accordance with geological study |

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

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

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

| *Facility* | *Term of License Registration/ re-registration* | *Expiry* | *Periods and main terms* |
|---|---|---|---|
| Tsentralnoye and Novoye deposits of the Kuranakh ore field[11] | | (Porfirovoye, Yakokutskoye), 31.12.2022 (Dorozhnoye), 31.12.2040 (Kanavnoye, Novoye), 31.12.2028 (Delbe) | projects.<br>– Conduct exploration in accordance with exploration projects. |
| Stockpile waste of Kuranakh field[12] | 20.6.2016 | 30.6.2024 | – Achieve full design capacity and production capacity in accordance with the technical design.<br>– Conduct prospecting works in accordance with geological study projects.<br>– Conduct exploration in accordance with exploration projects. |

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

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

# MANAGEMENT AND CORPORATE GOVERNANCE

PJSC Polyus' management structure consists of the General Meeting of Shareholders, the board of directors, the senior management of the Group and the General Director (the sole executive body).

**General Shareholders' Meeting**

The General Shareholders' Meeting is the supreme governing body of PJSC Polyus. The powers of the General Shareholders' Meeting are set forth in the Joint Stock Companies Law and in PJSC Polyus' charter and internal regulations.

**Board of Directors**

The board of directors directs PJSC Polyus' strategy and policy between General Shareholders' Meetings and is responsible for general management matters, with the exception of those matters designated by law and PJSC Polyus' charter as being the exclusive responsibility of the General Shareholders' Meetings.

The board of directors currently consists of nine members, each of whom was elected at the Annual General Shareholders' Meeting on 1 December 2017. 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 PJSC Polyus, which is required to be held by 30 June 2018. PJSC Polyus considers four of the current nine directors, Messrs. Dowling, Potter and Champion and Ms. Gordon to be independent under the Moscow Exchange Listing Rules. The business address of the members of PJSC Polyus' board of directors is 15/1 Tverskoy Boulevard, Moscow 123104, Russian Federation.

As of the date of this document, the members of PJSC Polyus' board of directors are as follows.

| *Name* | *Year of Birth* | *Position* |
|---|---|---|
| Mr. Edward Dowling | 1955 | Chairman |
| Mr. Kent Potter | 1946 | Independent Director |
| Mr. William Champion | 1952 | Independent Director |
| Ms. Maria Gordon | 1974 | Independent Director |
| Mr. Said Kerimov | 1995 | Director |
| Mr. Sergei Nossoff | 1977 | Director |
| Mr. Pavel Grachev | 1973 | General Director |
| Mr. Vladimir Polin | 1962 | Senior Vice President, Operations |
| Mr. Mikhail Stiskin | 1983 | Senior Vice President, Finance and Strategy |

**Edward Dowling**, *Chairman*

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

**Kent Potter**, *Independent Director*

From 2013 to 2016, Mr. Kent Potter was a Board member of SUEK plc, Russia's largest coal producer and exporting company. Prior to these appointments, Mr. Potter spent 27 years with

Chevron, during which he held a number of senior management positions. In 2003, Mr. Potter was appointed CFO of TNK-BP. Following TNK-BP, he was appointed Vice President and CFO of LyondellBasell Industries. Mr. Potter was awarded a Bachelor's degree in Engineering and an MBA from the University of California, Berkeley.

**William Champion**, *Independent Director*

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

**Maria Gordon**, *Independent Director*

Ms. Maria Gordon has 20 years of experience in finance and capital markets and currently serves as a non-executive Director of the Moscow Exchange (MOEX), and as a Senior Independent Director and Chairman of the Audit Committee of Alrosa, the world's largest diamond producer. She previously led the emerging markets portfolio management team at PIMCO, the world's second largest assest manager, as Executive Vice President and Head of EME Strategy. Prior to PIMCO, Ms. Gordon spent 12 years at Goldman Sachs Asset Management, where she rose to Managing Director, Head of Emerging Markets Equity Strategy. During her time there, Ms. Gordon became a lead emerging markets portfolio manager with assets under management of US$10 billion. Ms. Gordon was named Fund Manager of the Year on multiple occasions by Lipper and Morningstar between 2004 and 2007, and in 2011 she was listed in Financial News' 40 under 40 in Asset Management and Rising Stars in Finance. Ms. Gordon holds a Bachelor's degree in Political Science from the University of Wisconsin and a Master's degree in law and diplomacy from The Fletcher School of Law and Diplomacy at Tufts University.

**Said Kerimov**, *Member of the Strategy Committee*

Mr. Said Kerimov has been a manager at MC Polyus LLC, a management company of the Group and its operational subsidiaries, since 2017. The Group is beneficially controlled by Mr. Said Kerimov.

**Sergei Nossoff**, *Director*

Mr. Sergei Nossoff has been an Executive Director of PGIL since March 2016. He has over 18 years of extensive executive managerial experience in the metals and mining sector, private equity and investment banking. Prior to joining the Group, Mr. Nossoff was First Vice President and board member of international gold, copper and antimony producer, GeoProMining Group. Prior to that, he was Director of Strategy and Business Development at UC Rusal, the world's leading aluminium producer. Prior to joining UC Rusal, Mr. Nossoff spent 10 years as an investment banker, specializing in Mergers and Acquisitions and Leveraged Finance. Mr. Nossoff started his career at Credit Suisse First Boston, followed by Citigroup, Goldman Sachs and Bank of America. He graduated from the European Business School and completed an Executive MBA course at INSEAD.

**Pavel Grachev**, *General Director*

Mr. Pavel Grachev joined the Group in 2013. Prior to that, from 2010 to 2013, Mr. Grachev served as Chief Executive Office of the leading potash producer Uralkali and then of the Far East and Baikal Region Development Fund. From 2006 to 2011, he worked as chief counsel and then managing director of the investment company Nafta Moskva. From 1997 to 2005 he was the head of the Moscow office of the law firm Pavia e Ansaldo (Italy). Mr. Grachev also serves on the boards of the Federal Grid Company, Rushydro and the Company and has served on the boards of Uralkali, PIK

Group (as Chairman) and Polymetal. Mr. Grachev graduated from the Saint Petersburg State University and the University of Trieste (Italy) with degrees in law. Since 2014, Mr. Grachev has been a General Director for PJSC Polyus. Since 2016, Mr. Grachev has been a General Director of MC Polyus LLC, a management company for the Group and its operational subsidiaries.

**Vladimir Polin**, *Senior Vice President, Operations*

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

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

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

### Senior Management Team

The table below shows the senior management of PJSC Polyus and its subsidiaries. The business address for each member of the senior management is 15/1 Tverskoy Boulevard, Moscow 123104, Russian Federation.

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

**Pavel Grachev**, *General Director*

See "*—Board of Directors*".

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

See "*—Board of Directors*".

**Vladimir Polin**, *Senior Vice President, Operations*

See "*—Board of Directors*".

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

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

**Sergey Lobov**, *Vice President, Mineral Resources*

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

**Sergey Zhuravlev**, *Vice President, Government Relations*

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

**Vyacheslav Dzyubenko**, *Vice President, Internal Audit*

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

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

Mr. Kamenev joined the Group in 2015. Mr. Kamenev has extensive managerial experience in engineering and design for the mining industry. He has worked in the largest international engineering

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

**Alexander Shitov**, *Vice President, Control & Compliance*

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

**Elena Zhavoronkova**, *Vice President, Legal Affairs*

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

**Stefan Gueorguiev**, *Vice President, Project Management & Capital Construction*

Mr. Gueorguiev has over 20 years of experience in the Engineering, Procurement, and Construction Management (EPCM) industry, including project management, design, construction, and ramp-up of projects for mining, energy and oil and gas companies in North and South America, Europe, Africa, and the Middle East.

Prior to joining Polyus, Mr. Gueorguiev served as a Vice President of Projects at the Canadian subsidiary of Lycopodium Minerals, one of the leading providers of engineering and project management services for the mining industry. During his three years at Lycopodium, in addition to his role as Vice President, he managed several large-scale projects designing and constructing gold-processing plants in Colombia, Brazil, and Guinea.

Prior to this, for over 10 years, Mr. Gueorguiev worked for Amec in Canada, where he held a number of positions from a lead engineer to a project manager. At Amec, he successfully executed a number of projects in a variety of fields, including mining, energy, and oil and gas across the globe.

He holds a Master's Degree in Civil and Structural Engineering from the University of Architecture, Civil Engineering and Geodesy (UACEG) in Sofia (Bulgaria), as well as a Master's Degree in Project Management from Penn State University (USA).

**Felix Itskov**, *Vice President, Commerce & Logistics*

Mr. Itskov has been with the Group since July 2015. Mr. Itskov has a wealth of experience in managing supply chains, transportation and warehousing logistics. Prior to joining MC Polyus LLC, he spent two years at OJSC ANK Bashneft, where he was responsible for procurement and supply functions. Whilst there, he centralized the processes of materials and consumables procurement and supply for all the production, processing and sales companies and implemented the company's strategy for improving logistics efficiency and performance. Prior to joining Bashneft, Mr. Itskov was Vice President, Supply Chain Management and Infrastructure at TNK-BP. In 2012, he was recognized as the most effective young top manager in the company. At TNK-BP, he was in charge of materials and services procurement and supply to the processing and trading companies within the group. He was also responsible for the transportation, power efficiency and outsourcing functions of those companies. Mr. Itskov graduated with honors from the STANKIN Moscow State Technological University with a degree in economics and company management and has a Ph.D. in Economics.

**Oleg Solin**, *Vice President, Security & Asset Protection*

Mr. Solin joined the Group in February 2013 as Director for Economic Security. In June 2016, he was appointed Vice President for Security & Asset Protection. Prior to joining the Group, Mr. Solin held different managerial positions in the field of economic security and asset protection with major private and state-owned companies, including Rosneft and Mechel. Mr. Solin graduated from Moscow Higher Military School under the Federal Security Service of the Russian Federation.

**Lev Bondarenko**, *Vice President, Business Transformation*

Mr. Bondarenko joined Group in November 2016.

From 2010 until November 2016, Mr. Bondarenko was Director of Comprehensive Integration of Information Systems in Sibur, a major petrochemical holding in Russia and implemented a number of projects successfully in Sibur, including an extensive transformation program based on MES (Manufacturing Execution System) and SAP ERP (Enterprise Resource Planning), which received the highest honors among all SAP projects in the region (CIS).

From 2005 to 2010, Mr. Bondarenko worked in TNK-BP, a major Russian oil company, where he was Director of Optimization and Control of Business Processes and Head of Optimization Programs Portfolio in the downstream division. He was in charge of managing complicated projects, such as optimization of routine maintenance and overhauls of equipment, supplies and storage facilities, working capital, implementation of LEAN tools, calculation of material and energy balances and efficiency improvement of process hydrocarbon losses management. Mr. Bondarenko graduated from Lomonosov Moscow State University with a degree in Economics and IT/Business process Management. He also holds a Ph.D. in Economics.

**Tamara Solntseva**, *Vice President, Human Resources & Organizational Development*

Ms. Solntseva joined the Group in August 2015 and has held the office of Vice President of Human Resources & Organizational Development since May 2017.

Prior to joining the Group, Ms. Solntseva worked for Inter RAO UES, one of the leading power suppliers in Russia, where she headed the Remuneration and Organizational Design department and later became the business partner for foreign assets. She managed large projects aimed at development and oversaw the introduction of a new remuneration system and an improvement in the organizational structure and headcount. Mrs. Solntseva also has experience in HR management in the banking sector and oil and pharmaceutical industries.

Ms. Solntseva graduated from the Moscow State Industrial University, where she studied Industrial Economics and Management, and has a degree in Global Professional in Human Resources.

**General Director**

The General Director is the sole executive body and PJSC Polyus' chief executive officer. The board of directors appoints PJSC Polyus' General Director for a term of three years. The General Director may be re-elected for an unlimited number of terms. The current General Director, Mr. Pavel Grachev, has served in this position since 2014.

**Remuneration and Terms of Employment of Directors and Senior Management**

Compensation of key management personnel consists of remuneration paid to independent non-executive members of the board of directors and members of senior management for their services in full or part time positions. Compensation is comprised of annual remuneration plus a performance bonus depending on operating results. Total compensation of key management personnel in the form of long-term employee incentives amounted to US$19 million for the year ended 31 December 2016.

Members of the board of directors do not serve pursuant to a contract. The employment contract with the General Director has a term of three years and does not provide benefits upon termination of employment except for situations specified by the Russian Labor Code. The employment contracts with the General Director of PJSC Polyus and the General Director of MC Polyus LLC, in each case Mr. Grachev, require PJSC Polyus and MC Polyus LLC, as applicable, to pay compensation upon termination of Mr. Grachev's employment in accordance with Article 278.2 of the Russian Labor Code (termination of employment by the relevant governing body of PJSC Polyus or MC Polyus LLC, as applicable) in the absence of willful misconduct. The employment contracts with Mr. Grachev provide that such compensation must not be less than three times Mr. Grachev's monthly salary. PJSC Polyus and MC Polyus LLC enter into employment contracts for indefinite periods with the other members of the Group's senior management, and these contracts do not include termination benefits.

**Shares held by Directors and Senior Management**

The Group approved a Long Term Incentive Plan (LTIP) in December 2016. Under the LTIP, the members of senior management of the Group are entitled to a conditional award in the form of ordinary shares of PJSC Polyus if certain financial and non-financial performance indicators are met. The total number of shares that may be distributed under the LTIP is 1,913,200, and can be from newly issued ordinary shares, treasury shares, or otherwise.

As at the date of this Prospectus, PJSC Polyus' board of directors and members of senior management do not hold any shares, but hold options over up to 1,913,200 shares under the LTIP.

**Corporate Governance**

Reflecting the Group's intention to maintain high standards of corporate governance, the shareholders of the Company's Moscow Exchange-listed affiliate, PJSC Polyus, have at the annual general meeting elected the board of directors comprising nine members, including four directors considered independent under the Moscow Exchange Listing Rules.

***Board committees***

The Audit, Nomination & Remuneration, Strategy and Operations Committees of the board of directors PJSC Polyus, the Company's Moscow Exchange-listed affiliate, were formed on 29 April 2016. The committees are headed by independent directors. As of the date of this Prospectus, the composition of the committees is as follows.

*Audit Committee*

The Audit Committee, chaired by Kent Potter, is fully comprised of independent directors in line with the Moscow Exchange Listing Rules and recommendations.

| ***Name*** | ***Year of Birth*** | ***Position*** |
|---|---|---|
| Mr. Kent Potter | 1946 | Chairman |
| Mr. Edward Dowling | 1955 | Member |
| Mr. William Champion | 1952 | Member |
| Ms. Maria Gordon | 1974 | Member |

*Nomination & Remuneration Committee*

The Nomination and Remuneration Committee is chaired by Edward Dowling, who is also the chairman of the board of directors of PJSC Polyus.

| ***Name*** | ***Year of Birth*** | ***Position*** |
|---|---|---|
| Mr. Edward Dowling | 1955 | Chairman |
| Mr. William Champion | 1952 | Member |
| Mr. Kent Potter | 1946 | Member |
| Ms. Maria Gordon | 1974 | Member |

*Strategy Committee*

The Strategy Committee is also chaired by Edward Dowling.

| ***Name*** | ***Year of Birth*** | ***Position*** |
|---|---|---|
| Mr. Edward Dowling | 1955 | Chairman |
| Mr. Kent Potter | 1946 | Member |
| Mr. Pavel Grachev | 1973 | Member |
| Mr. Mikhail Stiskin | 1983 | Member |
| Ms. Maria Gordon | 1974 | Member |

*Operations Committee*

The Operations Committee is chaired by William Champion.

| ***Name*** | ***Year of Birth*** | ***Position*** |
|---|---|---|
| Mr. William Champion | 1952 | Chairman |
| Mr. Edward Dowling | 1955 | Member |
| Mr. Vladimir Polin | 1962 | Member |
| Mr. Pavel Grachev | 1973 | Member |

# PRINCIPAL SHAREHOLDER

As of the date of this Prospectus, JSC Polyus, a subsidiary of PJSC Polyus, owns 50,100 shares of the Company, representing 100 per cent of its share capital.

The Group is beneficially controlled by the Principal Shareholder, Mr. Said Kerimov, who controls indirectly 100 per cent of the share capital of PGIL, which, as of the date of this Prospectus, directly owns 82.44 per cent of PJSC Polyus' shares, which in turn owns 100 per cent of the share capital of JSC Polyus.

PGIL has entered into stock lending arrangements in respect of Regulation S Global Depositary Receipts representing approximately 1.9% of PJSC Polyus' issued share capital, which are expected to be used for the purposes of facilitating hedging activities of investors in the Company's convertible bonds due 2021.

Mr. Suleyman Kerimov does not own or in any way control or influence the shares in PJSC Polyus and, accordingly, the Company, beneficially owned by his son, Mr. Said Kerimov. Mr. Suleyman Kerimov has no current involvement in the Company and has no intention to be involved in the future with PJSC Polyus and, accordingly, the Company, or in relation to the shares beneficially owned by his son.

# RELATED PARTY TRANSACTIONS

*The following is a summary of the Group's transactions with related parties (as determined under IFRS) for the years ended 31 December 2016, 2015 and 2014, and for the nine months ended 30 September 2017 to the date of this Prospectus. For further details, see note 23 to the 2016 Financial Statements, note 23 to the 2015 Financial Statements and note 17 to the Interim Financial Statements.*

On 5 December 2014, PGIL acquired 8,995,860 ADRs representing 4,497,930 shares of PJSC Polyus from Jenington for US$95 million.

On 23 July 2015, JSC Polyus entered into a loan agreement with PGIL, pursuant to which PGIL used the proceeds from its US$750 million 5.625 per cent guaranteed notes due 2020 to give a loan to JSC Polyus in the amount of US$750 million with an interest rate of 6.1 per cent (in December 2016, the interest rate was amended to 5.725 per cent). Under the loan agreement, JSC Polyus must repay the loan by 21 April 2020. The loan was subsequently assigned by PGIL to the Company.

On 4 March 2016, PGIL repaid in advance of the maturity date US$124 million of loans previously obtained from JSC Polyus.

On 11 March 2016, PGIL entered into a securities purchase agreement and completed the sale of 60,211,461 shares of PJSC Polyus, representing approximately 31.59 per cent of PJSC Polyus' share capital, to LLC Polyus-Invest for the total purchase price of RUB 243,364 million, which is equivalent to approximately US$3.42 billion. The securities purchase agreement was entered into pursuant to, and on the terms and conditions of, the Information Memorandum.

On 30 September 2016, JSC Polyus obtained from PGIL 4,476,853 shares of PJSC Polyus. The proceeds were used by PGIL to settle the loans issued to PGIL by JSC Polyus and interest accrued thereon in the total amount of US$269 million.

On 26 October 2016, JSC Polyus entered into a trust deed with PGIL and BNY Mellon Corporate Trustee Services Limited, under which JSC Polyus guaranteed PGIL's obligations under the 2022 Notes. Also on 26 October 2016, JSC Polyus entered into a paying agency agreement relating to the 2022 Notes with PGIL, The Bank of New York Mellon, BNY Mellon Corporate Trustee Services Limited and other parties named therein.

On 2 November 2016, JSC Polyus entered into a further loan agreement with PGIL, pursuant to which PGIL used the proceeds from its US$500 million 4.699 per cent guaranteed notes due 2022 to give a loan to JSC Polyus in the amount of US$500 million with an interest rate of 4.799 per cent. Under the loan agreement, JSC Polyus must repay the loan by 23 March 2022. The loan was subsequently assigned by PGIL to the Company.

On 7 February 2017, JSC Polyus entered into a trust deed with PGIL and BNY Mellon Corporate Trustee Services Limited, under which JSC Polyus guaranteed PGIL's obligations under the 2023 Notes. Also on on 7 February 2017, JSC Polyus entered into a paying agency agreement relating to the 2023 Notes with PGIL, The Bank of New York Mellon, BNY Mellon Corporate Trustee Services Limited and other parties named therein.

On 13 February 2017, under the terms and conditions of PGIL's 2022 Notes, which are guaranteed by JSC Polyus, and the respective trust deed entered into by and among PGIL, JSC Polyus and BNY Mellon Corporate Trustee Services Limited, dated 26 October 2016, PJSC Polyus executed and delivered to BNY Mellon Corporate Trustee Services Limited a further guarantee by which it acceded as a guarantor under the 2022 Notes and guaranteed jointly and severally with JSC Polyus the obligations of PGIL under the 2022 Notes.

On 13 February 2017, JSC Polyus entered into a further loan agreement with PGIL, pursuant to which PGIL used the proceeds from its US$800 million 5.250 per cent guaranteed notes due 2023 to give a loan to JSC Polyus in the amount of US$800 million with an interest rate of 5.35 per cent. Under the loan agreement, JSC Polyus must repay the loan by 1 February 2023. The loan was subsequently assigned by PGIL to the Company.

On 21 April 2017, JSC Polyus entered into a supplemental trust deed with PGIL and BNY Mellon Corporate Trustee Services Limited, which modifies certain provisions of a trust deed dated 29 April 2013 as supplemented by the supplemental trust deed dated 11 June 2015.

On 28 April 2017, JSC Polyus entered into a supplemental trust deed with the Company, PGIL, BNY Mellon Corporate Trustee Services Limited and other parties, which modifies certain provisions of a trust deed and a paying agency agreement dated 7 February 2017, under which PGIL was substituted by the Company as the issuer of the US$800 million 5.250 per cent guaranteed notes due 2023. On 28 April 2017, PJSC Polyus guaranteed the Company's obligations under the US$800 million 5.250 per cent guaranteed notes due 2023 by issuing a further guarantee under the terms of the notes and the trust deed.

On 12 May 2017, JSC Polyus and PJSC Polyus entered into a supplemental trust deed with the Company, PGIL, BNY Mellon Corporate Trustee Services Limited and other parties, which modifies certain provisions of a trust deed and a paying agency agreement dated 29 April 2013, under which PGIL was substituted by the Company as the issuer of the US$750 million 5.625 per cent guaranteed notes due 2020.

On 30 May 2017, JSC Polyus and PJSC Polyus entered into a supplemental trust deed with the Company, PGIL, BNY Mellon Corporate Trustee Services Limited and other parties, which modifies certain provisions of a trust deed and a paying agency agreement dated 26 October 2016, under which PGIL was substituted by the Company as the issuer of the US$500 million 4.699 per cent guaranteed notes due 2022.

# REGULATORY MATTERS

Below is a summary of Russian regulatory matters that are applicable to the Group's operations in the Russian Federation.

## Overview

The Group's operations in Russia are regulated by a number of laws relating to mining operations, precious metals, quality standards, industrial safety, environmental regulation and other matters. The relevant legislation includes the following laws:

- the Constitution of the Russian Federation dated 12 December 1993, as amended;
- the Civil Code of the Russian Federation, as amended (the "**Civil Code**");
- the Land Code of the Russian Federation dated 25 October 2001, as amended (the "**Land Code**");
- the Russian Subsoil Law;
- Federal Law No. 41-FZ on Precious Metals and Gems, dated 26 March 1998, as amended (the "**Precious Metals Law**");
- Federal Law No. 128-FZ on Licensing of Certain Types of Activities, dated 8 August 2001 (the "**Old Licensing Law**");
- Federal Law No. 99-FZ on Licensing of Certain Types of Activities, dated 4 May 2011, as amended (the "**Licensing Law**");
- Federal Law No. 7-FZ on Environmental Protection, dated 10 January 2002, as amended (the "**Environmental Protection Law**");
- Federal Law No. 116-FZ on Industrial Safety of Dangerous Industrial Facilities, dated 21 July 1997, as amended (the "**Safety Law**");
- Federal Law No. 173-FZ on Currency Regulation and Currency Control dated 10 December 2003, as amended (the "**Russian Currency Law**"); and
- Federal Law No. 57-FZ on Foreign Investments in Commercial Entities Having Strategic Importance for the Defence of the Country and the Security of State dated 29 April 2008, as amended (the "**Foreign Investments Law**"),

and rules and regulations adopted in accordance with those laws.

## Subsoil use and mining

### *Subsoil licenses*

The Precious Metals Law, the Russian Subsoil Law and the regulations issued under those laws are the main legal acts which establish the licensing regime in Russia for the use of subsoil for geological research, exploration and production of mineral resources, particularly gold. In accordance with the Precious Metals Law, the Russian Subsoil Law governs the licensing of use of subsoil plots containing precious metals and gems, under which the Rosnedra may grant several types of subsoil licenses in relation to the geological survey and exploration and production of natural resources, including:

- combined licenses for the geological survey, exploration, assessment and production of natural resources;

- licenses for the geological exploration and assessment of a subsoil plot; and
- licenses for the geological exploration and production of natural resources.

Until January 2000, the Russian Government's Committee for Geology and Subsoil Use typically granted geological survey licenses for up to five years, production licenses for up to 20 years and licenses for combined activities for up to 25 years. Under the Russian Subsoil Law, as currently in effect, the maximum term of a regular geological survey license is still five years (although the maximum term of a license for the geological survey of subsoil plots located, fully or partly, in certain regions of the Russian Federation, including the Republic of Sakha (Yakutia), the Republic of Komi, the Kamchatka region, Krasnoyarsk region, Khabarovsk region, Irkutsk region, Magadan region, Sakhalin region, Nenets autonomous region, Chukotka autonomous region and Yamalo-Nenets autonomous region is seven years and for the geological survey of subsoil plots under inland sea waters, territorial waters and the continental shelf of the Russian Federation is 10 years). The Rosnedra may issue a production license and combined license for the useful life of a mineral reserves field, calculated on the basis of a feasibility study for exploration and production that ensures rational use and protection of the subsoil.

Prior to the amendment of the Russian Subsoil Law in August 2004, geological survey and production licenses were granted jointly by federal and regional authorities. Under the Russian Subsoil law, as currently in effect, the Rosnedra awards production licenses and combined geological survey exploration and production licenses by tender or auction. While the auction or tender commission formed by the Rosnedra must include a representative of the relevant region, the Russian Subsoil Law no longer requires the separate approval of regional authorities in order to issue subsoil licenses. Regional authorities may, however, issue production licenses for "common" mineral resources, such as clay, sand or limestone. An auction for subsoil plots of federal importance (as defined by Article 2.1 of the Russian Subsoil Law), which include, among other things, subsoil plots with aggregate gold reserves exceeding or equal to 50 tonnes of vein gold, and in certain other cases is arranged by the Russian Government, and the Government may impose limitations on Russian legal entities with foreign shareholders participating in the auctions. The Russian Subsoil Law provides that, in a tender, the license should be awarded to the bidder which has submitted the most technically competent, financially attractive and socially and environmentally sound proposal that meets published tender terms and conditions, and, in an auction, to the bidder which has offered the largest one-off payment for the use of the subsoil plot. The Rosnedra may also, pursuant to a decision of the special committee comprised of representatives of the federal and state authorities, issue licenses for exploration and production without holding an auction or tender if holders of geological survey licenses discover mineral resource deposits through a geological survey (except for the subsoil plots of federal and local importance).

If a geological survey conducted at a subsoil site has identified a deposit falling under the classification of a subsoil plot of federal importance, in the interests of national defence and security, the Russian Government may decide to deny a Russian legal entity with foreign participation the right to conduct exploration and production (even if a combined license has already been issued to the subsoil user, which would entail the revocation of the license subject to payment of compensation to the subsoil user for expenses incurred in conducting the geological survey and reimbursement of the lump sum payment upon issue of the license). Exploration and production of natural resources on the subsoil plots of federal importance by foreign investors or persons under their control is only permitted by a resolution of the Russian Government.

Licensing agreements for subsoil use identify the terms and conditions for the use of the subsoil, the rights and obligations of the licensee and the level of payments. Although most of the conditions set out in a license are based on mandatory rules, the parties may negotiate a number of provisions in a licensing agreement.

As a general rule, the Russian Subsoil Law prohibits the transfer of rights of subsoil use, subject to a license, with certain exceptions, including the following:

- in the course of a reorganization of the license holder;
- to a newly established Russian legal entity in which the initial license holder has at least a 50 per cent interest;
- from a parent company to a Russian subsidiary;
- from a subsidiary to a Russian parent company;
- between two subsidiaries of the same parent company, provided that a transferee is a Russian company; and
- to a Russian legal entity as a result of the acquisition of property of a previous subsoil user in the course of insolvency proceedings.

Generally, the Russian Subsoil Law prohibits the transfer of rights of subsoil use over the subsoil plots of federal importance to a Russian legal entity with foreign participation if such foreign investor, or such group of persons including a foreign investor, directly or indirectly possesses more than 10 per cent of the voting shares of that entity; has the right, through a contract or otherwise, to issue binding instructions to that entity, including control over the business operations; or has the right to appoint the chief executive officer or more than 10 per cent of the members of the collective executive body, or has an unconditional right to elect more than 10 per cent of the board of directors or another collective management body of that entity. Such entities may obtain the right of subsoil use over the subsoil plots of federal importance in exceptional cases at the discretion of the Russian Government.

A license holder has the right to develop and to use (including to sell) resources extracted from the license area for a specified period. The Russian Federation, however, retains ultimate state ownership of all subsoil resources.

Licenses generally require the license holder to make various commitments, including:

- complying with the license term and the timing of commencement of works (preparation of the technical design, achieving full design capacity, submission of geological information for state expert review);
- complying with the terms of payments levied on the use of subsoil, land plots, and water bodies;
- complying with the requirements for agreeing targets for the extraction of minerals, title to the extracted minerals;
- complying with the requirements for timely submission of geological information on subsoil to the federal fund for geological information and its regional bodies;
- complying with the requirements for the protection of subsoil and the environment and for work safety as set forth in the law and the relevant standards, provisions and rules; and
- complying with the procedure and timing for preparing mine decommissioning and suspension projects and land reclamation.

The Group's licenses are scheduled to expire at different times during the period between 2020 and 2040. See "*Licenses*". In addition, some of these licenses require approval of technical design of the deposit development (adjustment of the technical design of the deposit development) as a condition to extend the licenses and continue mining under them.

In accordance with the Russian Subsoil Law, a license holder may, on application to the Rosnedra, extend its license if the exploration, assessment or development of the licensed field or wind-up

operations require completion, provided that the license holder complies with the terms of the license. The Group intends to extend its licenses for each of the fields that are expected to be productive following the end of their current periods.

In February 2015, the Rosnedra commenced working on a one-time "actualization" of subsoil licenses, which includes elimination of some conditions of subsoil use, bringing them in compliance with amended regulatory framework, as well as exclusion of those license conditions that cannot be complied with and result in a formal requirement of premature termination of the right for subsoil use. The list of licenses which are subject to "actualization" is determined and from time to time updated by the Rosnedra. Most of the Group's licenses were "actualized" in 2016 and 2017.

Governmental authorities may undertake periodic reviews for ensuring compliance by subsoil users with the terms of their licenses and applicable legislation. The Federal Service for Supervision in the Sphere of Natural Resource Use (the "**Rosprirodnadzor**") and the Federal Service for Ecological, Technological and Nuclear Supervision (the "**Rostechnadzor**") can fine a licensee for failing to comply with a subsoil license and requirements of subsoil protection and efficient subsoil use, and the Rosnedra can prematurely revoke, suspend or limit a subsoil production license in certain circumstances, including:

- a breach or violation by the licensee of material terms and conditions of the license;
- repeated violation by the licensee of subsoil regulations;
- the failure by the licensee to commence operations within a period of time specified in the license with production of required volumes;
- the occurrence of an emergency;
- the emergence of a direct threat to the life or health of people working or residing in the area affected by the subsoil use operations;
- the liquidation of the licensee; and
- a failure to submit reporting data or geological information in accordance with Russian subsoil legislation.

***Mining allotments***

Under the Russian Subsoil Law, the Rosnedra provides a subsoil plot to a subsoil user as a "mining allotment", in other words, a geometric block of subsoil. The Rosnedra determines the boundaries of the preliminary mining allotment at the time it issues the license, subject to approval of the regional bodies of the Rostechnadzor. Following the preparation of a subsoil use development plan by the licensee, which the state mining supervision authorities (or, in relation to subsoil plots of local importance, the regional authorities) and an environmental examination committee must approve, the Rostechnadzor (or, in relation to subsoil plots of local importance, the regional authorities) prepares a mining allotment act and graphic annexes, which certify the exact mining allotment boundaries. The license will then incorporate the exact mining allotment boundaries.

***Land use permits***

In addition to a subsoil production license, a licensee needs to obtain rights to use surface land within the specified licensed mining area. The land resources management authorities provide a subsoil user with rights to the relevant land plot pursuant to Russian civil, forestry and land legislation. Under the previous regime, commercial legal entities were required to purchase or enter into lease agreements with respect to land plots occupied by their operations by 1 July 2012. From 1 March 2015, state-owned or municipality-owned land plots may be used for the purposes of geological exploration of a subsoil plot upon a formal decision of the regional land resources management authorities without

entering into a purchase or lease agreement. The Group is in compliance with these requirements with respect to its material land plots occupied by its principal operations.

***Payment system for the use of subsoil***

Under the Russian Subsoil Law, the payment system for the use of subsoil currently consists of the following payment obligations:

- one-off payments in cases specified in the license;
- regular payments for subsoil use;
- fees for the right to participate in tenders and auctions; and
- other payments and fees set forth by the legislation of the Russian Federation on taxes and duties.

The Russian Subsoil Law contains a range of minimum and maximum rates of regular payments for the use of subsoil and the federal authorities (and, in relation to subsoil plots of local importance, the regional authorities) have authority to set the rate in any particular license. The Russian Tax Code contains the relevant rates of tax on mining.

***Precious metals regulation***

The extraction, production and refining of precious metals are subject to specific regulations set forth in the Precious Metals Law. As a general rule, a company which extracts ores that contain precious metals has title to those precious metals. Russian companies may buy or sell ores and concentrate which contain precious metals provided that they are registered with the Russian State Assay Chamber. Only authorized entities approved by the Russian Government may refine precious metals. Companies which extract precious metals are required to offer refined precious metals, as well as nuggets and previous metals which qualify as "unique", on a priority basis to the relevant governmental authorities, which may use their pre-emptive rights if they have notified such companies of their intention to purchase precious metals within a month since the date of the relevant offer to purchase refined precious metals on a priority basis, have entered into agreements for the purchase and sale of precious metals and made an advance payment under those agreements. Since 2008, the governmental authorities have not acquired any refined metals from the Group on such a priority basis. Refined precious metals which have not been sold to governmental authorities may be sold in the domestic markets, used in internal production and for collateral or exported.

Companies are required to obtain a license from the Russian Ministry of Industry and Trade in order to export refined gold. For non-banking institutions, the Ministry of Industry and Trade only issues such licenses with respect to each particular export contract for a term of not longer than one year. This kind of one-off license is granted for a fixed volume of product, as specified in the sale contract. Imports of precious metals into Russia are not subject to licensing. In the first nine months of 2017 and the years of 2016, 2015 and 2014, the Group believed it could obtain more favorable contract terms with Russian banks for the sale of gold in its domestic market, except for the sale of the flotation concentrate through an agency agreement with Otkritie pursuant to the one-off export licenses granted with respect to several sale contracts with Chinese and Korean consumers.

***Licensing of types of activity***

In addition to licenses for subsoil use, the Group is required to obtain other licenses, authorisations and permits from Russian governmental authorities for its operations. In particular, the Group requires licenses for the operation of its hazardous industrial facilities using explosive and flammable materials and chemically hazardous materials and for the use of its underground water resources.

### *Licensing of the operation of hazardous facilities*

The Rostechnadzor issues licenses for the operation of industrial facilities using explosive and flammable materials and chemically hazardous materials having a specified hazard level and maintains a register of such facilities. In accordance with the Licensing Law, many provisions of which came into effect on 3 November 2011, the Group must continue to conduct those types of its activities on the basis of previously issued licenses issued under the Old Licensing Law and the regulations introduced under that law. Under the Old Licensing Law, licenses were issued for a minimum period of five years. Licenses issued under the Licensing Law are not limited to a specified term. The issuance of the license is subject to completion of a state industrial safety review and an industrial safety declaration and other requirements set forth in the licensing regulations. Licenses issued prior to and valid as at the date of the Licensing Law coming into force will also have unlimited duration.

Under the Licensing Law, a license will be suspended by a licensing authority in the following situations:

- imposition of administrative sanctions on a licensee for failure to implement, within the established period, orders issued by the licensing authority curing a material violation of the licensing requirements; and
- imposition upon a licensee of an administrative penalty in the form of administrative suspension of activity by reason of a material violation of licensing requirements.

If during a period of administrative suspension of the activity and suspension of a license, as established by a court or an official of the Rostechnadzor, a licensee has failed to cure a material violation of the licensing requirements, the licensing authority is obliged to bring before a court an application for revocation of the license.

### *Licensing of surface water use*

The Water Code of the Russian Federation No. 74-FZ dated 3 June 2006 (the "**Water Code**") does not require licensing of surface water use. However, prior to the Water Code, the law did require such licensing and the Group currently holds all of the licenses that were previously required.

Under the Water Code, water users may use surface water under a water use agreement concluded with state or local authorities or decision of state or local authorities granting rights to the use of surface water. In certain cases provided by other federal regulations, surface water may be used without providing any water use rights, depending on the purpose of the surface water use. Water users and state or local authorities may conclude agreements on water use for a period of up to 20 years.

### *Licensing of underground water use*

Users of underground water resources in Russia require a subsoil license issued under the Russian Subsoil Law and the regulations adopted under that law. The Rosnedra currently issues licenses for the use of underground water (except for the subsoil plots of local importance). The Rosnedra may grant licenses for a term of up to 25 years. Licensees may only amend the conditions of a subsoil license, including its term, by application to the licensing authorities. The user may also enter into an agreement with the licensing authorities which sets out further terms of use of the relevant resources.

However, if underground water is produced for the process of water supply by the holders of combined licenses for the geological survey, exploration and production of natural resources or licenses for the geological survey and exploration of a subsoil plot, the requirements described above

do not apply and the subsoil user is entitled to produce underground water upon approval of the technical design.

In the event of repeated breaches by the licensee of applicable regulations or material terms of the license, as well as upon the occurrence of certain emergencies, the licensing authorities may amend, suspend or terminate the license. Breaches may also result in the imposition of fines.

**Environmental Law**

***General***

The Group is subject to extensive federal and state environmental laws and regulations and local environmental regulations in the Russian Federation. The operations of the Group involve the discharge of materials and contaminants into the environment, the disturbance of land, potential damage to flora and fauna and other environmental concerns. As part of the Group's mining operations, the Group uses various chemicals and produces wastewater that could, if improperly disposed of, have a negative impact on wildlife and vegetation. In addition, the Group uses hazardous materials, such as solvents, to clean, refurbish and maintain its equipment. Russian laws and regulations set various health and environmental quality standards, provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to compensate for environmental damage and restore environmental conditions.

Environmental protection laws are primarily set forth in the Environmental Protection Law, together with a number of other federal, state and local legal acts.

***Pay-to-pollute***

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. Additional payment obligations may arise under other laws such as Federal Law No. 89-FZ of 24 June 1998 on Production and Consumption Waste, as amended, and Federal Law No. 96-FZ of 4 May 1999 on the Protection of Atmospheric Air, as amended.

Legal regulation with respect to control and surveillance over environmental use and protection is a function of the Ministry of Natural Resources and Ecology. Ecology surveillance functions, including the "pay-to-pollute" regime, are administered by the Rosprirodnadzor. Certain ecology surveillance functions are exercised by the Rostechnadzor in its capacity as the authority responsible for the register of the hydro-technical facilities, such as tailing dams.

The Russian Government has established standards that regulate the permissible impact of industrial and other business activities on the environment. Various federal ministries and services, including the Rosprirodnadzor and the Rostechnadzor, determine limits for emissions and disposal of hazardous substances, waste disposal and soil and subsoil contamination. Companies must develop their own pollution standards based on these statutory standards, as modified to take into account the type and scale of the environmental impact of their operations. Companies must then submit these standards and limits for waste disposal for approval by the Rosprirodnadzor, which, if those standards do not comply with the relevant regulations, may determine the applicable limit for pollution and require the relevant company to prepare and submit a program for the reduction of emissions or disposals to the prescribed limit. The law generally requires a company to implement an emission reduction program within a specified period.

The Russian Government has established fees for both the statutory and individually approved limits on emissions and effluents and for pollution in excess of these limits. The fees may be increased by statutory approved multiples to reflect a company's environmental impact. Under the Environmental Protection Law, fees are subject to multiples that may reach up to 25 times for emission and effluents

in excess of statutory limits will be effective until 31 December 2019. From 1 January 2020, the highest multiple that can be applied to the fees will be increased to 100 times, which will apply to companies exceeding such pollution limits and having a significant negative environmental impact. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities. The Group paid approximately US$0.66 million, US$0.91 million, US$1.06 million and US$1.35 million in such charges in Russia in the first nine months of 2017 and in 2016, 2015 and 2014, respectively.

***Industrial environmental monitoring***

Under the Environmental Protection Law, objects having negative environmental impact are divided into four categories based on the level of impact: objects having significant negative environmental impact, objects having moderate negative environmental impact, objects having low negative environmental impact and objects having minimal negative environmental impact. The criteria for determining the appropriate category of impact are determined by the Russian Government and take into account such factors as the level of negative environmental impact of business and/or production activity, toxic level and carcinogenic property of polluting substances, classification of industrial facilities, etc. All objects having negative environmental impact will be registered with state authorities.

The Environmental Protection Law requires companies operating businesses and activities at a specified impact criteria to carry on an industrial environmental monitoring which includes implementation of a program of industrial environmental monitoring and reporting on the results of the industrial environmental monitoring to the Rosprirodnadzor.

***Ecological approval***

Federal Law No. 174-FZ on Ecological Expert Examination, dated 23 November 1995, as amended (the "**Ecological Examination Law**"), provides for mandatory ecological approval of documentation before the implementation of certain types of activities made to prevent negative impact of these activities on the environment, and the receipt of a positive examination by state ecological expert before the project may commence or be financed. State ecological approval must be obtained from federal or regional authorities based on the list of certain types of documentation being objects of such ecological approval (Environmental Impact Assessment) set forth by the Ecological Examination Law. Violation of the Ecological Examination Law may result in administrative fines, civil liability (to compensate for damages and losses) and criminal liability as described below.

***Environmental protection authorities***

The Rosprirodnadzor, the Rostechnadzor, the Russian Federal Service for Hydrometeorology and Environmental Monitoring, the Rosnedra, the Russian Federal Agency on Forestry and the Russian Federal Agency on Water Resources, along with their regional branches, are primarily responsible for environmental control, and the monitoring, implementation and enforcement of the relevant laws and regulations. The Russian Government and the Russian Ministry of Natural Resources and Ecology are responsible for the development of regulations in the sphere of environmental protection and for the coordination of activities of the regulatory authorities in this area. These regulatory authorities, along with other state authorities, individuals and public and non-governmental authorities, have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

***Environmental liability***

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, the environmental authorities may suspend these operations (for up to 90 days) or a court action may be brought to limit or ban these operations and require the company

to remedy the effects of the violation. Any company that fails to comply with environmental regulations may be subject to administrative and/or civil liability, and its employees may be held disciplinary, civilly, administratively or criminally liable. A court may impose an obligation to conduct reclamation measures at the expense of a breaching entity pursuant to a plan of restorative works.

Since 1 January 2012, owners of certain types of hazardous facilities are required to obtain insurance for liability for harm caused to third parties (individuals) as a result of accidents at the facilities, except for harm caused to the environment. In addition, the Ministry of Natural Resources and Environment has recommended that a voluntary environmental insurance policy be obtained to cover events of accidental environmental pollution of air or land or accidental discharge of waste waters or other clean-up liabilities. In 2017, the Group has voluntarily implemented the Standard on Rational Use of Natural Resources, pollution prevention and reporting on environmental parameters and the Standard on Biodiversity Conservation. Two other corporate standards – the Standard on Environmental Impact Assessment and the System of Evaluation of Wastes Quality are in the process of being approved by the Group.

### *Reclamation*

Reclamation activities, such as re-cultivation, restoration, regeneration and other methods of rehabilitation, are prescribed in the Basic Regulations on Land Reclamation, Removal, Preservation, and Rational Use of the Fertile Soil Layer, approved by Order No. 525/67 of 22 December 1995 of the Ministry of Natural Resources and Environment and the Russian Committee for Land Resources and Land Use. In general, reclamation activities applicable to the Group involve both a technical stage and a biological stage. In the first, technical stage, the Group performs landscaping operations (grades and terraces mound slopes and levelling of the surface of the mounds). In the second, biological stage, conifers, such as pine, larch or cedar, on horizontal and gently sloping surfaces, as well as shrubs and bushes, start to grow to reinforce inclines. Russian environmental regulations do not require mines to achieve the approximate original contour of the property as is required, for example, in the United States.

## Regulation of Real Estate

### *General*

At present, the Russian Federation or the Russian regions or municipalities own most land in Russia, and only a small proportion of land is in private ownership. A relatively higher proportion of buildings and similar real estate assets is privately owned, due to a less restrictive regulatory regime which applies to these properties.

Under the Land Code, companies generally have one ownership or lease rights in relation to the use of land in the Russian Federation. The Group owns or leases the majority of land plots that it uses in its activities.

The Federal Service for State Registration, Cadastre and Cartography (the "**Rosreestr**") records details of land plots and other types of immovable property in a Unified State Register of Immovable Property (the "**Register of Immovable Property**"), which includes, among other parameters of land plots, their measurements and boundaries, category and permitted use. As a general rule, a landowner must register a land plot in the Register of Immovable Property and obtain a state cadastre number for a land plot as conditions to selling, leasing or otherwise transferring interests in that plot. As described below, the Rosreestr maintains a combined register for the state cadastre numbers and maps, registration of rights, transactions and encumbrances and other information relating to the real estate.

Russian law categorizes all land as having a particular designated purpose, for example agricultural land, industry land, settlement lands, lands by specially protected territories and objects. Land should be used in accordance with the purpose designated by the relevant category and determined permitted use. However, in March 2014, a draft federal law prepared by the Ministry of Economic Development of the Russian Federation and aimed primarily at simplifying the existing land use rules was submitted to the Russian State Duma, which was adopted in the first reading in December 2014 and is currently being considered by the Russian State Duma in the second reading. If the draft is adopted, the land categories will be abolished, and all land plots (save for the most valuable agricultural land) will be divided into certain functional zones.

Those companies that had obtained a right of perpetual use over land prior to the enactment of the Land Code were required, by 1 July 2012, either to purchase the land from, or to enter into a land lease agreement with, the relevant federal, regional or municipal authority owning the land. Those companies that had a right of perpetual use over land containing linear facilities (such as power transmission lines, communication lines, pipelines and railway lines) were entitled to purchase such land, enter into a land lease agreement or establish a right of limited use of such land (servitude) by 1 January 2016. The right of perpetual use was abolished for companies starting from 1 March 2015.

Under Russian law, it is possible that the person or entity holding the ownership rights to a building or other real estate asset may not be the same person or entity holding the ownership rights to the land plot on which the building or other real estate asset is constructed. In these circumstances, the owner of that building, as a general rule, has a right of use over the relevant portion of that plot of land occupied by the building and needed for its use or, in some cases, the owner of the building or other real estate asset can use the relevant portion of the land plot under the lease agreement with the owner of such land plot. Moreover, in certain cases, an owner of a building or plot of land may require that the owner of an adjoining plot of land grant a right of limited use of the adjoining plot of land (servitude) in its favor.

***State registration of real estate and transactions and encumbrances involving registered real estate***

With effect from 1 January 2017, the Rosreestr maintains the Register of Immovable Property, which contains, among other things, the information on rights and encumbrances in respect of real estate, cadastre of real estate assets and borders of zones with special terms of land use. Registration is required for specified transactions involving leases of the registered real estate (including, among other things, buildings, facilities, land plots and other real estate for a term of not less than one year (with certain exceptions and assumptions), as well as certain encumbrances, such as, servitude. A person acquires rights to the relevant real estate only upon such state registration. A failure to register a transaction which requires state registration generally results in the transaction being rendered invalid for the third parties or, to the extent stipulated by law, null and void.

***Regulation of the sale and lease of real estate***

The Civil Code requires that agreements for the sale or lease of buildings expressly set out the price of such sale or lease. In relation to leases, both the rights granted by the lease and the lease agreement (other than lease agreements for a term of less than one year) require registration. In relation to sales, only the transfer of ownership effected by the relevant sale (but not the sale agreement itself) requires registration.

**Technical Regulation**

The Group is subject to various technical regulations and standards which apply to industrial manufacturing businesses. Federal Law No. 184-FZ on Technical Regulation, dated 27 December 2002 (the "**Technical Regulation Law**") introduced, on 1 July 2003, a new regime for the development, enactment, application and enforcement of mandatory rules applicable to products, manufacturing, storage, transportation, sales and specified other operations and processes, as well as

new regulations relating to the quality of products and processes, including technical regulations, standards and certifications. Technical regulations are expected to replace the previously adopted state standards (the so-called "**GOSTs**"), and, in the absence of certain technical regulations, the existing federal laws and regulations, including GOSTs, that prescribe rules for different products and processes remain in force to the extent that they protect health, property, the environment or consumers. In any event, the State Committee on Standardisation and Metrology (a predecessor of the Federal Service for Technical Regulation and Metrology) has declared GOSTs and interstate standards adopted before 1 July 2003 to be the applicable national standards.

In those cases where the Technical Regulation Law provides for mandatory confirmation that a product conforms to established technical regulations or standards, companies are required to obtain certifications of compliance with the applicable technical regulations, standards and terms of contracts. Currently, companies must certify a number of products containing precious metals and Russian law requires mandatory certification under a classification system. Where certification is not mandatory, a company may elect for voluntary certification by applying for a compliance certificate from the relevant authorities. Following the issuance of that certificate, the applicant has the right to use the relevant compliance mark on its products.

**Health and Safety**

Due to the nature of the business of the Group, the Group's workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Safety Law. The Safety Law applies, in particular, to industrial facilities and sites where companies undertake specific activities, including sites where companies use lifting machines, produce alloys of ferrous and non-ferrous metals and conduct certain types of mining. Dangerous industrial facilities under the Safety Law are divided into four categories based on the level of hazard. These categories vary from level one (extremely dangerous industrial sites) to level four (least dangerous industrial sites). The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where companies use these substances. As a general rule, a company that utilizes industrial facilities of the highest two hazard levels is obliged to adopt an industrial safety declaration.

Other Russian regulations address safety rules for coal mines and the production and processing of ore, gold smelting and alloy production. Additional safety rules apply to metallurgical and coke chemical enterprises, the foundry industry and other industries.

Any construction, reconstruction, liquidation or other activity in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited, unless the revised documentation undergoes expert examination and the Rostechnadzor approves the same.

Companies that operate regulated industrial facilities and sites have a wide range of obligations under the Safety Law and other laws, including the Russian Labor Code effective from 1 February 2002, as amended (the "**Labor Code**"). In particular, companies must limit access to such sites to qualified specialists, maintain industrial safety controls, have third-party insurance liability for injuries caused in the course of operating industrial sites and comply with other specific obligations. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or, in some cases, create their own wrecking services; conduct personnel training programs; create emergency response systems; inform the Rostechnadzor of accidents; and maintain these systems in good working order.

In some cases, companies operating industrial sites must also prepare industrial safety declarations, which summarize the risks associated with operating a particular industrial site and the measures the

company has taken, and will take, to mitigate such risks and to use the site in accordance with applicable industrial safety requirements. The chief executive officer of the company must adopt those declarations, and is personally responsible for the completeness and accuracy of the data contained in the declarations. The Rostechnadzor requires the industrial safety declaration and certain other documents, including a state industrial safety review, for the issuance of a license permitting the operation of a hazardous industrial facility when such a license is required by law.

Companies operating hazardous industrial facilities at the highest two levels of hazard are required to approve and ensure maintenance of an industrial safety management system, including an industrial safety policy, an internal regulation on industrial safety management system and an internal regulation on industrial control.

The Rostechnadzor has broad authority in the field of industrial safety. In the event of an accident, a special commission led by a representative of the Rostechnadzor conducts a technical investigation of the cause of the incident. The company operating the dangerous industrial facility where the accident took place must bear all the costs of the investigation. Rostechnadzor officials have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Rostechnadzor has the power to suspend or terminate operations or impose administrative liability on the company or its officials.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obliged to compensate the individual for lost earnings, as well as for health-related damages, and, in certain cases, its activity may be suspended.

**Employment and Labor**

***General***

The Labor Code is the key law in Russia which governs labor matters. In addition to this core legislation, various federal laws, such as Russian Law No. 1032-1 dated 19 April 1991 on Employment of Population in the Russian Federation, as amended, regulate relationships between employers and employees.

***Employment contracts***

As a general rule, employers must conclude employment contracts for an indefinite term with all employees. Russian labor legislation expressly limits the possibility of entering into fixed term employment contracts. However, employers and employees may enter into an employment contract for a fixed term in certain cases where it is not possible to establish labor relations for an indefinite term due to the nature of the duties or the conditions of the performance of such duties, as well as in other cases expressly identified by the Labor Code or other federal laws.

An employer may terminate an employment contract only on the basis of the specific grounds stated in the Labor Code, including, among others:

- the liquidation of the company or downsizing of staff;
- the failure of the employee to comply with the position's requirements due to incompetence confirmed by results of the employee's appraisal;
- the systematic failure of the employee to fulfil his or her labor duties if he or she was the subject of disciplinary measures;
- the gross violation by the employee of labor duties; and

- the provision by the employee of false documents upon entering into the employment contract.

***Employees' rights***

The Labor Code provides an employee with certain minimum rights, including the right to a working environment which complies with health and safety requirements and the right to receive a salary on a timely basis and to participate in the management of the authorized entity. These rights may be extended by other federal laws, the company's constituent documents and local regulations, and collective and other agreements.

An employee dismissed from the company due to downsizing or liquidation is entitled to receive compensation from his or her employer, including a severance payment and, depending on the circumstances, salary payments for a specified period of time.

The Labor Code also provides protections for specified categories of employees. For example, except in limited circumstances, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 (or with a disabled child under the age of 18) or other persons caring for a child under the age of 14 without a mother.

Any termination by an employer that is inconsistent with the Labor Code requirements may be invalidated by a court, which may require the employer to reinstate the employee. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent and Russian courts tend to support employees' rights in most cases. Where a court reinstates an employee, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for any mental distress.

***Work time***

The Labor Code sets the regular working week at 40 hours. In general, an employer must compensate an employee for any time worked beyond 40 hours per week, as well as for work on public holidays and weekends, at a higher rate.

Annual paid vacation leave is generally 28 calendar days. Employees who perform underground and open pit mining works or other work in harmful conditions are entitled to additional paid vacation of at least 7 calendar days. Employees required to work non-standardized working hours are entitled to additional paid vacation of at least three calendar days.

The retirement age in the Russian Federation is generally 60 years for males and 55 years for females. However, the retirement ages of males who have worked in arduous working conditions for at least 12 years and six months and females who have worked in arduous working conditions for at least 10 years are 55 years and 50 years, respectively, provided that their total qualifying period is not less than 25 years and 20 years, respectively. In the case of work involving underground operations, hazardous conditions or hot workshops, the retirement age is 50 years for males who have worked in such conditions for at least 10 years and whose qualifying period is not less than 20 years and 45 years for females who have worked in such conditions for at least 7 years and six months and whose qualifying period is not less than 15 years. Persons who have worked as miners in open pit mines or underground mines for at least 25 years, and in specified circumstances for at least 20 years, may retire regardless of age.

***Salary***

The minimum monthly salary in Russia is established by federal law from time to time. Starting from 1 January 2018, the minimum monthly salary is set at an amount of RUB 9,489. Although the law

requires that the minimum wage be at or above a minimum subsistence level, the current statutory minimum monthly salary is generally considered to be less than the minimum subsistence level. Starting from 1 January 2019, the statutory monthly salary will equal the minimum subsistence level determined as at the second quarter of the preceding year. Salaries of the Group's employees are generally higher than the statutory minimum and none are below such minimum.

***Social infrastructure programs***

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

***Strikes***

The Labor Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labor dispute. Russian legislation contains several requirements which must be met for strikes to be legal. An employer may not use an employee's participation in a legal strike as grounds for terminating an employment contract, although Russian law generally does not require employers to pay wages to striking employees for the duration of the strike. Conversely, an employee's participation in an illegal strike may provide adequate grounds for termination of his or her employment contract.

***Trade unions***

Trade unions are defined by Federal Law No. 10-FZ on Trade Unions, Their Rights and Guaranties of Their Activity, dated 12 January 1996, as amended (the "**Trade Union Law**"), as voluntary unions of individuals with common professional interests which are created for the purposes of representing and protecting social and labor rights and interests of their members. Russian law also permits national trade union associations, which coordinate activities of trade unions throughout Russia.

Although Russian labor regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. The Group's management routinely interacts with trade unions in order to ensure the appropriate treatment of its employees and the stability of the Group's business.

The activities of trade unions are generally governed by the Trade Union Law and applicable legal acts including the Labor Code.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labor laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labor issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labor disputes with management;
- participate in strikes and meetings to protect social and labor rights of employees; and

- monitor the redundancy of employees and seek action by municipal authorities to delay or suspend mass redundancies.

Russian laws require that companies cooperate with trade unions and not interfere with their activities. Trade unions and their members enjoy certain guarantees as well, such as:

- the retention of job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- the provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work conditions requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may receive information on social and labor issues from an employer (or employers' unions) and state and local authorities, as well as cooperate with state authorities for the purposes of supervision of compliance with Russian labor laws. Trade unions may also initiate collective labor disputes, which may lead to strikes.

To initiate a collective labor dispute, trade unions must present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labor disputes are generally referred to mediation or labor arbitration.

The Trade Union Law provides that those who violate the rights and guarantees of trade unions and their officers may be subject to disciplinary, administrative and criminal liability. The Russian Code on Administrative Offences of 30 December 2001, as amended, specifies that such violations may lead to imposition of an administrative fine. Although the Russian Criminal Code of 13 June 1996, as amended, currently has no provisions specifically relating to these violations, general provisions and sanctions may be applicable.

**Regulation of Competition**

Federal Law No. 135-FZ on the Protection of Competition, dated 26 July 2006, as amended (the "**Competition Law**"), regulates competition in Russia, through the FAS.

***Dominant position in the market***

The Competition Law determines a dominant position pursuant to certain criteria, including, among other things, where a company or a group of persons has a market share in a particular commodity market in excess of 50 per cent, unless the FAS specifically establishes that the relevant company does not have a dominant position. However, even if a company has a market share of less than 50 per cent in a particular commodity market, the FAS may still specifically determine that the company has a dominant position in certain cases. The Competition Law assumes that a company has a dominant position if it has a substantial influence on the circulation of goods in a particular commodity market; may force other participants from such market; or may restrict the access of other companies to such market. The Competition Law also provides for the principle based on "collective" dominance, which applies to a number of markets characterized by an absence of substitute goods and fixed demand for goods. In such markets, any one of three or fewer entities with a total market share of more than 50 per cent, or any one of five or fewer entities with a total market share of more than 70 per cent (if the shares of these entities are bigger than the shares of other participants in this market and in no event is the share of each such entity less than 8 per cent), will be

deemed to be in a dominant position to the extent that, for a period of at least one year or for the period of existence of the relevant market, the market shares of the respective entities do not change in any significant respect; the access of new competitors to this market is impeded; and the relevant commodity cannot be substituted by other commodities, a price increase for such commodity does not condition the relevant decrease in demand for such commodity and information about prices, sale and purchase of such commodity in the relevant market is publicly available.

As a general rule, a company may not be deemed to be in a dominant position if its market share is less than 35 per cent, but this rule does not apply if the company is holding a collective dominant position (as described above) or if any specific federal law establishes that dominance may still be recognized where the market share of a certain company is less than 35 per cent. Subject to certain exceptions, a company may not be deemed to be in a dominant position if its sole shareholder or all shareholders are individuals and the sales proceeds of such company for the last calendar year do not exceed RUB 400 million.

Russian law prohibits companies having a dominant position from, among other things, entering into agreements which have the effect of price fixing or which otherwise have the effect of limiting competition, artificially limiting the supply of goods, maintaining high or low monopolistic prices and refusing without justification to sell goods to third parties, setting different prices for the same goods. For instance, in 2014, one of the Group's companies was found to have violated regulations that require it to provide connections to the power grid within the prescribed deadline on equal basis for Group companies and other end users. Companies in a dominant position may also become subject to additional antimonopoly restrictions imposed by the FAS.

***Merger and joint venture control***

The FAS also exercises state control over competition by reviewing merger and acquisition transactions. Relevant persons must obtain prior antimonopoly clearance from the FAS for an acquisition of: more than 25 per cent of the voting shares in a Russian joint stock company (or a one-third interest in a Russian limited liability company) and any subsequent increase of that stake to more than 50 per cent or more than 75 per cent of the voting shares (or a one-half and two-thirds interest in a Russian limited liability company); subject to certain exceptions, an acquisition of fixed production assets or goodwill of a company located in Russia in an amount exceeding 20 per cent of the aggregate balance sheet value of all fixed production assets and goodwill of the company; the right to control the business activities of another Russian company or perform the functions of its executive body; or an acquisition of more than 50 per cent of voting shares (or a 50 per cent interest) in a company registered outside Russia, which delivered goods to the Russian territory in the amount exceeding RUB 1 billion within the previous year, or any other right to control its business activities or perform the functions of its executive body. Certain other transactions are also subject to a prior antimonopoly clearance from the FAS.

Any of the above acquisition transactions would require prior approval by the FAS if, based on the latest balance sheet: the aggregate asset value of a purchaser (and its group) together with the target (and its group) exceeds RUB 7 billion; or the total revenues of such persons for the preceding calendar year exceed RUB 10 billion and in each case the total asset value of the target (and its group) exceeds RUB 400 million. Mergers and acquisitions within the same group are exempt from pre-transactional clearance by the FAS, subject to compliance with specified reporting requirements.

Under the amendments to the Competition Law introduced in 2015, joint venture agreements between competitors are subject to prior antimonopoly clearance if the aggregate asset value of the parties to the agreement (or their group), based on the latest balance sheet, exceeds RUB 7 billion, or if the total revenues of the parties to the transaction (or their group) for the preceding calendar year exceed RUB 10 billion.

**Foreign Investment in Sectors that are of Strategic Importance for the National Security and Defence of the Russian Federation, including the Subsoil Sector**

In May 2008, new laws came into effect that changed the legal environment for foreign investment in sectors that are of strategic importance for the national security and defence of the Russian Federation, including the gold mining industry. The relevant laws are the Foreign Investments Law and Federal Law No. 58-FZ on Certain Legislative Acts of the Russian Federation and Deeming Inoperative Certain Legislative Acts of the Russian Federation in Connection with the Adoption of the Federal Law on Procedure of Foreign Investment in Commercial Entities Having Strategic Importance for the Defence of the Country and the Security of the State, dated 29 April 2008 (the "**Amending Law**") (together with the Foreign Investments Law, the "**Strategic Investment Laws**"), which introduced, among other things, various amendments to the Russian Subsoil Law.

The Foreign Investments Law provides for stringent requirements in respect of foreign investment in companies engaged in activities that have strategic importance for the national defence and security, the list of which is provided in the Foreign Investments Law. These activities include geological exploration of, and production on, subsoil plots of federal importance. Companies engaged in such activities are considered Strategic Subsoil Companies. Foreign investors, or a group of persons including a foreign investor, intending to enter into a transaction or perform acts which result in the acquisition of "control" (as defined in the Foreign Investments Law) over Strategic Subsoil Companies, as well as the acquisition of right of ownership, possession or use of the fixed production assets of a Strategic Subsoil Company, the value of which represents 25 per cent or more of the balance sheet value of the assets of such company as of the last reporting date, are required to obtain the prior approval of the Government Commission on Monitoring Foreign Investment in the Russian Federation (the "**Foreign Investment Commission**"). The list of subsoil plots of federal importance was officially published in March 2009, and has been subsequently amended several times. As at the date of this Prospectus, certain material subsidiaries of PJSC Polyus, namely, JSC Polyus (the holder of the licenses with respect to the Titimukhta, Olimpiada and Blagodatnoye deposits), JSC Tonoda (the holder of the license with respect to the Chertovo Koryto deposit), JSC Matrosova Mine (the holder of the license with respect to the Natalka deposit), LLC Amurskoye GRP (the holder of the license with respect to the Bamskoye deposit), LLC Krasnoyarskoye GRP (the holder of the licenses with respect to Razdolinskoye and Panimba), JSC Polyus Verninskoye (the holder of the license with respect to the Verninskoye deposit) and SL Gold (the holder of the license with respect to Sukhoi Log), are using subsoil plots of federal importance, as defined in the Russian Subsoil Law that are included in the list of such deposits maintained by the Federal Agency for Subsoil Use, and therefore are considered Strategic Subsoil Companies.

Under the Foreign Investments Law, the acquisition, which includes agreements in written or oral form, by a foreign investor (or a "group" of persons (as defined in the Competition Law) including one or more foreign investors directly or indirectly) of 25 per cent or more, or in case of the acquisition by foreign states, international organizations, legal entities incorporated in offshore jurisdictions determined by the Ministry of Finance of the Russian Federation or entities under the control of such foreign states, international organizations or offshore companies, of more than 5 per cent, of the voting shares of a Strategic Subsoil Company is subject to prior approval. Foreign states, international organizations, offshore companies or entities under their control are generally prohibited from acquiring control over strategic companies. The Foreign Investments Law further provides that if a foreign investor (or a group of persons including one or more foreign investors) already exercises direct or indirect control over 25 per cent (but less than 75 per cent) of the voting shares of a Strategic Subsoil Company, each subsequent acquisition of shares of the Strategic Subsoil Company by the foreign investor (or group of persons including the foreign investor) would require the prior approval of the Foreign Investment Commission (with the exception of transactions which do not result in the increase of an ownership percentage of a foreign investor or a group including a foreign investor in the charter capital of a Strategic Subsoil Company, where such transactions are performed as part of the charter capital increase of such Strategic Subsoil Company or by persons that are under control of the person which controls such Strategic Subsoil Company), whereas transactions in respect of

Strategic Subsoil Companies, if prior to the transaction the foreign investor (or group of persons including a foreign investor) had the right to directly or indirectly control more than 75 per cent of the total number of the voting shares of the relevant Strategic Subsoil Company, are exempted from the scope of the Foreign Investments Law. Failure to obtain such prior approval will either render the relevant transaction void or may prevent the relevant foreign investor, or the group of persons including the foreign investor, from voting at shareholders meetings of the relevant Strategic Subsoil Company. Failure to notify the FAS of the acquisition of five or more per cent of the shares of a strategic company, including a Strategic Subsoil Company, may prevent the relevant foreign investor, or the group of persons including the foreign investor, from voting at shareholders' meetings, until the relevant foreign investor receives a satisfactory notice from the FAS.

Effective from 30 July 2017, the range of activities of strategic importance for the national security and defense of the Russian Federation was further extended and now also includes, among others, production and sale of metals, raw products and materials used for the production of weapons and military equipment. In addition, the Chairman of the Foreign Investment Commission may determine that a foreign investor must clear a transaction with the Commission, even if the transaction is not otherwise subject to clearance under the Foreign Investments Law.

Furthermore, should a foreign investor or a group of persons including a foreign investor establish control over a Strategic Subsoil Company as a result of events other than the direct acquisition of shares, for example, as a result of a buy-out or redemption by the Strategic Subsoil Company of its own shares, a conversion of its preferred shares into ordinary shares or otherwise, the relevant foreign investor or a group of persons including a foreign investor would be obliged to apply for approval of control by the Foreign Investment Commission within three months from the date of establishment of control. Failure to apply for such approval may result in a prohibition on voting, as set out above. Should the Foreign Investment Commission refuse to approve the establishment of foreign control over a Strategic Subsoil Company, the relevant foreign investor or a group of persons including a foreign investor would be obliged to dispose of part of its shares so that the remaining shares do not represent a controlling stake. If the foreign investor (or a group of persons including a foreign investor) fails to dispose of the shares within three months from the date when the prior governmental approval is declined, the FAS may file a lawsuit with a Russian court requiring that a foreign investor (or a group of persons including a foreign investor) be prohibited from voting at the shareholders meeting of the Strategic Subsoil Company.

The Russian Subsoil Law also provides that exploration and production at a subsoil plot of federal importance, even under a previously issued combined subsoil license, may only be commenced if permitted by the Russian Government following the completion of a geological survey. If, in the course of geological research at a subsoil plot, a foreign investor or a Russian legal entity with foreign participation discovers a deposit which meets the criteria for a subsoil plot of federal importance, and there is a possibility of an apparent threat to the national security of the Russian Federation, the licensing authorities have the right to revoke the related combined subsoil license or refuse to grant an exploration and production subsoil license following a decision of the Russian Government. In the case of such a revocation, the Russian Subsoil Law contemplates that the license holder will be reimbursed for costs incurred in connection with prospecting and evaluating the relevant deposit and the amount of the one-off fee for subsoil use paid under the terms of the related combined subsoil license or geological research license, and may be paid a premium in accordance with applicable procedures. These amounts, however, may not cover the license holder's actual costs, or be paid at all. In addition, the Russian Subsoil Law provides that only Russian legal entities are entitled to use subsoil plots of federal importance. In the interests of national security, Russian legal entities with foreign participation may also be subject to limitations imposed by the Russian Government on participation in subsoil auctions or tenders for the use of subsoil plots of federal importance. The rights to use a subsoil plot of federal importance may not be transferred to legal entities controlled by a foreign investor or a group of persons including a foreign investor, save for the transfer of rights in exceptional cases at the discretion of the Russian Government.

**Currency Restrictions**

The Group's operations are subject to certain currency control restrictions, which are set forth in the Russian Currency Law and respective regulations of the CBR.

Pursuant to the Russian Currency Law, Russian residents and non-residents may settle transactions between them either in roubles or in a foreign currency, and there are no restrictions on currency operations between Russian residents and non-residents. However, the settlement of transactions between Russian residents in a foreign currency is generally prohibited.

Under the Russian Currency Law, Russian residents conducting foreign trade operations must, subject to certain exemptions, repatriate to accounts in authorized Russian banks all roubles and foreign currency payable to them under foreign trade contracts. In addition, such Russian residents must procure the repatriation of funds paid to non-residents for goods, works, services, intellectual property and information that were not delivered into the Russian Federation.

Effective from 1 March 2018, the CBR introduced a new procedure for the registration and control of currency operations, whereby Russian residents will no longer be required to open a passport of transaction ("*pasport sdelki*") for a foreign trade contract, but instead they will be required to register such contract.

# TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the Conditions which contains summaries of certain provisions of the Trust Deed and which (subject to completion and amendment) will be endorsed on each Definitive Note and will be attached and (subject to the provisions thereof) apply to the Global Certificate:*

The US$500,000,000 4.70 per cent guaranteed notes due 2024 of Polyus Finance Plc (the "**Issuer**") (the "**Notes**", which expression includes any further Notes issued pursuant to Condition 15 and forming a single series therewith (the "**Further Notes**")) are unconditionally and irrevocably guaranteed by Joint Stock Company Polyus Krasnoyarsk ("**JSC Polyus**").

Following the Additional Guarantee Event (as defined below), the Notes will also be guaranteed by Public Joint Stock Company Polyus ("**PJSC Polyus**"). From the Issue Date until the Additional Guarantee Event, references herein to (i) '**the Guarantors**', '**a Guarantor**', '**any Guarantor**', '**each Guarantor**', '**the relevant Guarantor**' or '**such Guarantor**' shall be to JSC Polyus only, and (ii) '**the Guarantees**', '**a Guarantee**', '**any Guarantee**', '**each Guarantee**' or '**the relevant Guarantee**' shall be to the Guarantee given by JSC Polyus only.

Following the Additional Guarantee Event, references herein to (i) '**the Guarantors**' or '**each Guarantor**' shall be to JSC Polyus and PJSC Polyus, and references herein to '**a Guarantor**', '**any Guarantor**', '**the relevant Guarantor**' or '**such Guarantor**' shall be to either JSC Polyus or PJSC Polyus as the context permits; and (ii) '**the Guarantees**' or '**each Guarantee**' shall be to the Guarantees given by JSC Polyus and PJSC Polyus, and references herein to '**a Guarantee**', '**any Guarantee**' or '**the relevant Guarantee**' shall be to the Guarantee given by either JSC Polyus or PJSC Polyus as the context permits.

The issue of the Notes was authorized by a meeting of the board of directors of the Issuer held on 18 January 2018.

The Notes are constituted by a trust deed dated 29 January 2018 (as may be supplemented from time to time, the "**Trust Deed**") between the Issuer, JSC Polyus and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**", which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below) of the Notes.

These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Issuer and JSC Polyus have entered into a paying agency agreement dated 29 January 2018 (as may be amended from time to time, the "**Paying Agency Agreement**") with the Trustee, The Bank of New York Mellon, London Branch as principal paying agent (the "**Principal Paying Agent**" and, together with any other paying agents appointed under the Paying Agency Agreement, the "**Paying Agents**"), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the "**Registrar**") and the Transfer Agents named therein (the "**Transfer Agents**"). The Registrar, Paying Agents and Transfer Agents are together referred to herein as the "**Agents**".

Copies of the Trust Deed and the Paying Agency Agreement are available for inspection during normal business hours at the principal office of the Issuer (being at the date hereof 16 Berkeley Street, London, W1J 8DZ, United Kingdom), the specified office of the Trustee (being at the date hereof One Canada Square, London E14 5AL, United Kingdom), and at the specified offices of the Agents. The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Paying Agency Agreement applicable to them. Capitalized terms used but not defined in these Conditions shall have the respective meanings given to them in the Trust Deed.

## 1 Form and Denomination

The Notes are issued in fully registered form in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof (each an "**Authorized Denomination**") without coupons attached.

*The Notes will be initially issued in global, fully registered form, and represented by (i) the Original Restricted Global Note Certificate (the "**Original Restricted Global Note Certificate**"), interests in which are to be sold to qualified institutional buyers (each a "**QIB**") within the meaning of, and pursuant to, Rule 144A ("**Rule 144A**") under the Securities Act, and (ii) the Original Unrestricted Global Note Certificate (the "**Original Unrestricted Global Note Certificate**" and, together with the Original Restricted Global Note Certificate, the "**Global Note Certificates**"), interests in which are to be offered outside the United States to non-U.S. persons within the meaning of, and pursuant to, Regulation S under the Securities Act ("**Regulation S**"), which will each be exchangeable for individual note certificates ("**Individual Note Certificates**") in the limited circumstances specified in the Global Note Certificates and the Paying Agency Agreement.*

## 2 Guarantee and Status

### *2.1 Guarantee*

Each Guarantor separately, on a joint and several basis, unconditionally and irrevocably guarantees the payment when due of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (each a "**Guarantee**" and together, the "**Guarantees**").

Pursuant to the provisions of the Trust Deed, PJSC Polyus may accede to the Trust Deed and may guarantee (separately, on a joint and several basis with JSC Polyus) the obligations under the Notes in accordance therewith. The accession of PJSC Polyus to the Trust Deed, and the giving of a Guarantee in respect of the Notes by PJSC Polyus in accordance with the provisions of the Trust Deed, shall be referred to herein as the "**Additional Guarantee Event**".

### *2.2 Status*

The Notes constitute direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the Issuer and shall at all times rank pari passu and rateably without any preference among themselves.

Each Guarantee constitutes direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the relevant Guarantor.

The Issuer and each Guarantor shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantees, respectively, rank in right of payment at least pari passu with the claims of all their other present and future unsecured and unsubordinated creditors, save those whose claims are preferred by any mandatory operation of law.

## 3 Register, Title and Transfers

### *3.1 Register*

The Registrar shall maintain a Register in respect of the Notes (the "**Register**") outside the United Kingdom at the specified office for the time being of the Registrar in accordance with the provisions of the Paying Agency Agreement and shall record in the Register the names and addresses of the Noteholders, particulars of the Notes and all transfers and redemptions

thereof. In these Conditions, the "Holder" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

### *3.2 Title*

Title to the Notes will pass by and upon registration in the Register. The Holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Individual Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Individual Note Certificate) and no person shall be liable for so treating such Holder.

### *3.3 Transfers*

Subject to Conditions 3.6 and 3.7 below, a Note may be transferred in whole or in part in an Authorized Denomination upon surrender of the relevant Individual Note Certificate representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the "**Transfer Form**"), duly completed and executed, at the specified office of a Transfer Agent or of the Registrar, together with such evidence as such Transfer Agent or the Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Individual Note Certificate are the subject of the transfer, a new Individual Note Certificate in respect of the balance not transferred will be delivered by the Registrar to the transferor in accordance with Condition 3.4. Neither the part transferred nor the balance not transferred may be less than US$200,000.

### *3.4 Registration and delivery of Individual Note Certificates*

Within five business days of the surrender of an Individual Note Certificate in accordance with Condition 3.3 above, the Registrar shall register the transfer in question and deliver a new Individual Note Certificate to each relevant Holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of a Transfer Agent or (at the request and risk of such relevant Holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder.

In the case of the transfer of only a part of the Notes represented by an Individual Note Certificate, a new Individual Note Certificate in respect of the balance of the Notes not transferred will be so delivered at the specified office of the Registrar or (at the request of the transferor) at the specified office of a Transfer Agent or (at the request and risk of such transferor) sent by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such transferor.

In this Condition 3.4, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the cities where the Registrar and (if applicable) the relevant Transfer Agent have their specified offices.

### *3.5 No charge*

The registration of the transfer of a Note shall be effected without charge to the Holder or transferee thereof, but against such indemnity from the Holder or transferee thereof as the Registrar or the Transfer Agent, as applicable, may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

### *3.6 Closed periods*

Noteholders may not require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of such Note and (ii) after any Note has been called for redemption.

### *3.7 Regulations concerning Transfer and Registration*

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in Schedule 2 to the Paying Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be available at the specified office of the Registrar and will be sent by the Registrar free of charge to any person who so requests and can confirm that they are a Noteholder to the satisfaction of the Registrar.

## 4 Covenants

### *4.1 Negative Pledge*

So long as any Note remains outstanding (as defined in the Trust Deed):

4.1.1 neither the Issuer nor any Guarantor shall, and the Issuer and each Guarantor shall procure that none of their respective Material Subsidiaries shall, directly or indirectly, create, incur, assume, permit or suffer to exist any Lien (for the purposes of this Condition 4.1, the "**Initial Lien**"), other than a Permitted Lien, on any of its properties or assets, whether owned at the Issue Date or thereafter acquired, or on any income, revenue or profits therefrom, to secure any Indebtedness; and

4.1.2 if any Suspension Period is continuing pursuant to Condition 4.10.1, the Issuer and each Guarantor shall procure that none of their respective Material Subsidiaries shall give any guarantee of, or indemnity (for the purposes of this Condition 4.1 such guarantee or indemnity shall be referred to as the "**Initial Guarantee**") in respect of, any of the Issuer's or any Guarantor's Relevant Indebtedness to the holders thereof,

*unless* the Issuer or the relevant Guarantor (as applicable), at the same time or prior thereto, procures that the Notes or such Guarantor's obligations under the relevant Guarantee, as the case may be:

(x) in respect of Condition 4.1.1: are secured at least equally and rateably with such Indebtedness (or, as applicable, pursuant to Condition 4.10.1, Relevant Indebtedness) or benefit from such other security or other arrangements as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed); or

(y) in respect of Condition 4.1.2: have the benefit of an equivalent guarantee or indemnity to that provided under the Initial Guarantee as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed)

(any security provided pursuant to (x) above or any guarantee or indemnity provided pursuant to (y) above for the purposes of this Condition 4.1, a "**Subsequent Security**"), in each case, for as long as such Indebtedness (or, as applicable pursuant to Condition 4.10.1, Relevant

Indebtedness) referred to in Condition 4.1.1 or Relevant Indebtedness referred to in Condition 4.1.2 has the benefit of the Initial Lien or, as the case may be, the Initial Guarantee.

Any Subsequent Security created for the benefit of the Noteholders pursuant to this Condition 4.1 shall provide by its terms that it shall be automatically and unconditionally released and discharged upon: (a) the release and discharge of the Initial Lien or, as the case may be, of the Initial Guarantee; or (b) the full and irrevocable payment of all amounts payable by the Issuer and any Guarantor (if applicable) under the Notes, these Conditions and the Trust Deed. In the event that the automatic release and discharge is not fully effective for any reason, the Trustee has agreed in the Trust Deed to take such steps and actions (at the expense of the Issuer or the relevant Guarantor) as the Issuer or the relevant Guarantor may reasonably request to release and discharge (or acknowledge release and discharge of) the Subsequent Security in the circumstances referred to in paragraphs (a) or (b) (as applicable).

***4.2 Limitation on Indebtedness***

4.2.1 Neither the Issuer nor any Guarantor shall, nor shall they permit any of their respective Subsidiaries to, incur, directly or indirectly, any Indebtedness; provided, however, that the Issuer, any Guarantor and any of their respective Subsidiaries shall be entitled to incur Indebtedness if:

(i) after giving effect to such incurrence and the application of the proceeds thereof, as if such Indebtedness had been incurred, no Potential Event of Default or Event of Default would occur or be continuing; and

(ii) on the date of such incurrence and after giving effect thereto and the application of the proceeds thereof the Group Leverage Ratio does not exceed 3.5 to 1.

4.2.2 Notwithstanding the foregoing Condition 4.2.1, the Issuer, any Guarantor and any of their respective Subsidiaries are entitled to incur any Permitted Indebtedness.

4.2.3 Notwithstanding the foregoing, neither the Issuer nor any Guarantor shall incur any Indebtedness pursuant to Condition 4.2 if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations of the Issuer or any Guarantor unless such Indebtedness shall be subordinated to the Notes or the relevant Guarantee to at least the same extent as such Subordinated Obligations.

4.2.4 For the purposes of determining compliance with this Condition 4.2:

(i) if an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described in Conditions 4.2.1 or 4.2.2, the Issuer, in its sole discretion, will classify such item of Indebtedness (or any portion thereof) at the time of incurrence and will only be required to include the amount and type of such Indebtedness in one of the above sub-Conditions;

(ii) the Issuer will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described in Conditions 4.2.1 or 4.2.2 and may change the classification of an item of Indebtedness (or any portion thereof) to any other type of Indebtedness described in Conditions 4.2.1 or 4.2.2 at any time;

(iii) the outstanding principal amount of any particular Indebtedness shall be counted only once and any obligations arising under any guarantees,

indemnities, Liens, letters of credit or similar instruments supporting such Indebtedness shall not be double counted; and

(iv) any entity that is allowed to incur Indebtedness under Condition 4.2.1 or Condition 4.2.2 (including the definition of "Permitted Indebtedness") may provide a guarantee or indemnity of any other entity's incurrence of such Indebtedness, provided that such other entity incurs such Indebtedness pursuant to Condition 4.2.1 or Condition 4.2.2 (and the same paragraph of the definition of "Permitted Indebtedness") under which the guaranteeing entity provides its guarantee or indemnity of such Indebtedness.

4.2.5 For the purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Indebtedness where the Indebtedness incurred is denominated in a different currency, the amount of such Indebtedness will be the U.S. Dollar Equivalent determined on the date of the incurrence of such Indebtedness; provided, however, that if any such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to U.S. dollars covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. dollars will be as provided in such Currency Agreement. The principal amount of any Refinancing Indebtedness incurred in the same currency as the Indebtedness being Refinanced will be the U.S. Dollar Equivalent, as appropriate, of Indebtedness Refinanced, except to the extent that (A) such U.S. Dollar Equivalent was determined based on a Currency Agreement, in which case the principal amount of such Refinancing Indebtedness will be determined in accordance with the preceding sentence and (B) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the U.S. Dollar Equivalent of such excess, as appropriate, will be determined on the date such Refinancing Indebtedness is incurred. Notwithstanding any other provision of this Condition 4.2, the maximum amount that the Issuer, a Guarantor or a Subsidiary may incur pursuant to this Condition 4.2 shall not be deemed to be exceeded, with respect to outstanding Indebtedness, solely as a result of fluctuations in the exchange rates of currencies.

### *4.3 Merger and consolidation*

4.3.1 No Guarantor shall enter into any reorganization (by way of merger, accession, division, separation, or transformation, or other bases or procedures for reorganization contemplated or as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation):

(i) with any other member or members of the Group where such Guarantor is not the surviving entity and which would have a Material Adverse Effect; or

(ii) involving a Person which is not a member of the Group and which would have a Material Adverse Effect.

4.3.2 Neither the Issuer nor any Guarantor shall (without the prior written consent of the Trustee, or, alternatively, without the approval of an Extraordinary Resolution (as defined in the Trust Deed)), permit:

(i) any of their respective Material Subsidiaries to enter into any reorganization (whether by way of merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation); or

(ii) any of their Material Subsidiaries incorporated in a jurisdiction other than the Russian Federation, to participate in any type of corporate reconstruction or other analogous event (as determined under the legislation of the relevant jurisdiction),

in each case of (i) and (ii) above involving a Person which is not a member of the Group and which would have a Material Adverse Effect.

4.3.3 The Issuer may re-domicile by transferring its registered office to, establishing or continuing its corporate existence in, or changing its place of main interest to, another jurisdiction (the "**Change of Jurisdiction**"), provided that:

(i) such new jurisdiction is any of Jersey, Guernsey, the UK, Cyprus, the Republic of Ireland, the Netherlands, Grand Duchy of Luxembourg, or any member state of the European Economic Area as of the Issue Date;

(ii) immediately before and after giving effect to such transaction, corporate procedure or step (and treating any Indebtedness that becomes an obligation of the Issuer as a result of such transaction, corporate procedure or step as having been incurred by the Issuer at the time of such transaction, corporate procedure or step), no Potential Event of Default or Event of Default shall have occurred and be continuing;

(iii) the Issuer and each Guarantor shall have each delivered to the Trustee, in form and substance satisfactory to the Trustee, an Officers' Certificate confirming compliance with Condition 4.3.3(ii) above (attaching any documentation necessary to demonstrate compliance), which the Trustee may rely on without liability and may accept as sufficient evidence of compliance with Condition 4.3.3(ii);

(iv) the Issuer shall satisfy the "know your customer" and similar regulatory requirements of the Trustee and the Agents; and

(v) the proposed Change of Jurisdiction shall not, in the sole opinion of the Trustee and the Agents, expose the Trustee or the Agents to any additional duties, obligations, responsibilities or liabilities or amend or reduce the protective provisions afforded to the Trustee and the Agents in the Trust Deed or Paying Agency Agreement (unless in each case the Trustee and/or Agents are indemnified to their satisfaction in respect of any such additional duties, obligations, responsibilities, liabilities, amendment or reduction).

### *4.4 Disposals*

Neither the Issuer nor any Guarantor shall, and the Issuer and each Guarantor shall ensure that their respective Material Subsidiaries do not, consummate any Asset Sale unless the consideration received by the Issuer, such Guarantor or such Material Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of.

### *4.5 Reports*

4.5.1 As long as any Notes are outstanding, the Issuer, failing whom a Guarantor, will furnish to the Noteholders and the Trustee copies in English of:

(i) within 150 days after the end of each financial year, the audited Financial Statements of the Group as of the end of the last financial year, and including

complete notes to, and the independent auditor's report on, such Financial Statements; and

(ii) within 90 days after the end of the first semi-annual period of each financial year, the unaudited Financial Statements of the Group as of the end of such period and the comparable prior year periods, and including condensed notes to such interim condensed unaudited Financial Statements of the Group together with a review report thereon conducted in accordance with International Standard on Review Engagements No. 2410 (or such replacement standard in force at such time).

4.5.2 The Issuer, failing whom a Guarantor, shall: (i) publish copies of such financial statements as and to the extent required by the applicable requirements of the Stock Exchange to be published; and (ii) post such financial statements on the website of PJSC Polyus, each within the respective time periods referred to in this Condition 4.5. Such posting on the website shall be deemed to satisfy the obligations of the Issuer (or, as applicable, a Guarantor) under Condition 4.5.1. All financial statements referred to in this section will be available for inspection at the respective offices of the Principal Paying Agent.

4.5.3 In addition, so long as any of the Notes are restricted securities (as defined in Rule 144 under the Securities Act) and during any period during which the Issuer is neither subject to the reporting requirements of the Exchange Act nor exempt therefrom pursuant to Rule 12g3-2(b), the Issuer will furnish to any Holder or beneficial owner of Notes initially offered and sold in the United States to QIBs pursuant to Rule 144A under the Securities Act, and to prospective purchasers in the United States designated by such Holder or beneficial owners, upon request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

### *4.6 Payment of taxes and other claims*

So long as any amount remains outstanding under the Notes, each of the Issuer and each Guarantor shall, and the Issuer and each Guarantor shall ensure that their respective Material Subsidiaries shall, pay or discharge (or cause to be paid or discharged), before the same shall become overdue and without incurring penalties:

(a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or assets of, the Issuer, any Guarantor or any such Material Subsidiary, as the case may be; and

(b) all lawful claims for labor, materials and supplies which, if unpaid, would by law become a Lien (other than a Permitted Lien) upon the property of the Issuer, any Guarantor or any such Material Subsidiary, as the case may be;

in each case, *provided*, *however*, *that* none of the Issuer, any Guarantor nor any such Material Subsidiary, as the case may be, shall be required to pay or discharge (or cause to be paid or discharged) any such tax, assessment or charge or any such claim which is overdue or for which penalties are incurred:

(i) which is being contested in good faith by appropriate proceedings; or

(ii) with respect to (a) above, where the aggregate of all such taxes, assessments or charges does not exceed US$150,000,000 (including the U.S. Dollar Equivalent of respective amounts in any other currency) thereof at any time; or

(iii) with respect to (b) above, where the aggregate of all such claims would not have a Material Adverse Effect,

provided that, in the case of (i), (ii) or (iii), if any such tax, assessment or charge or any such claim (including any applicable penalties) is paid or discharged after becoming overdue, such payment or discharge shall be deemed to remedy any breach of this Condition 4.6 with respect to such tax, assessment, charge or claim.

### *4.7 Maintenance of authorizations*

4.7.1 The Issuer and each Guarantor shall obtain or make, and procure the continuance or maintenance of, all governmental registrations, recordings, filings, consents, licenses, approvals and authorizations, which may at any time be required by applicable law to be obtained or made in the jurisdiction of their incorporation or registration, as applicable, for the purposes of the execution, delivery or performance of the Notes and the Trust Deed by them and for the validity and enforceability thereof.

4.7.2 The Issuer and each Guarantor shall, and shall procure that their respective Material Subsidiaries shall, obtain, make or do, and procure the continuance or maintenance of, all governmental registrations, recordings, filings, consents, licenses, approvals and authorizations, which may at any time be required by applicable law to be obtained or made in the jurisdiction of their incorporation or registration, as applicable, to ensure the continuance of its corporate existence and its Restricted Business, except where a failure to obtain, make, do or procure would not have a Material Adverse Effect.

4.7.3 Notwithstanding the foregoing, if the Issuer and/or a Guarantor and/or a Material Subsidiary, as the case may be, can remedy any failure to comply with Conditions 4.7.1 and/or 4.7.2 within (a) 180 days, in respect of any subsoil license, or (b) 90 days, in respect of any other registration, recording, filing, consent, license, approval and authorization specified in Conditions 4.7.1 or 4.7.2 above, in each case from the date of such failure, this Condition 4.7 shall be deemed not to have been breached.

### *4.8 Change of business*

The Issuer and each Guarantor shall procure that no material change is made to the general nature of the principal business of the Group as conducted as at the Issue Date (being primarily mining, production and sale of gold, precious metals and other minerals, and any business related, ancillary or complementary thereto) (the "**Restricted Business**").

### *4.9 Environmental compliance*

The Issuer and each Guarantor shall, and shall ensure that their respective Material Subsidiaries shall, comply with all Environmental Laws and obtain and maintain any Environmental Licence, except where failure to do so would not have a Material Adverse Effect.

### *4.10 Covenant Suspension*

4.10.1 If, on any date following the Issue Date (the "**Suspension Date**"):

(i) the Notes have Investment Grade Status; and

(ii) no Potential Event of Default or Event of Default has occurred and is continuing on such date,

(together, the "**Suspension Conditions**"), and satisfaction of such conditions is certified to the Trustee in an Officers' Certificate, then beginning on the Suspension Date and continuing until such time (the "**Reversion Date**"), if any, at which the Notes cease to have Investment Grade Status (such period, the "**Suspension Period**"), the covenants in:

(i) Condition 4.1 (*Negative Pledge*) shall be amended by:

(a) deleting reference to "Indebtedness" and replacing it with reference to "*Relevant Indebtedness*" in Condition 4.1.1;

(b) deleting reference to "*Permitted Lien*" and replacing it with reference to "*Permitted Security Interest*" in Condition 4.1.1; and

(c) adding the words "(other than Domestic Relevant Indebtedness)" after the words "any of the Issuer's or any Guarantor's Relevant Indebtedness" in Condition 4.1.2;

and

(ii) Conditions 4.2 (*Limitation on Indebtedness*), 4.3 (*Merger and consolidation*) (other than Condition 4.3.3), 4.4 (*Disposals*), 4.6 (*Payment of taxes and other claims*), 4.8 (*Change of business*) and 4.9 (*Environmental compliance*), shall no longer apply to the Issuer, any Guarantor or any of their respective Subsidiaries;

and, in each case, any related Potential Events of Default or Events of Default under Condition 9 (*Events of Default*) will be amended or suspended as indicated above in respect of the Issuer, any Guarantor or any of their respective Subsidiaries.

4.10.2 If a Reversion Date occurs, the Issuer and each Guarantor will thereafter again be subject to the covenants without giving effect to the changes in Condition 4.10.1 above until such time (if any) as the Suspension Conditions are again satisfied. Notwithstanding that the covenants may be reinstated upon the occurrence of a Reversion Date, no Potential Event of Default or Event of Default will be deemed to have occurred or continue to occur as a result of any omission or failure by the Issuer or any Guarantor to act in compliance with such covenants before their amendment/suspension in accordance with Condition 4.10.1 during the Suspension Period. On the Reversion Date, all Indebtedness incurred during the Suspension Period will be classified to have been incurred pursuant to one of the paragraphs of the definition of "Permitted Indebtedness" in Condition 21 (to the extent such Indebtedness would be permitted to be incurred thereunder as of the Reversion Date and after giving effect to Indebtedness incurred prior to the Suspension Period and outstanding on the Reversion Date). To the extent such Indebtedness would not be so permitted to be incurred pursuant to a paragraph of the definition of "Permitted Indebtedness", such Indebtedness will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under paragraph (a) of the definition of "Permitted Indebtedness". On the Reversion Date, all disposals made during the Suspension Period will be classified to have been made in compliance with Condition 4.4. For the purpose of determining compliance with Condition 4.4 after the Reversion Date, the 12 month period for determining the aggregate value of any disposals shall be reset to the Reversion Date and the book value of assets disposed of during the Suspension Period will be deemed to be reset to zero for the purposes of compliance with Condition 4.4. On the Reversion Date, any Lien made or entered into during the Suspension Period will be deemed to have been outstanding on the

Issue Date, so that it is classified as permitted under paragraph (a) of the definition of "Permitted Liens".

## 5 Interest

The Notes bear interest from and including the Issue Date at the Rate of Interest, payable semi-annually in arrears no later than 10:00 a.m. (New York City time) on 29 January and 29 July in each year (each an "**Interest Payment Date**"), the first such Interest Payment Date being on 29 July 2018 (the "**First Interest Payment Date**"). Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "Interest Period".

Interest in respect of any Note shall be calculated per US$1,000 in principal amount of the Notes (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any Interest Period shall be calculated by applying the Rate of Interest to the Calculation Amount, dividing the resulting product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for a period of less than a complete Interest Period, the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of actual days elapsed.

## 6 Redemption and Purchase

### *6.1 Final redemption*

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed or repaid by the Issuer at 100 per cent of their principal amount thereof together with accrued interest on 29 January 2024 (the "**Repayment Date**"). The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

### *6.2 Redemption for tax reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders, copied to the Trustee, in accordance with Condition 16 (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to the date fixed for redemption but otherwise without premium or penalty, if (i) the Issuer or, as the case may be, a Guarantor satisfies the Trustee immediately prior to the giving of such notice that the Issuer has or will or, if a payment were made under a Guarantee, that Guarantor would, become obliged to pay additional amounts as provided or referred to in Condition 8.1 as a result of any change in, or amendment to, or clarification of the laws, treaties, protocols, rulings or regulations of any Relevant Jurisdiction, or any change in the official position regarding the application, administration or official interpretation of such laws, treaties, protocols, rulings or regulations and including the decision of any court, governmental agency or tribunal, which change, amendment or clarification is announced, enacted or becomes effective on or after 29 January 2018 and (ii) such obligation cannot be avoided by the Issuer or that Guarantor (as appropriate) taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or

such Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6.2, the Issuer or a Guarantor (as appropriate) shall deliver to the Trustee (x) an Officers' Certificate stating that the obligation referred to in sub-paragraph (i) above cannot be avoided by the Issuer or that Guarantor taking reasonable measures available to it and the Trustee shall be entitled to accept such Officers' Certificate as sufficient evidence of the satisfaction of the conditions precedent set out in sub-paragraph (ii) above and rely on it without liability to any person, in which event it shall be conclusive and binding on the Noteholders and (y) an opinion of third-party legal advisors of recognized standing to the effect that the Issuer or, if a payment were made under a Guarantee, that Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment or clarification. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition 6.2 shall be redeemed on the date specified in such notice in accordance with this Condition 6.2.

***6.3 Purchase***

The Issuer, any Guarantor and any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer, any Guarantor or any of their respective Subsidiaries, shall not entitle the Holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Conditions 9 or 12.

***6.4 Optional redemption at the option of the Issuer under make whole call option***

At any time prior to the Repayment Date (other than where Condition 6.5 applies), the Issuer may, at its option, on giving not less than 30 nor more than 60 days' notice to the Noteholders, copied to the Trustee, in accordance with Condition 16 (which notice shall be irrevocable and shall specify the date fixed for redemption (the "**Make Whole Optional Prepayment Date**")), redeem the Notes in whole or in part at the Make Whole Prepayment Amount (as defined below) plus accrued and unpaid interest on the Notes to but excluding the Make Whole Optional Prepayment Date.

In the case of a partial redemption, the Notes shall be selected for redemption either; (a) in accordance with the procedures of the relevant clearing systems; or (b) if the Notes are not held in a clearing system, the Notes to be redeemed shall be selected by drawing of lots in such place and in such manner as is fair and reasonable in the circumstances taking account of prevailing market practices; or (c) if the relevant clearing systems prescribe no method of selection, the Notes shall be redeemed on a pro rata basis according to the holding of each Noteholder; subject, in each case, to compliance with any applicable laws and stock exchange or other relevant regulatory requirements.

For the purposes of this Condition:

"**Comparable Treasury Issue**" means the United States Treasury security selected by the Determination Agent as having a maturity comparable to the remaining term of the Notes from the Make Whole Optional Prepayment Date to the Repayment Date, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to the Repayment Date;

"**Comparable Treasury Price**" means, with respect to any Make Whole Optional Prepayment Date, the average of three, or such lesser number as is obtained by the Determination Agent, Reference Treasury Dealer Quotations for the Make Whole Optional Prepayment Date;

"**Determination Agent**" means a financial advisor or bank being a reputable financial institution operating in the United States Treasury Securities market in New York which is independent of the Issuer, appointed by the Issuer and at the Issuer's expense for the purpose of determining the Make Whole Prepayment Amount;

"**Make Whole Prepayment Amount**" means the amount equal to the present value of the Notes, plus the present value of the scheduled interest payments on such Notes from the Make Whole Optional Prepayment Date to the Repayment Date in each case, discounted to the Make Whole Optional Prepayment Date on a semi-annual compounded basis at the adjusted U.S. Treasury Rate plus 50 basis points, all as determined by the Determination Agent;

"**Reference Treasury Dealer**" means each of the three nationally recognized firms selected by the Determination Agent that are primary U.S. Government securities dealers;

"**Reference Treasury Dealer Quotations**" means with respect to each Reference Treasury Dealer and any Make Whole Optional Prepayment Date, the average, as determined by the Determination Agent, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Determination Agent by such Reference Treasury Dealer at 5:00pm (New York City time) on the third business day (in New York City) immediately preceding such Make Whole Optional Prepayment Date;

"**U.S. Treasury Rate**" means either (i) the rate per annum equal to the yield, under the heading that represents the average for the week immediately preceding the third business day (in New York City) prior to the Make Whole Optional Prepayment Date, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities" for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Repayment Date, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the U.S. Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the third business day (in New York City) prior to the relevant Make Whole Optional Prepayment Date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Make Whole Optional Prepayment Date, in each case calculated on the third business day (in New York City) immediately preceding the Make Whole Optional Prepayment Date.

***6.5 Optional redemption at the option of the Issuer under par call option***

At any time on or after the date three months prior to the Repayment Date, the Issuer may, on giving not less than 10 nor more than 60 days' notice to the Noteholders, copied to the Trustee, in accordance with Condition 16 (which notice shall be irrevocable and specify the date fixed for prepayment (the "**Par Optional Prepayment Date**")) in accordance with Condition 16, redeem the Notes in whole or in part, at the principal amount thereof, plus accrued and unpaid interest on the Notes so redeemed to but excluding the Par Optional Prepayment Date.

In the case of a partial redemption, the Notes shall be selected for redemption either (a) in accordance with the procedures of the relevant clearing systems; or (b) if the Notes are not held in a clearing system, the Notes to be redeemed shall be selected by drawing of lots in such place and in such manner as is fair and reasonable in the circumstances taking account of

prevailing market practices; or (c) if the relevant clearing systems prescribe no method of selection, the Notes shall be redeemed on a pro rata basis according to the holding of each Noteholder; subject, in each case, to compliance with any applicable laws and stock exchange or other relevant regulatory requirements.

### *6.6 Redemption at the option of Noteholders*

If, on or prior to the date falling 180 calendar days after the Issue Date the Additional Guarantee Event has not occurred (the "**Additional Guarantee Put Event**"), the holder of a Note will have the option (the "**Additional Guarantee Event Put Option**") to require (unless prior to the holder of a Note so requiring: (a) the Issuer has given notice of redemption under other provisions of this Condition 6; or (b) the Additional Guarantee Event has occurred) the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) such Note on the Additional Guarantee Event Put Payment Date (as defined below) at 101 per cent of the principal amount thereof, together with accrued but unpaid interest thereon (if any) and any additional amounts or other amounts that may be due thereon, up to but excluding the Additional Guarantee Event Put Payment Date.

Promptly upon the Issuer becoming aware that an Additional Guarantee Put Event has occurred, the Issuer shall give notice (an "**Additional Guarantee Event Put Notice**") to the Noteholders copied to the Trustee, in accordance with Condition 16, specifying (i) that an Additional Guarantee Put Event has occurred, (ii) the Additional Guarantee Event Put Period (as defined below), (iii) the procedure for exercising the Additional Guarantee Event Put Option, (iv) that any Note not properly tendered or not tendered at all prior to the expiration of the Additional Guarantee Event Put Period will remain outstanding and continue to accrue interest and additional amounts (if any) and (v) that Noteholders whose Notes are being repurchased only in part will be issued new Individual Note Certificates equal in principal amount to the unpurchased portion of the principal amount of the Notes surrendered, which unpurchased portion must be an Authorized Denomination.

In order to exercise the Additional Guarantee Event Put Option, the holder of a Note must deliver not less than 30 nor more than 60 calendar days after the Additional Guarantee Event Put Notice is given (the "**Additional Guarantee Event Put Period**"), to the specified office of a Paying Agent, evidence satisfactory to that Paying Agent of such holder's entitlement to such Note and a duly completed additional guarantee put option notice (an "**Additional Guarantee Event Put Option Notice**") specifying the principal amount of the Notes in respect of which the Additional Guarantee Event Put Option is exercised, in the form obtainable from the Principal Paying Agent. The Paying Agent will provide such Noteholder with a non-transferable receipt and will notify the Principal Paying Agent of such exercise of the Additional Guarantee Event Put Option. On the Business Day immediately following the end of the Additional Guarantee Event Put Period, the Principal Paying Agent shall notify in writing the Issuer of the exercise of the Additional Guarantee Event Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Additional Guarantee Event Put Option. Provided that the Notes that are the subject of any such Additional Guarantee Event Put Option Notice have been delivered to a Paying Agent prior to the expiry of the Additional Guarantee Event Put Period, then the Issuer shall redeem or, at the Issuer's option, purchase (or procure the purchase of) all such Notes on the date falling 5 Business Days after the expiration of the Additional Guarantee Event Put Period (the "**Additional Guarantee Event Put Payment Date**"). No Additional Guarantee Event Put Option Notice, once delivered to a Paying Agent in accordance with this Condition 6.6, may be withdrawn.

### *6.7 Cancellation*

All Notes redeemed or purchased pursuant to this Condition 6 shall be either cancelled forthwith, held or, to the extent permitted by law, resold. Any Notes so cancelled may not be reissued.

## 7 Payments

### *7.1 Principal and other amounts*

Payment of principal and interest in respect of the Notes will be made to the persons shown as the Holder in the Register at the opening of business on the Record Date (as defined below). Payments of all amounts other than as provided in this Condition 7.1 will be made as provided in these Conditions.

### *7.2 Payments*

Each payment in respect of the Notes pursuant to Condition 7.1 shall be made by transfer to a U.S. dollar account maintained by or on behalf of the payee with a bank in New York City and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of a Transfer Agent. Subject to the Principal Paying Agent receiving written notification of the relevant U.S. dollar account details prior to such time, payment instructions (for value on the due date or, if that is not a business day (as defined below), for value the first following day which is a business day) will be initiated on the business day preceding the due date for payment (for value the next business day).

### *7.3 Payments subject to fiscal laws*

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8.

### *7.4 Payments on business days*

A Note may only be presented for payment on a day which is a business day in the place of presentation. If the due date for any payment of principal or interest under this Condition 7 is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 7 only, "**business day**" means any day on which (i) the London interbank market is open for dealings between the banks generally, and (ii) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Moscow, London, New York City, and in the city where the specified office of the relevant Paying Agent is located.

### *7.5 Record date*

"**Record Date**" means the fifteenth business day, in the place of the specified office of the Registrar, before the due date for the relevant payment.

### *7.6 Agents*

The initial Agents and their initial specified offices are listed in the Paying Agency Agreement. The Issuer reserves the right to vary or terminate the appointment of all or any of the Agents at any time (with the prior written approval of the Trustee) and appoint additional or other payment or transfer agents, provided that the Issuer will at all times maintain (i) a

Registrar and a Principal Paying Agent, and (ii) a Paying Agent and a Transfer Agent having specified offices in at least one major European city approved by the Trustee. Notice of any such change will be provided to Noteholders in accordance with Condition 16.

In acting under the Paying Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and each Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

## 8 Taxation

***8.1*** All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or by any Guarantor under the relevant Guarantee shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of a Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) such Guarantor shall pay such additional amount so as to result in the receipt by the Noteholders of such amounts as would have been received by them in respect of the Notes if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

8.1.1 held by or on behalf of a Noteholder which is (i) liable to such taxes, duties, assessments or governmental charges in respect of such Note or the relevant Guarantee by reason of its (or any beneficial owner thereof) having some present or former connection with the Relevant Jurisdiction other than the mere holding of such Note or the benefit of the relevant Guarantee or (ii) able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim to the relevant taxing authority; or

8.1.2 where (in the case of a payment of principal or interest on redemption or at maturity) the relevant Individual Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Noteholder would have been entitled to such additional amounts if it had surrendered the relevant Individual Note Certificate on the last day of such period of 30 days; or

8.1.3 in respect of taxes, duties, assessments or governmental charges that are imposed or withheld by reason of the failure of the Noteholder (or the beneficial owner of such Notes(s)) to comply with a request of, or on behalf of, the Issuer or a Guarantor addressed to the Noteholder to provide information or documentation concerning the nationality, residence or identity of such Noteholder (or the beneficial owner of such Notes(s)) or to make any declaration or similar claim or satisfy any certification, information or reporting requirement, which is required or imposed by a statute, treaty, regulation, protocol or administrative practice as a precondition to exemption from all or part of, or reduction in the rate of, such taxes, duties, assessments or governmental charges and with which the Noteholder (or the beneficial owner of such Note(s)) is legally able to comply; or

8.1.4 where such withholding or deduction is required pursuant to Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any amended or successor version), any current or future regulations or agreements (including any intergovernmental agreements) thereunder, official interpretations thereof, or any law, regulation or official interpretation implementing an intergovernmental approach thereto; or

8.1.5 in respect of estate, inheritance, gift, sales, excise, transfer, personal property or similar taxes, duties, assessments or governmental charges; or

8.1.6 any combination of the above.

***8.2*** In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received for the account of the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders by the Issuer in accordance with Condition 16.

***8.3*** Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

## 9 Events of Default

***9.1*** The Trustee at its discretion may, and if so requested in writing by Noteholders holding not less than 25 per cent of the principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) shall (subject in each case to its being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Notes are immediately due and repayable at their principal amount together with accrued interest if any of the following events occurs and is continuing (each an "**Event of Default**"):

9.1.1 the Issuer fails to pay the principal of or any interest on any of the Notes when due (whether at its stated maturity, on optional redemption, on required purchase, on declaration of acceleration or otherwise) and such failure continues for a period of five Business Days (in the case of principal) or 10 Business Days (in the case of interest or other amounts); or

9.1.2 the Issuer or any Guarantor, as the case may be, defaults in the performance or observance of any of their respective other obligations under the Notes or the Trust Deed, as the case may be, and except where such default is not, in the opinion of the Trustee, capable of remedy, such default remains unremedied for 30 Business Days after written notice thereof, addressed to the Issuer, or, where applicable, the relevant Guarantor, has been delivered by or on behalf of the Trustee to the Issuer or the relevant Guarantor, as the case may be; or

9.1.3 at any point prior to the Additional Guarantee Event, any event occurs which would have been a default under Condition 9.1.2 by PJSC Polyus if PJSC Polyus had been a Guarantor from the Issue Date onwards; or

9.1.4 a default under any Indebtedness of the Issuer, any Guarantor or any Material Subsidiary, if that default (i) is caused by a failure to repay any amounts under such Indebtedness within any originally applicable grace period at final maturity; or (ii) results in the acceleration of such Indebtedness prior to its stated maturity as a result of an event of default (howsoever described) under such Indebtedness; provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above individually or in the aggregate exceeds US$50,000,000 (or in respect of any other currency, the U.S. Dollar Equivalent thereof); or

9.1.5 the amount of unsatisfied judgments or orders of courts or dispute resolution bodies of competent jurisdiction that have come into force for the payment of money against

the Issuer, any Guarantor or any Material Subsidiary in the aggregate at any given moment of time exceeds US$75,000,000 (or in respect of any other currency, the U.S. Dollar Equivalent thereof) except in circumstances where such judgment, decree or order, as the case may be, is being contested or appealed by the Issuer, any Guarantor or any Material Subsidiary in good faith or is discharged within 60 days of being made; or

9.1.6 the Issuer, any Guarantor or any Material Subsidiary is unable or admits in writing inability to pay its debts as they fall due, generally suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with its creditors generally with a view to a general rescheduling of any of its Indebtedness in excess of US$50,000,000 (or in respect of any other currency, the U.S. Dollar Equivalent thereof) in aggregate; and/or a moratorium is declared in respect of all or any substantial part of the Indebtedness of any of the Issuer, any Guarantor or any Material Subsidiary as a result of any action taken by any competent authority where, in the case of any Material Subsidiary, such inability, action or declaration would have a Material Adverse Effect; or

9.1.7 the occurrence of any of the following events:

(i) the Issuer, any Guarantor or any Material Subsidiary is seeking or consenting to (or an effective resolution is passed by it for) the introduction of proceedings for its liquidation or the appointment of a liquidator, or liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of the Issuer, any Guarantor or any Material Subsidiary, as the case may be, or files a petition in relation to the Issuer, any Guarantor or any Material Subsidiary organized outside Russia for its winding up, examinership or dissolution (otherwise in each case than for the purposes of or pursuant to an amalgamation, consolidation, merger, reorganization, liquidation, dissolution, restructuring or analogous event whilst solvent or in accordance with Condition 4.3);

(ii) the acceptance by a court of competent jurisdiction, arbitration court or any competent agency of a petition in respect of any of the Issuer, any Guarantor or any Material Subsidiary alleging, or for, its bankruptcy, insolvency, examinership, dissolution or liquidation (or any analogous proceedings) or the declaration by such court or agency of the insolvency or bankruptcy of any of the Issuer, any Guarantor or any Material Subsidiary under any bankruptcy or insolvency law (other than (i) any vexatious or frivolous petition; (ii) any petition that is not accepted by such court or competent agency for review on its merits; (iii) where such petition is presented or filed by a person that is not the Issuer, a Guarantor or a Subsidiary of the Issuer or a Guarantor, and such petition has been discharged within 120 calendar days (excluding any period during which the court or competent agency has suspended the proceedings in respect of the petition on account of the petition not being in a form prescribed by law and/or while awaiting further documentation from the petitioner); (iv) any petition for the purposes of or pursuant to an amalgamation, consolidation, merger, reorganization, liquidation, dissolution, restructuring or analogous event whilst solvent or in accordance with Condition 4.3; and (v) in the case of a Material Subsidiary only, where it would not have a Material Adverse Effect);

(iii) the institution, against any Guarantor or any Material Subsidiary organized within Russia of supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovleniye*), external management (*vneshneye upravleniye*)

or bankruptcy management (*konkursnoye proizvodstvo*), in each case, which is not discharged within 120 days and, in the case of a Material Subsidiary only, where it would have a Material Adverse Effect;

(iv) the entry by the Issuer, any Guarantor or any Material Subsidiary into, or the agreeing by the Issuer, any Guarantor or any Material Subsidiary to enter into any amicable settlement which, in the case of any entity in the Russian Federation and without limitation, shall include amicable settlement (*mirovoye soglasheniye*) with its creditors, as such terms are defined in Federal Law of the Russian Federation No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended or replaced from time to time) and which, in the case of a Material Subsidiary only, has a Material Adverse Effect; or

(v) any judicial liquidation in respect of the Issuer, any Guarantor or any Material Subsidiary (otherwise than for the purposes of or pursuant to an amalgamation, consolidation, merger, reorganization, liquidation, dissolution, restructuring or analogous event whilst solvent or in accordance with Condition 4.3) and which, in the case of a Material Subsidiary only, has a Material Adverse Effect; or

9.1.8 any expropriation, attachment, sequestration, execution, Lien or distress is levied against or becomes enforceable and is enforced against, or an encumbrancer takes possession of or sells, the whole or any material part of, the property, undertaking, revenues or assets of the Group taken as a whole which, in each case, is not removed, satisfied, stayed, dismissed or otherwise discharged within 60 calendar days of its commencement; or

9.1.9 any of:

(i) the Notes;

(ii) the Trust Deed; or

(iii) any Guarantee,

is held in any judicial or arbitral proceeding to be unenforceable or invalid or ceases to be legal, valid, binding and in full force and effect (other than in accordance with the terms of such document) or the Issuer or the relevant Guarantor denies, disaffirms, repudiates (or purports or evidences in writing an intention to repudiate) its obligations under any of (i) to (iii) above; or

9.1.10 at any time it is or becomes unlawful for the Issuer or any Guarantor to perform or comply with any or all of their respective material obligations under any of the Notes, the relevant Guarantee or the Trust Deed and any such event continues for more than 30 Business Days; or

9.1.11 any seizure, compulsory acquisition, expropriation, or nationalization of all or, in the opinion of the Trustee, a material part of the undertaking, assets and revenues of the Issuer, any Guarantor or any Material Subsidiary is made by any state authority and, in the case of a Material Subsidiary only, which has a Material Adverse Effect; or

9.1.12 any event occurs which under the laws of any Relevant Jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

## 10 Prescription

Claims for the payment of principal and interest in respect of any Note shall be prescribed and become void unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate Relevant Date.

## 11 Replacement of Individual Note Certificates

If an Individual Note Certificate shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange, be replaced at the specified offices of the Registrar or the Transfer Agents on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Registrar or the Transfer Agents. Mutilated or defaced Individual Note Certificate must be surrendered before replacements will be issued.

## 12 Meetings of Noteholders, Modification and Waiver

### *12.1 Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes or the Trust Deed. Noteholders will be entitled to one vote per US$1,000 in principal amount of Notes held by them. Such a meeting may be convened by the Issuer, any Guarantor or the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured and/or prefunded to its satisfaction, upon the request in writing of Holders of the Notes holding not less than one tenth of the aggregate principal amount of the outstanding Notes or when it considers it necessary to determine compliance with any covenant under the Notes. The Trust Deed provides that special quorum provisions apply for meetings of Noteholders convened for the purpose of, inter alia (i) altering the terms and conditions relating to the maturity, redemption, prepayment and repayment (including, without prejudice to the generality of the foregoing, Condition 5) or postponing any date for payment of interest, (ii) reducing the principal amount of the Notes, (iii) varying the amounts corresponding to interest or principal payable in respect of the Notes or the method of determining such payments in respect of the Notes, (iv) varying the currency in which payments under the Notes are to be made, (v) modifying or cancelling any Guarantee, (vi) amending the provisions of Schedule 3 of the Trust Deed concerning the quorum required at any meeting of the Noteholders or any adjourned meeting thereof or concerning the majority required to pass an Extraordinary Resolution, (vii) amending the proviso to paragraph 8 of Schedule 3 to the Trust Deed, or (viii) giving a direction pursuant to Condition 13 or Clause 7.1(i) of the Trust Deed, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent, or at any adjourned meeting not less than 25 per cent, in principal amount of the Notes for the time being outstanding. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trust Deed provides that a resolution in writing signed by or on behalf of the Holders of not less than 75 per cent in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

### *12.2 Modification and Waiver*

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, the Trust Deed or the Paying Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or to comply with mandatory provisions of applicable law or (subject as provided in the Trust Deed) in the opinion of the Trustee is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorize or agree to the waiving or authorizing of any breach or proposed breach by the Issuer or any Guarantor of the Notes or the Trust Deed, or determine that any event which would or might otherwise give rise to a right of acceleration under the Notes shall not be treated as such, if in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders, provided always that the Trustee may not exercise such power of waiver in contravention of a written request given by Holders of 25 per cent in aggregate principal amount of the Notes then outstanding or any express direction by Extraordinary Resolution. Any such modification, waiver, authorization or determination shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be promptly notified to the Noteholders in accordance with Condition 16.

### *12.3 Substitution*

Pursuant to the Trust Deed, the Issuer may at any time, without the consent of the Noteholders, by written notice to the Trustee, elect to transfer all of its rights and obligations under the Notes, the Trust Deed and the Paying Agency Agreement to another entity (the "**Substituted Issuer**") (such Substituted Issuer shall, by a deed supplemental to the Trust Deed (in form satisfactory to the Trustee, and executed and delivered to the Trustee) assume all obligations of the Issuer under the Notes, the Trust Deed and the Paying Agency Agreement), *provided* that certain conditions including the following are met to the satisfaction of the Trustee, as more fully set out in the Trust Deed:

12.3.1 the Substituted Issuer is incorporated in Jersey, Guernsey, the UK, or any member state of the European Economic Area as of the Issue Date;

12.3.2 the Substituted Issuer satisfies the "know your customer" and similar regulatory requirements of the Trustee and the Agents;

12.3.3 if the Substituted Issuer is organized or a resident in, for tax purposes, a jurisdiction (the "**Substituted Territory**") other than the United Kingdom or Jersey (the "**Issuer's Territory**"), the Substituted Issuer (unless the Trustee otherwise agrees) gives to the Trustee an undertaking satisfactory to the Trustee acting in good faith in terms corresponding to Condition 8 (and subject to the exceptions corresponding to those set out in Condition 8) with the substitution for the references in that Condition to the Issuer's Territory of references to the Substituted Territory whereupon the Trust Deed, the Paying Agency Agreement and the Notes will be read accordingly;

12.3.4 each Guarantee of the Notes is fully effective in relation to the obligations of the Substituted Issuer under the Trust Deed, the Paying Agency Agreement and the Notes;

12.3.5 the transfer of all of the Issuer's rights and obligations under the Notes, the Trust Deed and the Paying Agency Agreement and the assumption of such rights and obligations by the Substituted Issuer have been duly authorized by, or on behalf of, the Issuer and the Substituted Issuer, as applicable, and appropriate third-party legal opinions (which may contain customary assumptions and qualifications) have been provided to the satisfaction of the Trustee; and

12.3.6 the Issuer and the Substituted Issuer comply with such other requirements as the Trustee may reasonably direct in the interests of the Noteholders.

If the Substituted Issuer, in accordance with the Trust Deed, assumes the obligations of the Issuer under the Notes, the Trust Deed and the Paying Agency Agreement, the Issuer (or a previous substitute) shall be released from any and all of its obligations under the Notes, the Trust Deed and the Paying Agency Agreement, the Substituted Issuer will be deemed to be named in the Trust Deed, the Notes and the Paying Agency Agreement as the principal debtor in place of the Issuer (or of any previous substitute) and the Notes, the Trust Deed and the Paying Agency Agreement will be deemed to be amended as necessary to give effect to the substitution.

### *12.4 Entitlement of the Trustee*

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, any Guarantor or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

## 13 Enforcement

At any time after an Event of Default has occurred and for as long as it is continuing, the Trustee may, at its discretion and without further notice, institute such proceedings and/or take such steps and/or actions against the Issuer and/or a Guarantor as it may think fit to enforce the terms of the Trust Deed and/or the Notes, but it need not take any such proceedings and nor shall the Trustee be bound to take, or omit to take, any step and/or action (including instituting such proceedings, steps or actions) unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder may proceed directly against the Issuer or any Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

## 14 Indemnification and Removal of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including provisions relieving it from taking proceedings or steps or actions to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction, and for payment of its costs and expenses in priority to any claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, any Guarantor and any entity related to the Issuer or any Guarantor without accounting for any profit.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Notes or for the performance by the Issuer or any Guarantor of its obligations under or in respect of the Notes and the Trust Deed. The Trustee is entitled to assume that each of the Issuer and each Guarantor is performing all of its obligations pursuant to the Notes and the Trust Deed (and shall have no liability for doing so) until it has received written notice to the contrary.

The Trustee may rely without liability to Noteholders on any certificate or report prepared by auditors, accountants or any other expert pursuant to the Trust Deed, whether or not addressed to the Trustee and whether or not the auditors', accountants' or expert's liability in respect thereof is limited by a monetary cap or otherwise. The Trust Deed provides that the Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove the Trustee (or any successor trustee or additional trustees); provided that the removal of the Trustee or any other trustee shall not become effective unless there remains a Trustee in office after such removal.

## 15 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest, the date of issue and the amount of principal) and so that such further issue shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any such other securities shall be constituted by a deed supplemental to the Trust Deed and will benefit from a guarantee substantially in the form of the Guarantees given in respect of these Notes. The Trust Deed provisions for convening a meeting of the Noteholders apply also to the holders of such further securities. Application will be made for such further securities to be listed and admitted to trading on the stock exchange on which the Notes are from time to time listed or quoted.

## 16 Notices

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register or by any means designated from time to time by any clearing system on which trades in Notes settle. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as the Notes are listed on the Stock Exchange and the rules or guidelines of that exchange so require, notices will be published via the companies announcements office of the Stock Exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

## 17 Currency Indemnity

If any sum due from the Issuer in respect of the Notes or any Guarantor in respect of a Guarantee or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of: (a) making or filing a claim or proof against the Issuer or any Guarantor; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation to the Notes or any Guarantee, the Issuer, and each Guarantor shall indemnify each recipient, on the written demand of such recipient addressed to the Issuer or a Guarantor and delivered to the Issuer or a Guarantor or to the specified office of the Registrar, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such recipient may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and each Guarantor and shall give rise to a separate and independent cause of action, will apply

irrespective of any indulgence granted by any Noteholder or any other person and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Trust Deed and/or the Notes or any other judgment or order.

**18 General Provisions Applicable to the Additional Guarantee Event**

***18.1*** The Issuer shall give notice in writing to the Trustee forthwith upon the occurrence of the Additional Guarantee Event and, so long as the Notes are listed on the Stock Exchange and/or any other stock exchange on which the Notes may be listed or quoted from time to time, shall comply with any applicable rules of the Stock Exchange and/or such other exchange (including, if required by such rules, preparation of a supplemental prospectus or announcement) in relation thereto.

***18.2*** The Issuer shall also procure that on the date of the Additional Guarantee Event an opinion of counsel acceptable to the Trustee (in form and substance satisfactory to the Trustee and which may contain customary assumptions and qualifications) is delivered to the Trustee stating that, following the Additional Guarantee Event, the Guarantee given by PJSC Polyus constitutes legal, valid, binding and enforceable obligations of PJSC Polyus.

***18.3*** Promptly upon the occurrence of the Additional Guarantee Event, notice thereof shall be provided to Noteholders in accordance with Condition 16.

**19 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except and to the extent, if any, that the Notes expressly provide for such Act to apply to any of their terms.

**20 Governing Law and Arbitration**

***20.1*** The Trust Deed, the Notes and these Conditions and any non-contractual obligations arising out of or in connection therewith shall be governed by and interpreted in accordance with English law.

***20.2*** Any dispute, claim or difference of whatever nature arising out of or in connection with the Trust Deed, the Notes and/or these Conditions (including a dispute regarding the existence, validity or termination of the Trust Deed, the Notes and/or these Conditions or a dispute relating to non-contractual obligations arising out of or in connection with the Trust Deed, the Notes and/or these Conditions) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the rules of the LCIA (the "**Rules**"), which Rules are deemed incorporated by reference into these Conditions, as amended herein. This arbitration agreement shall be governed by, and shall be construed in accordance with, English law.

20.2.1 The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator in the request for arbitration. The respondent(s), irrespective of number, shall nominate jointly the second arbitrator within 30 days of receipt of the request for arbitration (or, in the case of multiple respondents, within 30 days of receipt of the request for arbitration by the first respondent). The third arbitrator, who shall serve as Chairman, shall be nominated by agreement of the two party-nominated arbitrators (in consultation with their appointing parties). Failing such agreement within 15 days of the confirmation of the appointment of the second arbitrator, the third arbitrator shall be appointed by the LCIA as soon as possible at the written request of any party. For the avoidance of doubt, the Issuer, the Guarantor, the Noteholders and the Trustee irrevocably agree, for the purpose of Article 8.1 of the Rules, that the claimant(s), irrespective of

number, and the respondent(s), irrespective of number, shall constitute two separate sides for the formation of the arbitral tribunal.

20.2.2 If the claimant(s) or the respondent(s) fail to nominate an arbitrator in accordance with the Rules within the time period stipulated, such arbitrator shall be nominated by the LCIA within 15 days of a written request from any party.

20.2.3 The seat of arbitration shall be London, England and the language of the arbitration shall be English.

20.2.4 If more than one arbitration is commenced under the Trust Deed, the Notes or these Conditions and any party contends that two or more such arbitrations are so closely connected that it is expedient for them to be resolved in one set of proceedings, the arbitral tribunal appointed in the first filed of such proceedings (the "**First Tribunal**") shall have the power to determine, provided no date for the hearing on the merits of the Dispute in any such arbitrations has been fixed, that the proceedings shall be consolidated. The Issuer, the Guarantor, the Noteholders and the Trustee irrevocably agree and consent to being joined in such consolidated proceedings.

20.2.5 The tribunal in such consolidated proceedings shall be selected as follows:

(i) the parties to the consolidated proceedings shall agree on the composition of the tribunal; or

(ii) failing such agreement within 30 days of consolidation being ordered by the First Tribunal, the LCIA shall appoint all members of the tribunal within 30 days of a written request by any of the parties to the consolidated proceedings.

20.2.6 For the avoidance of doubt, the parties to the Trust Deed are intended to have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce the terms of this Condition 20.2.

***20.3*** Each Guarantor undertakes irrevocably to appoint the Issuer at 16 Berkeley Street, London W1J 8DZ, United Kingdom (or such replacement process agent as may be appointed from time to time) as agent to accept service of process and any other documents in proceedings in England or in any legal action or proceedings arising out of or in connection with these Conditions, the Trust Deed and the Notes (the "**Process Agent**"), provided that:

20.3.1 service upon the Process Agent shall be deemed valid service upon any Guarantor whether or not the process is forwarded to or received by such Guarantor;

20.3.2 each Guarantor shall inform the Trustee, in writing, of any change in the address of the Process Agent within 14 days of such change;

20.3.3 if the Process Agent ceases to be able to act as a process agent or to have an address in England, or is otherwise replaced, each Guarantor agrees irrevocably to appoint a new process agent in England acceptable to the Trustee and to deliver to the Trustee within 14 days a copy of a written acceptance of appointment by the new process agent; and

20.3.4 nothing in these Conditions shall affect the right to serve process in any other manner permitted by law.

***20.4*** To the extent that the Issuer or any Guarantor may now or hereafter be entitled, in any jurisdiction in which any legal action or proceeding may at any time be commenced pursuant to or in accordance with these Conditions, to claim for itself or any of its undertaking, properties, assets or revenues present or future any immunity (sovereign or otherwise) from suit, jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of a judgment, execution of a judgment or award or from set-off, banker's lien, counterclaim or any other legal process or remedy with respect to its obligations under these Conditions and/or to the extent that in any such jurisdiction there may be attributed to the Issuer or any Guarantor any such immunity (whether or not claimed), each of the Issuer and each Guarantor hereby irrevocably agrees not to claim, and hereby waives, any such immunity.

***20.5*** Each of the Issuer and each Guarantor irrevocably and generally consents in respect of any proceedings anywhere to the giving of any relief or the issue and service on it of any process in connection with those proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those proceedings.

## 21 Definitions

In these Conditions the following terms have the meaning given to them in this Condition 21.

"**Accounting Standards**" means IFRS, or any other internationally recognized set of accounting standards deemed equivalent to IFRS by the relevant regulators for the time being; provided however, that where such term is used with respect to the financial statements of a Subsidiary, in these Conditions, it shall, where financial statements prepared in accordance with IFRS are not available, be deemed to include U.S. GAAP, Russian accounting standards or any other generally accepted accounting standards of the jurisdiction of incorporation of the relevant Subsidiary from time to time;

"**affiliate**" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or officer (a) of such specified Person, (b) of any Subsidiary of such specified Person or (c) of any Person described in (i) above. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing;

"**Asset Sale**" means a lease, sale (other than a sale and lease-back) transfer or other disposition either in one transaction or in a series of related transactions, by the Issuer, any Guarantor or any Material Subsidiary to a Person that is not a member of the Group, of any assets the book value of which exceeds 10 per cent of the Group Total Assets in any 12 month period excluding any period prior to the Issue Date (determined in each case by reference to the most recent publicly available audited annual Financial Statements or reviewed interim Financial Statements of the Group); provided that "**Asset Sale**" shall not include:

(a) sales or other dispositions of inventory, Commodities or stock in trade in the ordinary course of business;

(b) assignments of or other arrangements over the rights or revenues arising from Product Delivery Contracts;

(c) disposition of cash or cash equivalents;

(d) a lease, sale, transfer or other disposition of (x) any shares or participatory interests in any Group company, (y) any debt securities issued by any member of the Group or (z) any depositary receipts representing any securities issued by any member of the Group;

(e) any distribution or payment of dividends;

(f) any disposition pursuant to or in compliance with Condition 4.3;

(g) any disposition in connection with any consolidation, merger, amalgamation, demerger, spin-off, split-off or other type of corporate reorganization or restructuring of the Issuer;

(h) the sale, lease or other disposition of obsolete, worn out, negligible, surplus or outdated equipment or machinery or raw materials or inventory or any other asset, in each case which is no longer used or usable in the ordinary course of business, such sale, lease or other disposition being in the ordinary course of business;

(i) the lease, assignment or sublease of any real or personal property in the ordinary course of business, including the sale of accounts receivable in factoring arrangements entered into in the ordinary course of business;

(j) sales or other dispositions of assets or property received by the Issuer, any Guarantor or any Material Subsidiary upon the foreclosure of a Lien granted in favor of the Issuer, any Guarantor or any Material Subsidiary or any other transfer of title with respect to any ordinary course secured investment in default; and

(k) the surrender or waiver of contract rights or the settlement, release, or surrender of contract, tort or other claims, in the ordinary course of business;

"**Average Life**" means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (a) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of, or redemption or similar payment with respect to, such Indebtedness multiplied by the amount of such payment by (b) the sum of all such payments;

"**Business Day**" means (other than for the purposes of Condition 7) a day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Moscow, London, New York City and in the city where the specified office of the Principal Paying Agent is located;

"**Capital Lease Obligation**" means an obligation that is required to be classified and accounted for as a finance lease for financial reporting purposes in accordance with IFRS, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with IFRS;

"**Capital Stock**" of any Person means any and all shares, depositary receipts representing shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any preferred stock of such Person, whether now outstanding or issued after the Issue Date, including without limitation, all series and classes of such Capital Stock but excluding any debt securities convertible into such equity;

"**Cash**" means, at any time, cash and cash equivalents presented in the most recently published Financial Statements of the Group;

the "**Code**" means the United States Internal Revenue Code of 1986, as amended;

"**Commodity**" means ore products, precious metal products and any other related products of the Group;

"**Currency Agreement**" means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values;

"**Domestic Relevant Indebtedness**" means any Relevant Indebtedness which is not quoted, listed or ordinarily dealt in or traded on any stock exchange or any public or institutional securities market, in each case outside the Russian Federation;

"**EBITDA**", for any period, means profit before income tax of the Group for that period, as adjusted by:

(a) adding back Interest Expenses;

(b) excluding any loss, and adding back any income, from investments and derivative financial instruments;

(c) before taking into account any items treated as exceptional or extraordinary items (such as but not limited to: any impairments, forex exchange gains/losses, loss/income from disposal of property, plant and equipment);

(d) adding back any amount attributable to the amortisation of intangible assets and the depreciation of tangible assets; and

(e) excluding any one-off items as required to ensure calculation of the EBITDA comparable with the prior period,

in each case, as such amount is calculated as presented in the most recently published Financial Statements of the Group;

"**Environment**" means living organisms including the ecological systems of which they form a part and the following media:

(a) air (including air within natural or man-made structures, whether above or below ground);

(b) water (including territorial, coastal and inland waters, water under or within land and water in drains and sewers); and/or

(c) land (including land under water);

"**Environmental Law**" means all applicable laws and regulations of any jurisdiction in which the Issuer, any Guarantor or any Material Subsidiary conducts business which:

(a) have as a purpose or effect the protection of, and/or prevention of harm or damage to, the Environment;

(b) provide remedies or compensation for harm or damage to the Environment; and

(c) relate to Hazardous Substances or health or safety matters;

“**Environmental Licence**” means any authorization, consent, approval, resolution, license, exemption, filing or registration required at any time under Environmental Law;

“**Exchange Act**” means the U.S. Securities Exchange Act of 1934, as amended;

“**Fair Market Value**” means, with respect to any asset or property, the price that would be paid in an arms’ length, free market transaction between an informed, willing and able seller and an informed, willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will be determined in good faith by a duly authorized officer of the Issuer or a Guarantor, as applicable, whose determination (in the absence of fraud or manifest error) will be conclusive;

“**Financial Statements**” means the consolidated financial statements prepared in accordance with the Accounting Standards;

“**Fitch**” means Fitch Ratings Limited, any credit rating agency affiliate thereof or any successor to the rating agency business thereof;

“**Group**” means PJSC Polyus and its consolidated Subsidiaries taken as a whole;

“**Group Leverage Ratio**” as of any date of determination (the “**Determination Date**”), means the ratio of (x) the aggregate amount of Group Net Indebtedness to (y) the aggregate amount of EBITDA for the period (the “**EBITDA Calculation Period**”) of the two most recent consecutive semi-annual periods or, if applicable, four most recent consecutive quarterly periods (provided that published, reviewed or audited Financial Statements are available for such quarterly periods), ending prior to the date of such determination for which Financial Statements of the Group are available; provided, however, that:

(a) if (i) any member of the Group has incurred any Indebtedness since the balance sheet date (the “**Relevant Date**”) of the latest published Financial Statements of the Group published immediately preceding the Determination Date which remains outstanding on the Determination Date or (ii) the transaction giving rise to the need to calculate the Group Leverage Ratio is an incurrence of Indebtedness, or both, the Group Leverage Ratio shall be calculated by adjusting the Group Net Indebtedness for such period to give effect to the incurrence of any Indebtedness mentioned in (i) or (ii) above, or both, as if such Indebtedness had been incurred on the Relevant Date; provided that no effect shall be given to any Cash received by any member of the Group as proceeds of such Indebtedness that gave rise to the need to calculate the Group Leverage Ratio;

(b) if (i) any member of the Group has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the Relevant Date or (ii) if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case other than Indebtedness incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Group Leverage Ratio, or both, the Group Leverage Ratio shall be calculated by adjusting the Group Net Indebtedness for such period to give effect to such repayment, repurchase, defeasement or discharge mentioned in (i) or (ii) above, as if such repayment, repurchase, defeasement or discharge had occurred on the Relevant Date;

(c) if since the Relevant Date any member of the Group has made an Asset Sale as a result of which a Person ceased to be a member of the Group, the Group Leverage Ratio shall be calculated by adjusting the Group Net Indebtedness for such period to give effect to any reduction of Indebtedness (to the extent originally included) equal

to the Indebtedness of such Person as if such disposal had occurred on the Relevant Date;

(d) if since the beginning of the EBITDA Calculation Period any member of the Group (by merger or otherwise) shall have made an investment in any Person which as a result of such investment becomes a member of the Group or an acquisition of assets which constitutes all or substantially all of an operating unit of a business (including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder), the Group Leverage Ratio shall be calculated by adjusting the EBITDA for such EBITDA Calculation Period as if such investment or acquisition had occurred on the first day of such EBITDA Calculation Period; and

(e) if since the beginning of the EBITDA Calculation Period any member of the Group made an Asset Sale, the Group Leverage Ratio shall be calculated by reducing the EBITDA for such EBITDA Calculation Period by an amount equal to EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Sale, or increased by an amount equal to EBITDA (if negative), directly attributable thereto for such period as if such Asset Sale had occurred on the first day of such EBITDA Calculation Period.

The Group Leverage Ratio shall be determined in good faith by an authorized officer of PJSC Polyus, whose determination will be conclusive (in the absence of manifest error);

"**Group Net Indebtedness**" means at any date of determination (and without duplication) an amount equal to (a) all consolidated Indebtedness of the Group shown upon the then most recent Financial Statements of the Group, less (b) the aggregate Cash of the Group shown upon the then most recent Financial Statements of the Group;

"**Group Total Assets**" means at any date of determination the total assets of the Group as shown in the most recently published Financial Statements of the Group;

"**guarantee**" means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of reimbursement agreements in respect thereof, of all or any part of any Indebtedness;

"**Hazardous Substance**" means any waste, pollutant, contaminant or other substance (including any liquid, solid, gas, ion, living organism or noise) that may be harmful to human health or other life or the Environment or a nuisance to any person;

"**Hedging Obligations**" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement, or any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price;

"**IFRS**" means International Financial Reporting Standards issued by the International Accounting Standards Board (the "**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, consistently applied and which are in effect from time to time;

"**Indebtedness**" means, without duplication:

(a) any moneys borrowed (the principal amount of which as determined in accordance with IFRS);

(b) any principal amount (as determined in accordance with IFRS) raised by acceptance under any acceptance credit facility;

(c) any principal amount (as determined in accordance with IFRS) raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) any principal amount (as determined in accordance with IFRS) raised under any other transaction having the economic or commercial effect of a borrowing; and

(e) the amount of any liability in respect of the guarantee or indemnity for, or similar undertaking given in respect of, any of the items referred to above in relation to any Person.

For the avoidance of doubt, the following amounts shall not constitute "Indebtedness": (i) trade account payables arising solely in the ordinary course of business; (ii) advances received from customers; (iii) any tax liability and any letters of credit and bank guarantees issued in relation to trade-related activities, customs activities or tax payments; (iv) contingent liabilities other than with respect to items of Indebtedness described in the preceding sentence; (v) any amounts of liability under any option agreement; (vi) any amounts of liability or advances received under any streaming transaction or a purchase transaction; (vii) any Intra-Group Transactions; and (viii) any counter-indemnity obligation in respect of a guarantee, indemnity, standby or documentary letter of credit or any other financial instrument issued by a bank or financial institution that is discharged within three months after the relevant obligation crystallizes;

"**Interest Expenses**" means, for any EBITDA Calculation Period, finance costs presented in the most recently published Financial Statements of the Group, including the interest element of leasing and hire purchase payments;

"**Interest Rate Agreement**" means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates;

"**Intra-Group Transaction**" means any loan, guarantee, surety, reorganization and any other transaction (including the payment of dividends or the making of other distributions) solely between members of the Group (or by a member of the Group in favor of another member of the Group);

"**Investment Grade Rating**" means a rating equal to or higher than Baa3 (or the equivalent) by Moody's and BBB- (or the equivalent) by Fitch or Standard & Poor's or, if applicable in relation to any other Rating Agency, an equivalent rating by such other Rating Agency;

"**Investment Grade Status**" shall be deemed to have been reached on the date that the Notes have an Investment Grade Rating from at least two of the Rating Agencies;

"**Issue Date**" means 29 January 2018;

"**Lien**" means any mortgage, pledge, encumbrance, lien, charge or other security interest securing any obligation of any Person;

"**Material Adverse Effect**" means a material adverse effect on:

(a) the business or financial condition of the Group taken as a whole; or

(b) the Issuer's or any Guarantor's ability to perform its payment or other material obligations under the Conditions or Trust Deed; or

(c) the validity, legality or enforceability of the Conditions or Trust Deed or the rights or remedies of the Noteholders or Trustee under the Conditions or Trust Deed;

"**Material Subsidiary**" means, at any given time, a Subsidiary of a member of the Group which:

(a) has gross revenues representing 10 per cent or more of the consolidated gross revenues of the Group; or

(b) has total assets representing 10 per cent or more of the consolidated total assets of the Group,

in each case calculated by reference to the latest published Financial Statements and respective unconsolidated financial information of such Subsidiary, prepared under the same principles as the Financial Statements of the Group, but, in respect of (a), excluding any intra-Group items, provided, however, that a report based on the above criteria by the Auditors (if such report is requested by the Issuer or a Guarantor), that a member of the Group is, or is not, a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding;

"**Moody's**" means Moody's Investors Service Limited, any credit rating agency affiliate thereof or any successor to the rating agency business thereof;

"**Officers' Certificate**" means, a certificate executed on behalf of such person by a duly authorized officer of the Issuer or the relevant Guarantor, as the case may be;

"**Permitted Indebtedness**" means any or all of the following Indebtedness:

(a) Indebtedness outstanding at the Issue Date;

(b) Indebtedness represented by the Notes and any Guarantee or any supplement or amendment to the Trust Deed made in connection with a further issuance by the Issuer of securities having identical terms and conditions, term, tenor and rate of interest as, and forming a single fungible series with, the Notes;

(c) Refinancing Indebtedness incurred by the Issuer, any Guarantor or any member of the Group to Refinance Indebtedness;

(d) Indebtedness incurred pursuant to Hedging Obligations; provided that such Hedging Obligations are entered into in the ordinary course of business of the Group and not for speculative purposes;

(e) Indebtedness in respect of workers' compensation claims or claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit;

(f) customer deposits and advance payments received from customers in the ordinary course of business of the Group;

(g) intercompany and intra-Group Indebtedness owed to, and held by, the Issuer, any Guarantor or a member of the Group in respect of the Issuer, any Guarantor or a member of the Group; provided, however, that any subsequent disposition, pledge or transfer of such Indebtedness (other than to the Issuer, any Guarantor or a member of

the Group) shall be deemed, in each case, to constitute the incurrence of such Indebtedness by the relevant obligor in respect of such Indebtedness;

(h) obligations in respect of performance, bid, judgmental, appeal and surety bonds, completion guarantees, letters of credit, bank's acceptances, veksels (being Russian rouble-denominated short-term promissory notes) or similar obligations provided by the Issuer, any Guarantor or a member of the Group in the ordinary course of business of the Group;

(i) Purchase Money Indebtedness and Capital Lease Obligations incurred to finance the acquisition by the Issuer, any Guarantor or another member of the Group of assets in the ordinary course of business of the Group;

(j) Indebtedness of a member of the Group incurred and outstanding on or prior to the date on which such entity was acquired by the Issuer, any Guarantor or another member of the Group (other than Indebtedness incurred in connection with, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such entity was acquired by, or became, a member of the Group); *provided*, however, that on the date of such acquisition and after giving effect thereto, as if such acquisition had occurred, the Issuer, each Guarantor or other member of the Group, as applicable, would have been entitled to incur at least US$1.00 of additional Indebtedness pursuant to Condition 4.2.1;

(k) Indebtedness of either the Issuer, any Guarantor or any member of the Group consisting of guarantees of Indebtedness of either the Issuer, any Guarantor or any member of the Group incurred under Condition 4.2.1 or any other paragraph of this definition;

(l) Indebtedness arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five Business Days of its incurrence;

(m) Indebtedness arising from agreements of the Issuer or a member of the Group providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business, assets or Capital Stock of the Issuer or any member of the Group; provided that (A) the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the net proceeds (including the Fair Market Value of non-cash consideration) actually received by (or held in escrow as a collateral for such Indebtedness for later release to) the Issuer or a member of the Group in connection with such disposition (without giving effect to any subsequent changes in value); and (B) such Indebtedness is not reflected on the balance sheet of the Issuer or any member of the Group (contingent obligations referred to in a footnote to financial statements and not otherwise reflected on the balance sheet shall not be deemed to be reflected on such balance sheet for the purposes of this part (B));

(n) Indebtedness under any export credit facility existing on the Issue Date incurred to finance the acquisition by the Issuer or a member of the Group of an asset, including construction, additions and improvements, in the ordinary course of business (including the cost of design, development, construction, acquisition, transportation, installation, improvement and migration of assets); provided, however, that (A) any Lien arising in connection with any such Indebtedness shall be limited to the specific asset being financed or, in the case of real property or fixtures, including additions

and improvements, the real property on which such asset is attached; and (B) the aggregate principal amount of such Indebtedness at any one time outstanding shall not exceed (x) the Fair Market Value of the acquired or constructed asset or improvement so financed or (y) in the case of an uncompleted constructed asset, the value of the asset to be constructed, as determined on the date the contract for construction of such asset was entered into by the Issuer or the relevant member of the Group (including, in each case, any related premiums, fees, expenses and taxes incurred in connection with such acquisition, construction or development); and

(o) in addition to the items referred to in paragraphs (a) to (n) above, Indebtedness of the Issuer, each Guarantor and the members of the Group incurred in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness incurred pursuant to this paragraph (o) and then outstanding, will not exceed US$200,000,000 at any time outstanding;

"**Permitted Liens**" means:

(a) Liens existing on the Issue Date;

(b) Liens under worker's compensation laws, unemployment insurance laws, social security benefits or similar legislation, or to secure public or statutory obligations, surety bonds, customs duties, bid, judgmental or appeal bonds and the like, or for the payment of rent, in each case incurred in the ordinary course of business of the Group and not securing Indebtedness;

(c) Liens imposed by law, such as carriers', vendors', warehousemen's and mechanics' liens, in each case for sums not yet due or being contested in good faith and by appropriate proceedings;

(d) Liens arising by operation of law and in the ordinary course of business of the Group or in respect of taxes, assessments, government charges or claims, including without limitation those in favor of Russian governmental fiscal or customs authorities;

(e) Liens in respect of taxes or assessments, government charges and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which PJSC Polyus has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;

(f) with respect to any Person, survey exceptions, encumbrances, easement or reservations of, or rights of others, licenses, rights of way, sewers, electrical lines, telegraph or telephone lines and other similar purposes, or zone or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which do not act in the aggregate to materially adversely affect the value of the property or materially impair their use in the operation of the business of such Person;

(g) (i) licenses or leases or subleases as licensor, lessor or sublessor of any property in the ordinary course of business of the Group and (ii) with respect to any leasehold interest where either the Issuer, any Guarantor or any member of the Group is a lessee, tenant, subtenant or other occupant, mortgages, obligations, liens and other encumbrances incurred, created, assumed or permitted to exist and arising by, through or under a landlord or sub-landlord of such leased real property encumbering such landlord's or sub-landlord's interest in such leased real property;

(h) any bankers' Liens in respect of deposit accounts, statutory landlords' Liens and deposits to secure bids, contracts, leases, and other similar obligations (provided such Liens do not secure obligations constituting Indebtedness and are incurred in the ordinary course of business of the Group), direct debit arrangements, any netting or set-off arrangement entered into by any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances and judgment Liens not giving rise to a Potential Event of Default or an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings that may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(i) Liens securing Indebtedness permitted to be incurred under Condition 4.2 to finance or refinance the acquisition, construction, purchase or lease of, or repairs, improvements or additions to, property of such Person; *provided*, *however*, that the Lien may not extend to any other property (other than property related to the property being financed) owned by such Person or any of its Subsidiaries at the time the Lien is incurred, and the Indebtedness (other than any interest thereon) secured by the Lien may not be incurred more than 180 days after the later of the refinancing, acquisition, lease, completion of construction, repair, improvement, addition or commencement of full operation of the property subject to the Lien;

(j) with respect to any Person, Liens on property at the time such Person or any of its Subsidiaries acquires such property, including any acquisition by means of a merger or consolidation with or into the Issuer, any Guarantor or any member of the Group; *provided*, *however*, that such Liens are not created, incurred or assumed in connection with, or in contemplation of, such acquisition and *provided further*, that the Liens may not extend to any other property owned by such Person or any of its Subsidiaries (other than assets and property affixed or appurtenant thereto);

(k) Liens securing Indebtedness or other obligations of either the Issuer, any Guarantor or a member of the Group in favor of either the Issuer, any Guarantor or a member of the Group;

(l) Liens securing Hedging Obligations so long as such Hedging Obligations are permitted to be incurred under these Conditions and the related Indebtedness is permitted to be incurred in accordance with these Conditions and such Hedging Obligations are entered into in the ordinary course of business of the Group and are not speculative;

(m) any title transfer or retention of title arrangement entered into by any member of the Group in the ordinary course of its business;

(n) Liens to secure a Refinancing Indebtedness that was secured by a Lien permitted hereunder and that was incurred in accordance with these Conditions; *provided* that such Liens do not extend to or cover any property or assets of either the Issuer, any Guarantor or any member of the Group other than assets or property securing the Indebtedness so Refinanced;

(o) deposits made by and escrow or similar arrangements to secure obligations or liabilities arising from agreements providing for indemnification, adjustment of purchase price, earn-out or other similar obligations, in each case incurred or assumed in connection with the disposition of any assets (to the extent such disposition of assets is permitted hereby);

(p) Liens on assets, income, property or share capital of another Person at the time such other Person is acquired, merged into or consolidated with the Issuer and/or any member of the Group; *provided*, *however*, that such Liens are not created, incurred or assumed in connection with, or in contemplation of, such event and *provided further* that the Liens may not extend to any other property owned by the Issuer, any Guarantor or a member of the Group (other than assets and property affixed or appurtenant thereto);

(q) any Liens in respect of, in support of or in connection with Project Financing;

(r) any Lien over any rights, title or interest in, to or under any Product Delivery Contract, including the receivables generated under any such Product Delivery Contract and all other monies and proceeds arising in connection with any such Product Delivery Contract, and any Lien over any bank accounts into which the receivables, monies and proceeds from any such Product Delivery Contract or any cash collateral are paid or transferred (including (i) amounts standing to the credit of such bank accounts and (ii) any rights under any agreements establishing or opening such bank accounts);

(s) a right of set-off, netting, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group;

(t) Liens upon, or with respect to, any present or future assets or revenues or any part thereof which are created pursuant to, and any Liens constituted by, any repo or other derivatives transaction;

(u) any Lien created in connection with the raising of any Indebtedness for working capital purposes;

(v) any Liens (other than those contemplated above in paragraphs (a) to (u) above or (w) below) on the property, income, revenue or assets of the Issuer or any member of the Group securing Indebtedness of the Issuer or such member of the Group incurred in an aggregate principal amount at any one time outstanding not to exceed 15 per cent of Group Total Assets; and

(w) any extension, renewal of or substitution for any Lien permitted by any of the preceding paragraphs, *provided*, *however*, that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien; with respect to Liens incurred pursuant to this paragraph (w), the principal amount secured has not increased (other than any increase representing costs, fees, expenses or commission associated with such extension, renewal or substitution) and the Liens have not been extended to any additional property or assets (other than proceeds of the property or assets in question);

"**Permitted Security Interest**" means:

(a) any Lien:

  (i) existing on the Issue Date; or

  (ii) securing Refinancing Indebtedness in respect of Indebtedness existing on the Issue Date, provided that such Liens are limited to all or part of the assets, undertaking, property or revenues that secured the original Indebtedness and

that the aggregate principal amount of such Refinancing Indebtedness secured over such assets does not exceed the sum of (x) the aggregate principal amount of the Indebtedness being refinanced; (y) accrued and unpaid interest on such Refinancing Indebtedness and the Indebtedness being refinanced; and (z) fees, premiums and other costs and expenses incurred in connection with such Refinancing Indebtedness;

(b) any Lien created or existing in respect of Domestic Relevant Indebtedness;

(c) any Lien:

(i) existing on any undertaking, property, assets or revenues of any person at the time such person becomes a member of the Group or such undertaking property, assets or revenues are acquired by the Issuer or any member of the Group, provided that such Lien was not created in contemplation of such event and that no such Lien shall extend to other undertaking property, assets or revenues of such person or the Group; or

(ii) securing Refinancing Indebtedness in respect of the Indebtedness specified in paragraph (c)(i) above, provided that such Liens are limited to all or part of the undertaking, assets, property or revenues that secured the original Indebtedness and that the aggregate principal amount of such Refinancing Indebtedness secured over such assets does not exceed the sum of (x) the aggregate principal amount of the Indebtedness being refinanced; (y) accrued and unpaid interest on such Refinancing Indebtedness and the Indebtedness being refinanced; and (z) fees, premiums and other costs and expenses incurred in connection with such Refinancing Indebtedness;

(d) any Lien created in respect of Relevant Indebtedness in the form of, or represented by, notes, debentures, bonds or other debt securities exchangeable for or convertible into Treasury Shares or shares in any other company (except a member of the Group) listed on a stock exchange, including American Depositary Receipts or Global Depositary Receipts (as the case may be) representing rights in respect of such shares;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organization, state or agency of a state or other entity, whether or not having separate legal personality;

"**Potential Event of Default**" means an event which, with the lapse of time and/or the issue, making or giving of any notice or both, would constitute an Event of Default;

"**Product Delivery Contract**" means any contract for the sale or delivery of any Commodity, entered into from time to time between the Issuer, any Guarantor or any member of the Group and any other Person in the ordinary course of business, that is customary in the mining and precious metals industry, including, without limitation, any commission agency contracts, any spot sale contract and any transportation or other contracts related thereto;

"**Project Finance Company**" means any Person in which PJSC Polyus holds a direct or indirect interest or which is a special purpose vehicle, where such person is established or used for the purposes of undertaking the ownership, acquisition, construction or development of any project whose main source of finance is Project Financing;

"**Project Financing**" means any Indebtedness issued, raised or borrowed by a Project Finance Company to finance the ownership, acquisition, construction, repair, improvement, modification or development of any project if the recourse of the Person or Persons providing

such financing is limited to (a) the project financed, and/or (b) the revenues derived from such project as the main source of repayment for the moneys advanced (it being acknowledged and agreed that equity contribution agreements (and related guaranties), subordinated debt obligations and equity pledges and similar arrangements, in each case, provided by or on behalf of the direct or indirect owners of such project shall not result in such financing being considered recourse to such owners);

"**Purchase Money Indebtedness**" means Indebtedness (including Capital Lease Obligations) (i) consisting of the deferred purchase price of property, conditional sale obligations, obligations under any title retention agreement, other purchase money obligations and obligations in respect of Indebtedness, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed; and (ii) incurred (including under an export finance facility) to finance the acquisition by the Issuer, a Guarantor or a member of the Group of such asset, including construction, additions, repair, refurbishment and improvements, in the ordinary course of business of the Group (including the cost of design, development, construction, acquisition, transportation, installation, improvement and migration of assets); *provided*, *however*, that (A) any Lien arising in connection with any such Indebtedness shall be limited to the specific asset being financed or, in the case of real property or fixtures, including additions and improvements, the real property on which such asset is attached, (B) such Indebtedness is incurred within 180 days after such acquisition of such assets and (C) the aggregate principal amount of Purchase Money Indebtedness at any one time outstanding shall not exceed (x) the Fair Market Value of the acquired or constructed asset or improvement so financed or (y) in the case of an uncompleted constructed asset, the value of the asset to be constructed, as determined on the date the contract for construction of such asset was entered into by the Issuer, the relevant Guarantor or the relevant member of the Group (including, in each case, any reasonable related fees and expenses incurred in connection with such acquisition, construction or development);

"**Rate of Interest**" means interest in U.S. dollars on the outstanding principal amount of the Notes at the rate of 4.70 per cent per annum;

"**Rating Agencies**" means Fitch, Moody's and Standard & Poor's or, if any or all of Fitch, Moody's or Standard & Poor's shall not provide a publicly available rating on the Notes, an internationally recognized securities rating agency or agencies, as the case may be, selected by PJSC Polyus with the prior written approval of the Trustee, which shall be substituted for Fitch, Moody's and/or Standard & Poor's, with respect to the Notes;

references to "**reasonable**" or "**reasonably**" and similar expressions relating to the Trustee and any exercise of power, opinion, determination or other similar matter shall be construed as meaning reasonable or reasonably (as the case may be) having regard to, and taking into account, the interests of the Noteholders only;

"**Refinance**" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. "**Refinances**", "**Refinanced**" and "**Refinancing**" shall have correlative meanings;

"**Refinancing Indebtedness**" means Indebtedness that Refinances any Indebtedness of the Issuer, any Guarantor or any member of the Group existing on the Issue Date or incurred in compliance with these Conditions, including Indebtedness that Refinances Refinancing Indebtedness; *provided*, *however*, that:

(a) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced or earlier provided that the Stated Maturity is later than the Stated Maturity of the Notes;

(b) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced or earlier provided that the Average Life is greater than the Average Life of the Notes;

(c) such Refinancing Indebtedness has an aggregate principal amount (or if incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if incurred with original issue discount, the aggregate accreted value) then outstanding (plus all accrued interest and fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; and

(d) if the Indebtedness being Refinanced is subordinated in right of payment to the Notes and any Guarantee, such Refinancing Indebtedness is subordinated in right of payment to the Notes and the relevant Guarantee at least to the same extent as the Indebtedness being Refinanced;

"**Relevant Indebtedness**" means any:

(a) Indebtedness in the form of or represented by any bond, note, debenture stock, loan stock, certificate or other debt instrument (but for the avoidance of doubt, excluding term or revolving loans (whether syndicated or unsyndicated), credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities, credit agreements or similar facilities) which is listed or quoted on any stock exchange;

(b) Indebtedness in the form of a loan to the Issuer, any Guarantor or any Material Subsidiary which is financed by the issuance of any of the foregoing forms of debt in (a) above, where such issuance is by a special purpose company or a bank and the rights to payment of the Holders of such forms of debt are limited to payments actually made by either the Issuer, such Guarantor or such Material Subsidiary pursuant to such loan; or

(c) payment under any guarantee of, or any payment under any indemnity or other like obligation relating to, any such Indebtedness as is referred to in (a) or (b) above;

"**Relevant Jurisdiction**" means:

(a) in the case of payment by the Issuer, such taxing jurisdiction in which the Issuer is organized or is otherwise resident for tax purposes (or any political subdivision or any authority thereof or therein having power to tax);

(b) in the case of payments by a Guarantor, the Russian Federation or any political subdivision or any authority thereof or therein having power to tax; or

(c) in any case, any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax in which the Issuer or a Guarantor becomes organized or resident for tax purposes or through which payments are made by it of principal or interest on the Notes or under any Guarantee;

"**Restricted Business**" has the meaning given to it in Condition 4.8;

"**Securities Act**" means the U.S. Securities Act of 1933, as amended;

"**Standard & Poor's**" means Standard & Poor's Credit Market Services Europe Limited, any credit rating agency affiliate thereof or any successor to the rating agency business thereof;

"**Stated Maturity**" means, with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final payment of principal of such Indebtedness is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase or redemption of such Indebtedness at the option of the Holder or lender thereof upon the happening of any contingency unless such contingency has occurred);

"**Stock Exchange**" means London Stock Exchange plc;

"**Subordinated Obligation**" means, with respect to a Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter incurred) which is subordinate or junior in right of payment to the Notes or a guarantee of such Indebtedness, as the case may be, pursuant to a written agreement to that effect;

"**Subsidiary**" of any specified Person means any corporation, partnership, joint venture, association or other business or entity, whether existing on the Issue Date or thereafter organized or acquired by such Person:

(a) which is controlled directly or indirectly by such Person; and/or

(b) which is beneficially owned directly or indirectly for more than 50 per cent of the issued share capital or similar right of ownership by such Person; and/or

(c) of which more than 50 per cent of the total voting power of the voting stock is held by such Person and/or any Subsidiaries of such Person;

and which in each case is required under IFRS to be consolidated in the financial statements of such Person prepared in accordance with IFRS;

"**Taxes**" means any taxes, duties, assessments or government charges of whatever nature (including interest or penalties thereon), which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by a Relevant Jurisdiction or any tax authority thereof or therein and the term 'taxation' shall be construed accordingly;

"**Treasury Shares**" means any shares (or depositary receipts representing shares) in the share capital of the Issuer, any Guarantor or any member of the Group as may be owned by the Issuer, any Guarantor or any member of the Group; and

"**U.S. Dollar Equivalent**" means with respect to any monetary amount in a currency other than U.S. dollars, at any time for determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the applicable foreign currency as published in The Wall Street Journal in the "Exchange Rates" column under the heading "Currency Trading" or any replacement thereof on the date that is two Business Days prior to such determination.

# SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

**The Global Notes**

The Notes will be evidenced on issue by (i) in the case of Regulation S Notes, the Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, the Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in the Regulation S Global Note Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*—Book-entry Procedures for the Global Notes*". By acquisition of a beneficial interest in the Regulation S Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, that it is located outside the United States and that, if it determines to transfer such beneficial interest prior to the expiration of the "distribution compliance period" (as such term is defined in Rule 902 of Regulation S), it will transfer such interest only (a) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, in each case in accordance with any applicable securities laws of any state of the United States. See "*Transfer Restrictions*".

Beneficial interests in the Rule 144A Global Note may be held only through DTC at any time. See "—*Book-entry Procedures for the Global Notes*". By acquisition of a beneficial interest in the Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a qualified institutional buyer (a "**QIB**") as defined in Rule 144A under the Securities Act ("**Rule 144A**") and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Paying Agency Agreement. See "*Transfer Restrictions*".

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Paying Agency Agreement, and with respect to the Rule 144A Global Note, as set forth in Rule 144A, and the Notes will bear the legends set forth thereon regarding such restrictions set forth under "Transfer Restrictions." A beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) from the transferor to the effect that the transfer is being made in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note, and become an interest in the Rule 144A Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial

interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the "**Definitive Notes**"). The Notes are not issuable in bearer form.

**Amendments to Conditions**

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the Terms and Conditions of the Notes. The following is a summary of those provisions:

***Payments***

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to the person who appears at the relevant time on the register of Noteholders against presentation and (if no further payment falls to be made on it) surrender thereof to or to the order of the Principal Paying Agent, (or to or to the order of such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose). A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.

***Notices***

So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes. The Issuer shall also ensure that all notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such notice.

***Record Date***

So long as the relevant Global Note is held by or on behalf of a common depositary for Euroclear, Clearstream, Luxembourg, DTC or an Alternative Clearing System, "**Record Date**" shall mean the Clearing System Business Day before the relevant due date for payment, where "**Clearing System Business Day**" means a day when Euroclear and Clearstream, Luxembourg is open for business.

***Meetings***

The holder of each Global Note and any proxy appointed by it will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each US$1,000 in principal amount of Note represented by the Global Notes.

***Trustee's powers***

In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

## Exchange for Definitive Notes

### *Exchange*

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: a Global Note is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a "clearing agency" registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

### *Delivery*

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of the Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB. Definitive Notes issued in exchange for a beneficial interest in the Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

## Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

**Book-Entry Procedures for the Global Notes**

For each series of Notes evidenced by both the Regulation S Global Note and the Rule 144A Global Note, custodial and depositary links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See *"– Settlement and Transfer of Notes*".

**Euroclear and Clearstream, Luxembourg**

The Regulation S Global Note representing the Regulation S Notes will have an ISIN, Common Code CUSIP number and CFI and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services, including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

**DTC**

The Rule 144A Global Note representing the Rule 144A Notes will have an ISIN, Common Code and CUSIP number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System.

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Rule 144A Global Note as to which such Participant or Participants has or

have given such direction. However, in the circumstances described under "Exchange for Definitive Notes", DTC will surrender the Rule 144A Global Note for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

**Relationship of Participants with Clearing Systems**

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

**Settlement and Transfer of Notes**

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of

Indirect Participants, the ability of a person having an interest in the Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

**Trading between Euroclear and/or Clearstream, Luxembourg Participants**

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

**Trading between DTC Participants**

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

**Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser**

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note, as the case may be (subject to the certification procedures provided in the Paying Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the relevant Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by such Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

**Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser**

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Rule 144A Global Note (subject to the certification procedures provided in the Paying Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and

evidenced by the relevant Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Guarantor, the Trustee nor any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

**Pre-issue Trades Settlement**

It is expected that delivery of Notes will be made against payment therefor on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisors.

# TRANSFER RESTRICTIONS

***Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale or other transfer of the Notes offered hereby.***

Each purchaser of the Securities who is within the United States and acquiring the Securities pursuant to Rule 144A, by accepting delivery of such Securities, will be deemed to have represented, agreed and acknowledged that:

(a) It is (i) a QIB, (ii) acquiring such Securities for its own account or for the account of a QIB and (iii) aware, and each beneficial owner of such Securities has been advised, that the sale of such Securities to it is being made in reliance on Rule 144A.

(b) It understands that such Securities have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (i) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of another QIB; (ii) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; (iii) pursuant to Rule 144 under the Securities Act (if available); or (iv) pursuant to any other available exemption from the registration requirements of the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States.

(c) It acknowledges that the Securities offered and sold hereby in the manner set forth in paragraph (a) are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, are being offered and sold in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for the resale of such Notes.

(d) It understands that the Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE GUARANTEE IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT; (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE); OR (4) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

(e) It acknowledges that the Issuer, the Managers and their respective affiliates, and others will rely upon the truth and accuracy of the above acknowledgments, representations or agreements and agrees that, if any of the acknowledgments, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it

shall promptly notify the Issuer and the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts who are QIBs, it represents that it has sole investment discretion with respect to each such account, and that it has full power to make the above acknowledgments, representations and agreements on behalf of each such account.

(f) It acknowledges that, prior to any transfer of Securities or of beneficial interests in the Global Notes, the holder of Securities or the holder of beneficial interests in Global Notes, as the case may be, may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation as provided in this Agreement and the Trust Deed.

(g) It understands that the Notes offered in reliance on Rule 144A will be represented by the Rule 144A Global Note. Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

**Prospective purchasers are hereby notified that the sellers of the Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

**Regulation S Notes**

Each purchaser of Regulation S Notes, by accepting delivery of this Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(a) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) is located outside the United States (within the meaning of Regulation S) and, if it is acquiring the Regulation S Notes prior to the expiration of the "distribution compliance period", it is located outside the United States and is not a U.S. person, and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(b) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the "distribution compliance period" (as such term is defined in Rule 902 of Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB or for the account of a QIB or (b) in an offshore transaction to a person that is not a U.S. person in accordance with Rule 903 or Rule 904 of Regulation S, in the case of (a) and (b), in accordance with any applicable securities laws of any state of the United States.

(c) It understands that the Regulation S Notes will be evidenced by the Regulation S Global Note Certificate. Prior to the expiration of a "distribution compliance period", before any interest in the Regulation S Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

(d) It acknowledges that the Issuer, the Managers and their respective affiliates, and others will rely upon the truth and accuracy of the above acknowledgments, representations or agreements.

# TAXATION

*The following is a general description of certain tax laws relating to the Notes and does not purport to be a comprehensive discussion of the tax treatment of the Notes. Prospective investors in the Notes should consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of the Notes in light of their particular circumstances, including, but not limited to, the consequences of receipt of interest and sale or redemption of the Notes.*

## UNITED KINGDOM

**The following summary discusses in general terms, based upon UK tax law as applied in England and published H.M. Revenue & Customs ("HMRC") practice as of the date of this document, the material UK tax consequences relating to the ownership of the Notes. Such laws may be repealed, revoked or modified and such practice may not bind HMRC and/or may change, so as to result in UK tax consequences different from those discussed below.**

**Except where noted, the discussion relates only to the position of persons who are the absolute beneficial owners of the Notes which are held as investments (and, therefore, not held in connection with any trade) and may not apply to persons in special situations, such as financial institutions, investment funds, trustees and persons who are or become connected with the Issuer other than through their holding of the Notes. The discussion does not constitute legal or tax advice and, accordingly, persons considering the purchase, ownership or disposition of the Notes should consult their own tax advisors concerning the UK tax consequences in the light of their particular situations as well as any consequences arising under the law of any other relevant tax jurisdiction. No representations with respect to the UK tax consequences to any particular holder of Notes are made in this section. This summary does not purport to describe all of the tax considerations that may be relevant to a prospective holder of the Notes.**

References in this discussion to Notes owned, held or disposed of by holders of Notes include references to the book-entry interests held by purchasers in the Notes in global form deposited with, and registered in the name of a common depositary for, Euroclear and Clearstream, Luxembourg.

### Payments on the Notes – withholding tax

No withholding or deduction on account of UK income tax will be required from payments of principal on the Notes.

Interest on the Notes will generally be paid after deduction of UK income tax at the basic rate (currently 20 per cent). However, no withholding or deduction of UK income tax at source will be required from payments of interest where:

- the Notes are listed on a "**recognized stock exchange**" within the meaning of section 1005 of the Income Tax Act 2007 (the Main Market of the London Stock Exchange being such a recognized stock exchange for these purposes); or
- the Issuer reasonably believes that the person beneficially entitled to such interest is:

  (a) a company resident in the UK; or

  (b) a company not resident in the UK which carries on a trade in the UK through a permanent establishment and which brings into account the interest in computing its UK taxable profits; or

  (c) a partnership each member of which is a company referred to in (a) or (b) above or a combination of companies referred to in (a) and (b) above,

and (in any such case) HMRC has not given a direction that the interest should be paid under deduction of tax.

Section 1005 of the Income Tax Act 2007 provides that securities will be treated as listed on a recognized stock exchange if (and only if) they are admitted to trading on that exchange and either they are included in the United Kingdom official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in EEA states, in a country outside the United Kingdom in which there is a recognized stock exchange. Under current HMRC practice, the listing and admission of the Notes to trading on the Main Market of the London Exchange fulfils these requirements.

Furthermore, the Issuer may be able, by virtue of other exemptions under UK domestic law or the provisions of an applicable double tax treaty, to pay interest on a holding of Notes free of deduction or subject to a reduced rate of deduction, subject to completion of certain procedural requirements.

**Taxation of interest and other returns**

***UK Resident Individuals***

A holder of Notes who is a UK resident individual for tax purposes will generally be subject to UK income tax at the applicable rate on any interest received on the Notes (grossed up where deduction at source applies), but subject to credit for (or, if no liability arises, repayment of) any UK income tax deducted at source. The Notes should constitute deeply discounted securities for United Kingdom income tax purposes, with the result that any profits realized on disposal of the Notes (including redemption) should be taxable as income.

***UK Resident Companies***

In general, a holder of Notes which is a UK resident company will be liable to, or entitled to relief from, UK corporation tax on all profits, gains and losses arising to it from the Notes, generally computed in accordance with UK GAAP or International Accounting Standards and will be subject to corporation tax in respect of all profits, gains and losses on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) measured and recognized in each accounting period in accordance with their accounting treatment.

***Non-UK Residents***

Except for any income tax deducted at source as described above, a holder of Notes who is not resident in the United Kingdom (other than certain trustees) will not be liable or assessable to UK tax on interest received on the Notes, unless that holder carries on a trade, profession or vocation through a UK branch or agency or, in the case of a company, a permanent establishment, in connection with which the interest is received or the Notes are held. In certain cases, a UK broker or investment manager is not treated as a UK branch, agency or permanent establishment for these purposes.

If a non-UK resident holder is liable to UK tax on any interest received on the Notes, the holder will receive credit for (and if no liability for UK tax arises, repayment of) any income tax deducted at source.

As noted above, where there is an applicable double tax treaty between the United Kingdom and the country in which the holder of Notes is resident, any liability of the holder of Notes to UK tax on interest received on the Notes may be reduced or eliminated by the treaty.

### Taxation of chargeable gains

The Notes should not be treated as "**qualifying corporate bonds**" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992 for the purposes of UK capital gains tax (but not corporation tax on chargeable gains). Accordingly, a disposal (including a redemption) of Notes by an individual holder of Notes resident in the United Kingdom, or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Note is attributable, may give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax to the extent that any profit on disposal is not chargeable to tax as income.

### United Kingdom information reporting

Any paying agent or other person in the United Kingdom through whom interest is paid to, or by whom interest is received on behalf of, a holder of Notes may be required to provide information in relation to the payment to HMRC pursuant to certain domestic and international reporting and transparency regimes. The information that is disclosed may include (but is not limited to) information relating to the value of the Notes, amounts paid or credited with respect to the Notes, details of the holders or the beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons who exercise control over entities that are, or are treated as, holders of the Notes, details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes. These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of UK income tax and whether or not the holder is resident in the United Kingdom for UK tax purposes. In certain circumstances, HMRC may communicate this information to the tax authorities of certain other jurisdictions.

### Inheritance tax

A gift or transfer at undervalue of any Notes by a holder who is an individual or the death of such a holder may give rise to a liability to UK inheritance tax.

### Stamp duty and stamp duty reserve tax

No UK stamp duty or stamp duty reserve tax will be payable on the issue of the Notes.

## THE RUSSIAN FEDERATION

### General

The following is an overview of certain Russian tax considerations relevant, among other things, to taxation of the Notes and payments under the Guarantee.

The overview is based on the laws of the Russian Federation in effect on the date of this Prospectus (where these laws are subject to potential changes, which could occur frequently, at short notice and may have retroactive effect). The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes. The overview does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation or tax implications arising for the Noteholders applying special tax regimes available under Russian tax legislation, nor does it seek to address the availability of double tax treaty relief in respect of income payable on the Notes, or practical difficulties involved in claiming and obtaining such double tax treaty relief. Prospective investors should consult their own advisors regarding the tax consequences

of investing in the Notes. No representations with respect to the Russian tax consequences of investing, owning or disposing of the Notes to any particular Noteholder is made hereby.

The provisions of the Russian Tax Code applicable to the Noteholders and transactions involving the Notes are ambiguous and lack interpretive guidance. Both the substantive provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be more inconsistent and subject to more rapid and unpredictable change (possibly with retroactive effect) than in jurisdictions with more developed capital markets or more developed taxation systems.

In practice, the interpretation and application of tax laws and regulations by different tax inspectorates may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. The interpretation and application of such provisions will in practice rest substantially with local tax inspectorates. Furthermore, in the absence of binding precedents, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this overview, the term "**Resident Noteholder**" means:

- a Russian legal entity which acquires, holds and disposes of the Notes, a legal entity or an organisation, in each case organized under a non-Russian law, which acquires, holds and disposes of the Notes through its permanent establishment in the Russian Federation or a foreign entity or an organisation recognized as a Russian tax resident in accordance with the requirements set out in the Russian Tax Code which acquires, holds and disposes of the Notes (the "**Resident Noteholder-Legal Entity**"). A foreign entity or an organisation shall be deemed to be a tax resident of the Russian Federation for the purposes of the Russian Tax Code if (1) it is deemed to be a tax resident of the Russian Federation in accordance with an applicable double tax treaty or (2) its place of management is in the Russian Federation unless a different conclusion follows from an applicable double tax treaty; and
- an individual who satisfies the criteria for being a Russian tax resident who acquires, holds and disposes of the Notes (the "**Resident Noteholder–Individual**"). A "Russian tax resident" is an individual who is actually present in the Russian Federation for an aggregate period of 183 calendar days or more in any period comprised of 12 consecutive months. Presence in the Russian Federation for Russian personal income tax residency purposes is not considered interrupted if an individual departs from the Russian Federation for short periods of time (less than six months) for medical treatment, education purposes or completion of employment or other duties related to work (rendering services) at offshore hydrocarbon fields.

For the purposes of this overview, the term "**Non-Resident Noteholder**" means:

- a Noteholder which is a legal entity or an organisation, in each case not organized under Russian law, which acquires, holds and disposes of the Notes otherwise than through its permanent establishment in the Russian Federation and does not satisfy the criteria for being a Russian tax resident as defined above (the "**Non-Resident Noteholder–Legal Entity**"); and
- a Noteholder who is an individual which acquires, holds and disposes of the Notes and does not satisfy the criteria for being a Russian tax resident as defined above (the "**Non-Resident Noteholder–Individual**").

For the purposes of this overview, the definitions of "Resident Noteholder" and "Non-Resident Noteholder" in respect of individuals are taken at face value based on the wording of Russian tax law as written as at the date of this Prospectus. In practice, however, the application of the above formal residency definition may differ based on the position of the Russian tax authorities. As at the date of this Prospectus, the law is worded in a way that implies the potential for individuals to be tax resident

in Russia for part of the calendar year. However, both the Russian Ministry of Finance and the Russian tax authorities have expressed the view that an individual should be either tax resident or non-resident in the Russian Federation for the full calendar year and consequently even where the travel pattern dictates differing tax residency status for a part of the tax year, the application of the Russian personal income residency tax rate may in practice be disallowed.

Tax residency rules and the Russian Federation's rights with regard to taxation may be affected by the applicable double tax treaty. The Russian tax treatment of payments under the Guarantee made by the Guarantor to the Trustee, acting on behalf of the Noteholders, may affect the Noteholders. See "*Taxation of Payments under the Guarantee*" below.

**Taxation of the Notes**

***Resident Noteholders***

Resident Noteholders will be subject to all applicable Russian taxes in respect of income derived by them in connection with the acquisition, ownership and/or disposal of the Notes (including interest received on the Notes).

Resident Noteholders should consult their own tax advisors with respect to the effect that the acquisition, holding and disposal of the Notes may have on their tax position.

***Non-Resident Noteholders***

A Non-Resident Noteholder should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer. A Non-Resident Noteholder also generally should not be subject to any Russian taxes in respect of any gains or other income realized on redemption, sale or other disposal of the Notes outside Russia, provided that the proceeds from such redemption, sale or other disposal of the Notes are not received from a source within the Russian Federation. However, in the absence of a clear definition of what constitutes income from sources within Russia in case of sale of securities, there is a risk that the income from disposal of the Notes (including any accrued and paid interest) may be considered as received from Russian sources for Non-Resident Noteholders.

***Taxation of Non-Resident Noteholders–Legal entities***

*Acquisition of the Notes*

The acquisition of the Notes by Non-Resident Noteholder–Legal Entities (whether upon their issue or in the secondary market) should not constitute a taxable event under Russian tax law. Consequently, the acquisition of the Notes should not trigger any Russian tax implications for the Non-Resident Noteholder–Legal Entities.

*Interest on the Notes*

Non-Resident Noteholders–Legal Entities generally should not be subject to any Russian taxes in respect of payment of interest on the Notes received from the Issuer. The taxation of interest on the Notes may, however, be affected by the taxation treatment of income from the sale of the Notes and payments under the Guarantee. See "*Sale or other Disposal of the Notes*" and "*Taxation of Payments under the Guarantee*" below.

*Sale or disposal of the Notes*

Generally, there should be no Russian tax on gains from sale or other disposition of the Notes imposed on Non-Resident Noteholder–Legal Entity. There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the bonds (*i.e.*, debt obligations) where proceeds from sale or other disposition of the Notes are received from a source within Russia by a Non-Resident Noteholder–Legal Entity, which is caused by isolated precedents in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the Notes. Although the Russian Ministry of Finance in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest paid to a non-Russian organization should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having a registered tax presence in Russia which purchases the Notes or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20 per cent (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds.

***Taxation of Non-Resident Noteholders–Individuals***

*Acquisition of the Notes*

The acquisition of the Notes by Non-Resident Noteholders–Individuals, may constitute a taxable event for Russian personal income tax purposes pursuant to the provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of acquisition of securities (in case the Notes are initially issued at par, these provisions are likely to be relevant for the acquisitions of the Notes in the secondary market only). In particular, if the acquisition price of the Notes is below the lower margin of the fair market value of the Notes calculated under a specific procedure for the determination of market prices of securities for tax purposes, the difference may become subject to the Russian personal income tax at the rate of 30 per cent (or such other tax rate as may be effective at the time of acquisition), arguably subject to reduction or elimination under the applicable double tax treaty.

Under the Russian tax legislation, taxation of income derived by Non-Resident Noteholders–Individuals will depend on whether this income is qualified as received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, in practice, the Russian tax authorities may infer that such income should be considered as Russian source income, if the Notes are purchased "in Russia". In the absence of any additional guidance as to what should be considered as a purchase of securities "in Russia", the Russian tax authorities may apply various criteria to determine the source of the related material benefit, including looking at the place of conclusion of the acquisition transaction, the location of the Issuer, or other similar criteria. There is no assurance, therefore, that as a result any material benefit received by the Non-Resident Noteholders–Individuals in connection with the acquisition of the Notes will not become taxed in Russia.

*Interest on the Notes*

The Non-Resident Noteholders–Individuals generally should not be subject to any Russian taxes in respect of payment of interest on the Notes received from the Issuer. Taxation of interest on the Notes may however be affected by the taxation treatment of income from sale of the Notes and payments under the Guarantee. See "*Sale or other Disposal of the Notes*" and "*Taxation of Payments under the Guarantee*" below.

*Sale or other Disposal of the Notes*

Non-Resident Noteholder–Individuals should not be subject to any Russian taxes in respect of gains or other income realized on a redemption, sale or other disposal of the Notes outside of Russia, provided that the proceeds of such sale, redemption, or disposal are not received from a source within Russia.

Subject to any available tax treaty relief, if the receipt of any proceeds from the disposal of the Notes by a Non-Resident Noteholder–Individual is classified as income from a source within the Russian Federation for Russian personal income tax purposes and, as such, will be subject to Russian personal income tax at the rate of 30 per cent (or such other tax rate as may be effective at the time of payment) on the gross amount of proceeds from disposal of the Notes (including accrued and paid interest on the Notes) less any available duly documented costs, related to the acquisition, holding and disposal of the Notes.

Since the Russian Tax Code does not contain any additional guidance as to when the sales or disposal proceeds should be deemed to be received from Russian sources, in practice, the Russian tax authorities may assert that such income should be considered as Russian source income if the Notes are sold or disposed "in Russia". In the absence of any additional guidance as to what should be considered as a sale or other disposal of securities "in Russia", the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the purchaser, or other similar criteria. There is no assurance therefore that, as a result, sales or disposal proceeds received by the Non-Resident Noteholders–Individual will not become taxable in Russia.

If the disposal proceeds are considered as being derived from Russian sources, Russian personal income tax will apply to the gross amount of sales or disposal proceeds received upon the disposal of the Notes (including accrued and paid interest on the Notes), decreased by the amount of duly documented cost deductions (including the original acquisition costs and other documented expenses related to the acquisition, holding and sale or other disposal of the Notes), provided that such documentation is duly executed. There is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities, the immediate deduction will be disallowed, and Russian personal income tax will apply to the gross amount of sales or disposal proceeds.

In certain circumstances if sales or other disposal proceeds (including accrued and paid interest on the Notes) are paid to a Non-Resident Noteholder–Individual by a licensed broker or an asset manager that is a Russian legal entity or organisation, carrying out operations under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or a commercial mandate agreement for the benefit of the Non-Resident Noteholder–Individual, the applicable personal income tax at the rate of 30 per cent (or such other tax rate as may be effective at the time of payment) should be withheld at source by such person who will be considered as the tax agent.

The amount of tax withheld will be calculated after taking into account available documented deductions for the original acquisition costs and related expenses on the acquisition, holding and sale or other disposal of the Notes to the extent such deductions and expenses can be determined by the entity making the payment of income to a Non-Resident Noteholder–Individual. The tax agent would be required to report to the Russian tax authorities in respect of its inability to withhold personal income tax in full within one month upon termination of the agreement (see above) or by 1 March of the year following the calendar year in which the income was received. Failure or the inability of the tax agent to timely withhold the applicable Russian personal income tax in full will place the onus of payment of such tax on the Non-Resident Noteholder–Individual, based on the notification issued by the tax office.

If the costs were borne in connection with the acquisition of the Notes within the relationship with the party other than the tax agent who is obliged to calculate and withhold Russian personal income tax under this agreement, original duly documented acquisition costs may be taken into account by the tax agent upon written application of the Noteholder and presentation of the documents confirming the costs and expenses.

Where a sale is made to other legal entities, organisations (other than licensed brokers or asset managers mentioned above) or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder–Individual would be then required to file a personal income tax return individually, report on the amount of income realized to the Russian tax authorities and apply for a deduction in the amount of acquisition and other expenses related to the acquisition, holding and the sale or other disposal of the Notes confirmed by the supporting documentation. The applicable personal income tax would then have to be paid by the Non-Resident Noteholder–Individual on the basis of the filed personal income tax return.

In certain circumstances, gains received and losses incurred by a Non-Resident Noteholder–Individual as a result of the sale or other disposal of the Notes and other securities of the same category (*i.e.*, securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes, which would affect the total amount of income of a Non-Resident Noteholder–Individual subject to taxation in Russia.

There is also a risk that any gain derived by a Non-Resident Noteholder–Individual from the sale or other disposal of the Notes may be affected by changes in the exchange rate between the currency of the acquisition of the Notes, the currency of the sale or other disposal of the Notes and Russian roubles. For personal income tax purposes, deductible costs and proceeds from disposal of the Notes are converted into Russian roubles at the exchange rate of the Central Bank of Russia as of the date when the costs were incurred and proceeds were received. This may result in taxable income in Russian rouble terms due to devaluation of the Russian rouble (whereas, in foreign currency terms, there might be no gain or even capital loss).

Non-Resident Noteholders–Individuals should consult their own tax advisors with respect to tax consequences arising in connection with the disposal of the Notes, including the receipt of sales or other proceeds from a source within Russia upon the sale or other disposal of the Notes.

**Taxation of payments under the Guarantee**

Resident Noteholders will be subject to all applicable Russian taxes in respect of income realized by them in connection with payments received under the Guarantee. Resident Noteholders should consult their own tax advisors with regards to the effect that the receipt of payments under the Guarantee may have on their tax position.

***Withholding tax***

Pursuant to the Russian Tax Code, payments made by a Russian entity to a Non-Resident – Legal Entity should be subject to Russian withholding tax to the extent such payments represent Russian source income. The Russian Tax Code provides an open list of Russian source income, referring to "other similar income" that could include any income similar to specific examples of types of Russian source income provided in the Russian Tax Code (for instance, dividends, interest, royalties, fines, penalties, etc.), including guarantee payments. The Russian Tax Code provides that the exemption established for the "issued bonds" (as discussed below) is applicable with regard to payments made under the guarantee.

Therefore, payments under the Guarantee made by the Guarantor to or to the order of the Trustee acting in favor of the Noteholders should be subject to the Russian withholding tax at a rate of 20 per

cent, unless the criteria for application of the exemption established for the "issued bonds" are all met or the Russian withholding tax is reduced or eliminated based on the applicable double tax treaty.

In particular, the Russian Tax Code envisages that the Russian companies which make payments in favor of foreign legal entities upon the execution of a guarantee or suretyship, should be released from the obligation to withhold Russian income tax from such payments provided that the following conditions are all met (*i.e.*, exemption established for the "**issued bonds**"):

(1) Payments under a guarantee or suretyship relate to "issued bonds", where "issued bonds" are defined as bonds or other debt obligations (a) listed and/or admitted to trading on one of the qualifying foreign exchanges and/or (b) that are cleared through qualifying foreign depositary/ clearing organisations.

    The lists of qualifying foreign stock exchanges and foreign depositary/clearing organisations were approved by the CBR in its Instruction No. 4393-U dated 30 May 2017 (the "**Lists**").

    The Notes are to be admitted to the Official List of the London Stock Exchange and to the London Stock Exchange's regulated market. The Regulation S Notes will initially be represented by interests in the Regulation S Global Note Certificate, without interest coupons, which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee, on or about the Issue Date. The Rule 144A Notes will initially be represented by interests in the Rule 144A Global Note Certificate, which will be registered in the name of Cede & Co., as nominee of, and deposited with a custodian for, the DTC, on or about the Issue Date. Beneficial interests in the Global Note Certificates will be shown on, and transfers thereof will be effected only through records maintained by, DTC, Euroclear and Clearstream, Luxembourg and their respective participants.

    The London Stock Exchange, Euroclear and Clearstream, Luxembourg are included in the Lists.

    In addition, DTC is not expressly mentioned in the Lists, but its holding company, the Depository Trust & Clearing Corporation that provides clearance, settlement, and information services for securities and derivative transactions through its subsidiaries, including DTC, is mentioned in the list of qualifying foreign depositary/clearing organisations. One can argue, albeit it is not free from doubt, that reference to the Depository Trust & Clearing Corporation in the Lists should cover its subsidiaries, including DTC.

(2) Payments under a guarantee or suretyship relate to "issued bonds" which were placed by a foreign entity in order to fund a debt to a Russian entity.

    Debt obligations of a Russian legal entity towards a foreign legal entity should be recognized as arising in connection with the issuance by a foreign legal entity of "issued bonds" if reference to this fact is made in the agreement governing the debt obligation and/or in the terms and conditions of the issuance of the respective "issued bonds" and/or in the prospectus, or the connection is verified by the actual movement of funds.

    Pursuant to the section "*Use of Proceeds*" of this Prospectus, the Issuer intends to use the net proceeds from the issue of the Notes primarily for debt refinancing and other general corporate purposes of the Group.

    Therefore, if any amounts of the net proceeds would not be used to fund debts to the Russian companies of the Group (including the Guarantor), this condition will not be satisfied, and the above-mentioned tax release could not be applied in practice with respect to corresponding amounts of Guarantee payments. In this case, there is a risk that respective payments under

the Guarantee may be subject to Russian withholding tax, unless it is reduced or eliminated based on the applicable double tax treaty.

(3) There is a double tax treaty between the Russian Federation and the jurisdiction of tax residence of the issuer of the "issued bonds", the foreign entity authorized to receive interest income payable on the "issued bonds", or the foreign entity to which rights and obligations under bonds issued by another foreign entity have been assigned which can be confirmed by a tax residency certificate.

Therefore, the Guarantor should not be required to deduct Russian withholding tax from Guarantee payments made to the Trustee (acting on behalf of the Noteholders), provided the Guarantor have received from the Trustee a tax residency confirmation and the Trustee is deemed to be a "foreign entity authorized to receive interest income payable on the issued bonds" for Russian taxation purposes. However, there is a risk that the Trustee could not be viewed as a "foreign entity authorized to receive interest income payable on the issued bonds" for Russian taxation purposes. In this case, the payments made by the Guarantor under the Guarantee could be considered to be made to the Non-Resident Noteholders–Legal Entities; provided that the Guarantor has received from the Non-Resident Noteholders–Legal Entities tax residency certificates (confirming that they reside in the jurisdictions having double tax treaties with the Russian Federation), the above exemption on the "issued bonds" could be applicable with respect to payments under the Guarantee payable to such Non-Resident Noteholders–Legal Entities.

In case the above exemption on the "issued bonds" is not applicable with regard to payments under the Guarantee, there is a risk that respective payments under the Guarantee may be subject to Russian withholding tax unless the Russian withholding tax is reduced or eliminated based on an applicable double tax treaty.

Pursuant to the Russian Tax Code, the double tax treaty benefits could be applied only by a non-resident income recipient who has the actual right to receive income (*i.e.*, who qualifies as a "beneficial owner of income"). A non-resident income recipient claiming double tax treaty benefits that has the actual right to receive income should provide the tax agents that pay Russian source income with a tax residency certificate before the date of the income payment. Starting from 1 January 2017, there is an obligation of a non-resident income recipient to provide a tax agent with the confirmation that it has an actual right to receive income in order to enjoy the double tax treaty benefits. There is no list of the particular documents which can be supplied by the non-resident income recipient for this purpose. Further, there is no explicit guidance on the list of the structures which can jeopardize the beneficial owner status of the non-resident income recipient. Beneficial ownership status is based on facts and circumstances and should be analysed on a case-by-case basis.

It is unlikely that the Trustee will be deemed to be the beneficial owner of payments under the Guarantee and, consequently, its tax residency certificate (if it is provided to the Guarantor) could arguably not be relied upon for the purpose of application of the double tax treaty benefits.

In this respect, if the Non-Resident Noteholder–Legal Entity is a beneficial owner of income payable under the Guarantee and provides the Guarantor with its tax residency certificate and a relevant confirmation that it is a beneficial owner of income, the Russian withholding tax on Guarantee payments payable to such Non-Resident Noteholder–Legal Entity could be reduced or eliminated based on the applicable double tax treaty. However, there can be no assurance that the double tax treaty relief (or refund of any taxes withheld) will be available for the Non-Resident Noteholder–Legal Entity with respect to payments under the Guarantee in practice.

There can be no assurance that Russian withholding tax would not be imposed on the payments made under the Guarantee to Non-Resident Noteholders–Legal Entities not resident for tax purposes in countries which have concluded a double tax treaty with the Russian Federation. In such case there is

a risk that Russian withholding tax would be imposed on the full amount of the payment under the Guarantee, including the principal amount of the Notes.

Importantly, the above-mentioned exemption established for the "issued bonds" that envisages the release from the obligation to deduct Russian withholding tax from payments made upon the execution of a guarantee or suretyship (provided the above conditions are all simultaneously met) does not provide for the exemption of the foreign interest income recipients from Russian withholding tax, although currently there is no requirement and mechanism in the Russian tax legislation for foreign income recipients which are the legal entities to self-assess and pay the tax to the Russian tax authorities. There can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients, including the Non-Resident Noteholders–Legal Entities and/or the Trustee.

In case the payments under the Guarantee are deemed to be made to the Non-Resident Noteholder–Individual, a Non-Resident Noteholder–Individual may be subject to Russian personal income tax as such income may be treated as a Russian source of income. In this case, depending on how these payments would be effected, either the full amount of payments, or a part of such payments covering the interest on the Notes, could be subject to Russian personal income tax at the rate of 30 per cent, which may be withheld at source or payable on a self-assessed basis. The tax may be reduced or eliminated pursuant to the provisions of any applicable double tax treaty.

If payments under the Guarantee become subject to Russian withholding tax (as a result of which the Guarantor would have to reduce payments made under the Guarantee by the amount of tax withheld), the Guarantor will be obliged (subject to certain conditions) to pay an additional amount so as to result in the receipt by the Noteholders (or the Trustee acting on behalf of the Noteholders) of such amounts as would have been received by them if no such tax withholding or deduction had been required. See "*Terms and Conditions of the Notes — Taxation" and "Risk Factors — Risks Relating to Taxation — Risks Relating to the Russian Taxation System — Payments under the Guarantee may be subject to Russian withholding tax*".

***Russian VAT***

Payments under the Guarantee should not be subject to Russian VAT.

**Tax treaty relief**

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions that allow recipients to reduce or eliminate Russian income tax due with respect to income received by Non-Resident Noteholders from Russian sources, including income relating to acquisition, holding, sale and disposal of the Notes (if this income is treated as income from Russian sources). To the extent double tax treaty benefits are available, in order to obtain them, such Non-Resident Noteholders must comply with the certification, information and reporting requirements in force in the Russian Federation (relating, in particular, to the confirmation of the entitlement and eligibility for treaty benefits).

In order to utilize the double tax treaty benefits, a Non-Resident Noteholder–Legal Entity which has the actual right to receive income (*i.e.*, who qualifies as a "beneficial owner of income") should provide the tax agent with a tax residency certificate before the date of the income payment. Starting from 1 January 2017, there is an obligation of a non-resident income recipient to provide a tax agent with confirmation that it has an actual right to receive income in order to utilize the double tax treaty benefits.

In order to enjoy the benefits of the applicable double tax treaty, a Non-Resident Noteholder–Individual must provide to the tax agent a passport of a foreign citizen in order to prove his/her tax

residency status in the foreign jurisdiction. If this document is not sufficient to prove the residency status, the tax agent will request the Non-Resident Noteholder–Individual to provide a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes. It is not explicit whether, under the current law, Russian citizens may enjoy exemption from taxation at source under the respective double tax treaty. It is not clear from the law how the tax agent shall determine whether a passport is sufficient to confirm the individual's eligibility to double tax treaty benefits.

The procedure of elimination of double taxation of Non-Resident Noteholders–Individuals in the case of absence of a tax agent is not explicitly indicated in the Russian Tax Code.

Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures required to be fulfilled for obtaining such relief with respect to any Russian taxes imposed in respect of income received in connection with the acquisition, holding and the sale or other disposal of the Notes, as well as interest income and payments under the Guarantee.

Moreover, currently it is not entirely clear how the double tax treaty to which the Russian Federation is a party would be affected by the Multilateral Convention and what impact the Multilateral Convention may have with respect to the taxation of payments under the Guarantee. See "*Risk Factors — Risks Relating to Taxation — Risks Relating to the Russian Taxation System — The Russian taxation system is continually evolving and is subject to frequent changes, which could have an adverse effect on the Group*".

**Refund of tax withheld**

If Russian withholding tax on income derived from Russian sources by a Non-Resident Noteholder–Legal Entity was withheld at source, a claim for a refund of the Russian income tax that was excessively withheld at source can be filed by that Non-Resident Noteholder–Legal Entity with the Russian tax authorities within three years following the year in which the tax was withheld, provided such Non-Resident Noteholder–Legal Entity is entitled to the benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income. There is no assurance that such refund will be possible in practice.

If Russian personal income tax applicable to income derived from Russian sources by a Non-Resident Noteholder–Individual, for whom double tax treaty relief is available, was withheld at source despite the right of this Non-Resident Noteholder–Individual to rely on benefits of the applicable double tax treaty allowing the individual not to pay the tax in Russia or allowing the individual to pay the tax at the reduced tax rate in relation to such income, a claim for a refund of Russian personal tax which was excessively withheld at source and an application of the benefits of the applicable double tax treaty, together with a passport of a foreign individual / tax residency certificate issued by the competent authorities in his/her country of residence may be filed by that Non-Resident Noteholder–Individual with the tax agent within three years following the tax year when the corresponding income was received. In the absence of a tax agent who withheld the Russian personal income tax under consideration (for instance, in case of a liquidation of the tax agent), such an application for a refund may be filed with the Russian tax authorities within the same period (three years from the date when the tax was paid) accompanied by the Russian tax return, a tax residency certificate and documents proving tax withholding to the Russian tax authorities. There can be no assurance that the tax agent and/or the Russian tax authorities will refund this tax in practice.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information which has to be provided by a foreign person to the Russian tax authorities for tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming a right of a Non-Resident Noteholder–Individual to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates.

Obtaining a refund of Russian taxes that were excessively withheld at source is likely to be a time consuming process and no assurance can be given that such refund will be granted to a Non Resident Noteholder–Individual in practice.

Non-Resident Noteholders should consult their own tax advisors regarding possible tax refund procedures required to be fulfilled in order to obtain any Russian taxes excessively withheld from income received by a Non-Resident Noteholder upon the acquisition, holding and sale or other disposal of the Notes as well as payments under the Guarantee.

## U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR U.S. HOLDERS

The following is a discussion of certain U.S. federal income tax considerations relating to the purchase, ownership and disposition of the Notes by U.S. Holders (as defined below) that purchase the Notes at their issue price (generally the first price at which a substantial amount of the Notes is sold, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) pursuant to this offering and hold such Notes as capital assets. This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), U.S. Treasury regulations promulgated or proposed thereunder and administrative and judicial interpretations thereof, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect, or to different interpretation. This discussion does not address all of the U.S. federal income tax considerations that may be relevant to specific U.S. Holders in light of their particular circumstances (including U.S. Holders that are directly or indirectly related to the Issuer) or to U.S. Holders subject to special treatment under U.S. federal income tax law (such as banks, insurance companies, dealers in securities or other U.S. Holders that generally mark their securities to market for U.S. federal income tax purposes or that are accrual method taxpayers required to recognize income no later than the taxable year in which such income is taken into account on an applicable financial statement, tax-exempt entities, retirement plans, regulated investment companies, real estate investment trusts, certain former citizens or residents of the United States, U.S. Holders that hold a Note as part of a straddle, hedge, conversion or other integrated transaction or U.S. Holders that have a "**functional currency**" other than the U.S. dollar). This discussion does not address any U.S. state or local or non-U.S. tax considerations or any U.S. federal estate, gift or alternative minimum tax considerations.

As used in this discussion, the term "**U.S. Holder**" means a beneficial owner of a Note that, for U.S. federal income tax purposes, is (i) an individual who is a citizen or resident of the United States, (ii) a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source or (iv) a trust (x) with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (y) that has in effect a valid election under applicable U.S. Treasury regulations to be treated as a U.S. person.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes invests in a Note, the U.S. federal income tax considerations relating to such investment will depend in part upon the status and activities of such entity or arrangement and the particular partner. Any such entity or arrangement should consult its own tax advisor regarding the U.S. federal income tax considerations applicable to it and its partners relating to the purchase, ownership and disposition of a Note.

EACH PERSON CONSIDERING AN INVESTMENT IN THE NOTES SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE U.S. FEDERAL, STATE AND LOCAL AND NON-U.S. INCOME, ESTATE AND OTHER TAX CONSIDERATIONS RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES IN LIGHT OF ITS PARTICULAR CIRCUMSTANCES.

### *Certain Additional Payments*

In certain circumstances, the Issuer may be required to make payments on the Notes other than stated principal and interest. For example, if (i) the Issuer exercises the Make Whole Call Option, it would be required to redeem all or part of the Notes at the Make Whole Prepayment Amount plus accrued and unpaid interest on the Make Whole Optional Prepayment Date or (ii) the Issuer is required to pay 101 per cent of the principal amount of any Note purchased by the Issuer at the Holder's election if the Additional Guarantee Event does not occur within 180 calendar days following the issuance of the Notes, as described above under the heading "*Terms and Conditions of the Notes — Optional Redemption at the Option of the Issuer under Make Whole Call Option*" and "*Terms and Conditions of the Notes — Redemption at the option of Noteholders*".

U.S. Treasury regulations provide special rules for contingent payment debt instruments that, if applicable, could cause the timing, amount and character of a U.S. Holder's income, gain or loss with respect to the Notes to be different from those described below. The Issuer intends to treat the possibility of the Issuer's making any of the above payments as not causing the Notes to be contingent payment debt instruments. The Issuer's treatment will be binding on all U.S. Holders, except a U.S. Holder that discloses its differing treatment in a statement attached to its timely filed U.S. federal income tax return for the taxable year during which such U.S. Holder acquired its Notes. However, the Issuer's treatment is not binding on the U.S. Internal Revenue Service (the "**IRS**"). If the IRS were to challenge the Issuer's treatment, a U.S. Holder might be required to accrue income on the Notes in excess of stated interest and to treat as ordinary income, rather than capital gain, gain recognized on the disposition of the Notes. The remainder of this discussion assumes that the Notes will not be treated as contingent payment debt instruments.

### *Interest on the Notes*

In general, interest payable on a Note (without reduction for any non-U.S. tax withheld with respect to such payment) will be taxable to a U.S. Holder as ordinary interest income when it is received or accrued, in accordance with such U.S. Holder's regular method of accounting for U.S. federal income tax purposes. The Notes are not expected to be issued with more than *de minimis* original issue discount ("**OID**"). However, if the Notes are issued with more than *de minimis* OID, each U.S. Holder generally will be required to include OID in income (as interest) as it accrues, regardless of its regular method of accounting for U.S. federal income tax purposes, using a constant yield method, before such U.S. Holder receives any payment attributable to such income. The remainder of this discussion assumes that the Notes are not issued with more than *de minimis* OID.

Interest income on the Notes generally will be treated as income from sources outside the United States and generally will be categorized for U.S. foreign tax credit purposes as "passive category income" or, in the case of some U.S. Holders, as "general category income." A U.S. Holder may be eligible to elect to claim a U.S. foreign tax credit against its U.S. federal income tax liability, subject to applicable limitations and holding period requirements, for any Russian or any other non-U.S. income tax withheld from payments in respect of interest on the Notes, including under the Guarantee. A U.S. Holder that does not elect to claim a U.S. foreign tax credit for such Russian or any other non-U.S. income tax withheld may instead claim a deduction for such tax, but only for a taxable year in which such U.S. Holder elects to do so with respect to all non-U.S. income taxes paid or accrued by such U.S. Holder in such taxable year. The rules relating to U.S. foreign tax credits are very complex, and each U.S. Holder should consult its own tax advisor regarding the application of such rules.

### *Sale, exchange, retirement or other disposition of the Notes*

Upon the sale, exchange, retirement or other disposition of a Note, a U.S. Holder generally will recognize gain or loss in an amount equal to the difference between the amount realized on such sale, exchange, retirement or other disposition (other than any amount attributable to accrued stated interest, which, if not previously included in such U.S. Holder's income, will be taxable as interest

income to such U.S. Holder) and such U.S. Holder's "adjusted tax basis" in such Note. Any gain or loss so recognized generally will be capital gain or loss and will be long-term capital gain or loss if such U.S. Holder has held such Note for more than one year at the time of such sale, exchange, retirement or other disposition. Net long-term capital gain of certain non-corporate U.S. Holders generally is subject to preferential rates of tax. The deductibility of capital losses is subject to limitations. Such gain or loss generally will be from sources within the United States.

***Substitution of the Obligor under the Notes***

If another entity is substituted in place of the Issuer as the obligor under the Notes as described above under the heading "*Terms and Conditions of the Notes – Substitution*", such substitution could be treated for U.S. federal income tax purposes as a taxable exchange of the Notes for new notes of the new obligor. In such event, a U.S. Holder could be required to recognize gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes) and such U.S. Holder's adjusted tax basis in the Notes, with the consequences described above under the heading "*Sale, Exchange Retirement or Other Disposition of the Notes*", and such new notes could have OID or premium. U.S. Holders should consult their own tax advisors as to the U.S. federal income tax considerations relating to a substitution of the obligor under the Notes.

***Medicare tax***

In addition to regular U.S. federal income tax, certain U.S. Holders that are individuals, estates or trusts are subject to a 3.8 per cent tax on all or a portion of their "net investment income," which may include all or a portion of their interest income on a Note and net gain from the sale, exchange, retirement or other disposition of a Note.

***Information reporting and backup withholding***

Under certain circumstances, information reporting and/or backup withholding may apply to a U.S. Holder with respect to payments of interest on, or proceeds from the sale, exchange, retirement or other disposition of, a Note, unless an applicable exemption is satisfied. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against a U.S. Holder's U.S. federal income tax liability if the required information is furnished by such U.S. Holder on a timely basis to the IRS.

***Disclosure requirements for specified foreign financial assets***

Individual U.S. Holders (and certain U.S. entities specified in U.S. Treasury regulations) who, during any taxable year, hold any interest in any "specified foreign financial asset" generally will be required to file with their U.S. federal income tax returns certain information on IRS Form 8938 if the aggregate value of all such assets exceeds certain specified amounts. "Specified foreign financial asset" generally includes any financial account maintained with a non-U.S. financial institution and may also include the Notes if they are not held in an account maintained with a financial institution. Substantial penalties may be imposed, and the period of limitations on assessment and collection of U.S. federal income taxes may be extended, in the event of a failure to comply. U.S. Holders should consult their own tax advisors as to the possible application to them of this filing requirement.

## SUBSCRIPTION AND SALE

Bank GPB International S.A. (Gazprombank), J.P. Morgan Securities plc, Renaissance Securities (Cyprus) Limited, SIB (Cyprus) Limited and VTB Capital plc (the "**Joint Lead Managers**") and CREDIT BANK OF MOSCOW (public joint-stock company) (the "**Co-Manager**" and together with the Joint Lead Managers, the "**Managers**") have, pursuant to a Subscription Agreement dated 26 January 2018 severally and not jointly agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at 100 per cent of their principal amount in the amount of US$500,000,000.

The Issuer, failing whom the Guarantor, has agreed to pay to the Managers a combined management, underwriting and selling commission, where applicable. In addition, the Issuer, failing whom the Guarantor, has agreed to reimburse the Managers, where applicable, for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer and the Guarantor have in the Subscription Agreement agreed to indemnify the Managers against certain liabilities incurred in connection with the issue of the Notes, including liabilities under the Securities Act.

The Managers and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer and its affiliates (including its shareholders and the Guarantor) and for which they will receive customary fees.

The Managers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer and Polyus in the ordinary course of their respective businesses.

### No Securities Commission Approval

***The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission (the "SEC"), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Securities or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense in the United States.***

### General

The Managers, the Issuer and the Guarantor severally and not jointly have agreed that they have in all material respects (to the best of their knowledge and belief) complied and will comply with all applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes. The Managers, the Issuer and the Guarantor severally and not jointly undertake that they will use their reasonable efforts not to, directly or indirectly, offer or sell any Notes in any country or jurisdiction except under circumstances that will (to the best of its knowledge and belief) result in compliance with any applicable laws and regulations, and all offers and sales of Notes by it will be made on the same terms.

**Selling Restictions**

***United States***

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act.

Each Manager has agreed, severally and not jointly, that, except as permitted by the Subscription Agreement, it will not offer or sell the Securities (1) as part of its distribution at any time or (2) otherwise until after completion of the "distribution compliance period" within the United States to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Securities (other than a sale pursuant to Rule 144A) during the "distribution compliance period" a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Issuer and the Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States or to any U.S. person other than any QIB and to whom an offer has been made directly by one of the Managers or its U.S. broker-affiliate. Distribution of this Prospectus by any non-U.S. person outside the United States or by any QIB within the United States to any U.S. person or any person within the United States other than any QIB, and those persons, if any, retained to advise such person outside the United States or QIB with respect thereto, is unauthorized and any disclosure without the prior written consent of the Issuer of any of its contents to any person within the United States other than any QIB and those persons, if any, retained to advise such non-U.S. person outside the United States or QIB, is prohibited.

***United Kingdom***

The Managers have severally and not jointly represented, warranted and undertaken that:

(a) **Financial promotion**: they have only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) received by them in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) **General compliance**: they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

***PRIIPs Regulation***

Each Manager has severally represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(b) a customer within the meaning of the IMD, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

***Russian Federation***

The Managers have severally and not jointly agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law.

## INDEPENDENT AUDITORS

The consolidated financial statements of the Group as of and for the years ended 31 December 2016, 2015 and 2014 have been audited by ZAO Deloitte & Touche CIS of 5 Lesnaya Street, Moscow, 125047, Russia, independent auditors, as stated in their report appearing herein. ZAO Deloitte & Touche CIS is a member of the self-regulated organization of auditors “Russian Union of Auditors”.

The condensed consolidated interim financial statements of the Group as of and for the nine months ended 30 September 2017 have been reviewed by ZAO Deloitte & Touche CIS of 5 Lesnaya Street, Moscow, 125047, Russia, independent auditors, as stated in their report appearing herein. ZAO Deloitte & Touche CIS is a member of the self-regulated organization of auditors “Russian Union of Auditors”.

# GENERAL INFORMATION

1. The Notes have been accepted for clearance through the facilities of DTC, Euroclear and Clearstream, Luxembourg. For the Regulation S Notes, the International Security Identification Number (ISIN) is XS1713474325, the Common Code is 171347432, the Classification of Financial Instruments (CFI) is DBXXXR and the Financial Instrument Short Name (FISN) is POLYUS FINANCE/1 20240129 RESTN. For the Rule 144A Notes, the ISIN is US73181LAA98, the Common Code is 111730962, the CUSIP number is 73181LAA9, the CFI is DBFGGR and the FISN is POLYUS FIN PLC/GTD NT 20240129 GTD. The address of DTC is 55 Water Street, New York, New York 10041-10099, United States of America. The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210, Brussels, and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855, Luxembourg.

2. It is expected that admission of the Notes to the Official List and to trading on the London Stock Exchange's regulated market will be granted on or before 30 January 2018, subject only to the issue of the Notes. Transactions will normally be effected for settlement in U.S. dollars and for delivery on the third business day after the day of the transaction.

3. The Company and the Guarantor have obtained all necessary consents, approvals, authorisations or other orders for the issue of the Notes and the other documents to be entered into by the Company in connection with the issue of the Notes. The issue of the Notes was authorized by a decision of the Board of Directors of the Company on 18 January 2018.

4. The Company was incorporated in England and Wales on 28 March 2017 with registered number 10695706 under the Companies Act 2006 as a public company limited by shares with the name Polyus Finance Plc. The Company's legal and commercial name is Polyus Finance Plc. The Company has its registered offices at 5th Floor, 6 St. Andrew Street, London EC4A 3AE, United Kingdom. The head office and principal place of business of the Company is 16 Berkeley Street, London W1J 8DZ, United Kingdom, telephone +44 (0) 203 713 4290.

5. JSC Polyus is a joint stock company organized under the laws of the Russian Federation with the legal name Joint Stock Company Polyus Krasnoyarsk. JSC Polyus was registered in the Russian Federation on 26 May 1993 with registration number 1022401504740. JSC Polyus' registered address is Ulitsa Belinskogo 2 B, Severo-Eniseyskiy townside, Krasnoyarsk region 663280, Russia. JSC Polyus' principal place of business is at building 1, 15 Tverskoy Boulevard, Moscow 123104, Russian Federation, telephone +7 (495) 641 33 77.

6. PJSC Polyus was incorporated in the Russian Federation on 17 March 2006 as an open joint stock company for an unlimited duration, and it operates under the laws of the Russian Federation. On 26 January 2016, PJSC Polyus amended its charter to bring it in compliance with the amendments to the Civil Code, which entered into force in September 2014, and changed its form to a public joint stock company. PJSC Polyus is registered at building 1, 15 Tverskoy Boulevard, Moscow 123104, Russian Federation, with state registration number 1068400002990. PJSC Polyus' 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 33 77.

7. The Company is a wholly owned subsidiary of JSC Polyus, which is in turn a wholly owned subsidiary of PJSC Polyus, which is the principal holding company for its operating and intermediary holding subsidiaries that together comprise the Group. As a subsidiary, the Company is dependent on the Group's operating subsidiaries to make payments under the Notes and meet its other obligations. JSC Polyus is a subsidiary of PJSC Polyus and an operating company as well as a holding company for its operating and intermediary holdings

subsidiaries that together comprise the business of the Group. See "*Business — Group Structure*".

8 Under Annex VI of the European Commission Regulation (EC) No. 809/2004, as amended, a guarantor must disclose information about itself as if it were the issuer of that same type of security that is the subject of the guarantee. This normally requires the inclusion of a guarantor's individual financial statements in the prospectus relating to such securities. The Issuer has applied to the Financial Conduct Authority for derogation from the requirement for JSC Polyus to include its individual financial statements in this Prospectus. Under Regulation 25(c) of the Prospectus (Directive 2003/71/EC) Regulations 2005, the Financial Conduct Authority has granted such derogation. The equivalent information is included in the Annual Financial Statements included in this Prospectus.

9 The table below shows the directors of the Company. The business address for the directors of the Company is 16 Berkeley Street, London W1J 8DZ, United Kingdom.

| ***Name*** | ***Year of Birth*** | ***Position*** |
|---|---|---|
| Mr. Sergei Nossoff | 1977 | Executive Director |
| Ms. Alexandra Maria Beckwith | 1983 | Non-Executive Director |
| Mr. Antonios Antoniou | 1958 | Non-Executive Director |

Mr. Sergei Nossoff, Ms. Alexandra Beckwith and Mr. Antonios Antoniou also serve as directors of PGIL.

10 Other than as disclosed above, there are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of the Company towards the Company and their private interests or other duties.

11 There are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of the Guarantor towards such Guarantor and their private interests or other duties.

12 The estimated expenses associated with admission to the Official List and to trading on the London Stock Exchange's regulated market of the Notes are expected to be approximately £6,200.

13 For as long as any Notes are outstanding, copies (and certified English translations where documents at issue are not in English) of the following documents may be inspected at and are available in physical form from the head office and principal place of business of the Company at 16 Berkeley Street, London W1J 8DZ, United Kingdom and the offices of the Principal Paying Agent in London at One Canada Square, London E14 5AL, United Kingdom during usual business hours on any business day (Saturdays, Sundays and public holidays excepted):

(a) a copy of this Prospectus, together with any supplement to this Prospectus;

(b) the memorandum and articles of association of the Company;

(c) a copy of the charter of PJSC Polyus (together with an English translation thereof);

(d) a copy of the charter of JSC Polyus (together with an English translation thereof);

(e) the Financial Statements, including the report thereon, of the Group in respect of the financial years ended 31 December 2016, 2015 and 2014, and for the nine months ended 30 September 2017 and 30 September 2016;

(f) the Paying Agency Agreement; and

(g) the Trust Deed, which includes the forms of the Global Certificate and the Certificates.

14 Since the date of its incorporation, there has been no material adverse change in the financial position or prospects of the Company. The Company has no subsidiaries.

15 Save as otherwise disclosed in this Prospectus, since the date of its incorporation the Company has not commenced operations other than with respect to the issue of the Notes. There has been no significant change in the financial or trading position of the Company since the date of its incorporation.

16 Save as disclosed in this Prospectus, there has been no significant change in the financial or trading position of the Guarantor or of the Group since 30 September 2017, and there has been no material adverse change in the prospects of the Guarantor or of the Group since 31 December 2016.

17 Save as otherwise disclosed in this Prospectus (see "*Business—Recent Litigation*"), there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company and the Guarantor is aware), during the previous 12 months in relation to the Company or the Guarantor, which may have, or have had in the recent past, significant effects on the Company's, the Guarantor's and/or the Group's financial position or profitability.

18 Save for the fees payable to the Managers, the Trustee, the Principal Paying Agent and the Registrar, so far as the Company is aware, no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.

19 The Bank of New York Mellon SA/NV, Luxembourg Branch will act as Registrar in relation to the Notes.

20 BNY Mellon Corporate Trustee Services Limited is a professional trustee company, which is providing its services in relation to the Notes on an arm's length basis in consideration for a fee. Under the terms of the Trust Deed, the power of appointing new trustees is vested in the Company but a trustee so appointed must in the first place be approved by an Extraordinary Resolution of Noteholders. The Noteholders have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees. The removal of any trustee is only effective if, following the removal, there remains a trustee (being a trust corporation) in office after such removal. In addition, BNY Mellon Corporate Trustee Services Limited, or any other trustee duly appointed, may retire at any time upon giving not less than three months' notice in writing to the Company. The retirement of any trustee is only effective if, following the retirement, there remains a trustee (being a trust corporation) in office after such retirement. If the trustee has given notice of its desire to retire and the Company is unable to procure a new trustee to be appointed and the Company has not by the expiry of such notice (with the prior written consent of the Company) appointed a new trustee, the trustee shall have the power of appointing a new trustee(s).

21 The Trust Deed provides, among other things, that the Trustee may rely on any certificate or report prepared by accountants pursuant to the Trust Deed (whether or not addressed to the

Trustee), notwithstanding whether or not the accountants' liability in respect thereof is limited by a monetary cap or otherwise.

22 The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

# GLOSSARY OF TECHNICAL TERMS

| *Term or expression* | *Meaning* |
|---|---|
| **Au** | Gold |
| **Au-Ag** | Gold-Silver |
| **Au-Cu** | Gold-Copper |
| **bio-leaching** | Oxidation of sulphide minerals exposed to bacteria in an aqueous environment with metal extraction through desalination |
| **CIL** | carbon-in-leach, a process in which carbon is added to the solution following leaching in order to extract gold |
| **cut-off grade** | lowest grade of mineralized material considered economic, used in the calculation of ore reserves |
| **cyanide leaching** | a method of extracting exposed gold or silver from crushed or ground ore by dissolving them in a weak cyanide solution. It may be carried out in slurry in tanks or in large heaps of ore |
| **deposit** | the aggregation of a mineral on the surface of the Earth or in the Earth's crust, suitable in terms of quantity, quality and mode of occurrence for commercial mining |
| **flotation** | a mineral separation process in which valuable mineral particles are induced to become attached to bubbles and float as other particles sink |
| **flotation concentrate** | the product of flotation. The resultant gold concentrate is then filtered to form flotation concentrate |
| **FSU Classification** | the reserves and resources classification system of the former Soviet Union |
| **FVTPL** | fair value through profit or loss |
| **gold doré** | unrefined gold bullion bars, which will be further refined to almost pure metal (99.9 per cent gold) |
| **grade** | the quality of metal per unit mass of ore expressed as grams of gold per tonne of ore |
| **gravitation** | gold particles in slurry which are separated based on their specific gravity |
| **g/t** | grams per tonne |
| **heap leaching** | an ore processing technology used to process low-grade oxide ores, although it is the lowest-cost method of processing, recovery rates are only approximately 60 per cent. |

| | |
|---|---|
| **ICMM** | International Council on Mining and Metals |
| **Indicated Mineral Resource** | as defined in the JORC Code, is that part of a Mineral Resource which has been sampled by drill holes, underground openings or other sampling procedures at locations that are too widely spaced to ensure continuity but close enough to give a reasonable indication of continuity and where geoscientific data are known with a reasonable degree of reliability. An Indicated Mineral Resource will be based on more data and therefore will be more reliable than an inferred mineral resource estimate |
| **Inferred Mineral Resource** | as defined in the JORC Code, is that part of a Mineral Resource for which the tonnage and grade and mineral content can be estimated with a low level of confidence. It is inferred from the geological evidence and has assumed but not verified geological and/or grade continuity. It is based on information gathered through the appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability |
| **JORC** | the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy and Australasian Institute of Geoscientists and Mineral Council of Australia |
| **JORC Code** | the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by JORC, effective from 20 December 2012 and mandatory from 1 December 2013 |
| **LBMA** | the London Bullion Market Association |
| **LTIFR** | lost time injury frequency rate |
| **Measured Mineral Resource** | defined in the JORC Code, is that part of a Measured Mineral Resource for which the resource has been intersected and tested by drill holes, underground openings or other sampling procedures at locations which are spaced closely enough to confirm continuity and where geoscientific data are reliably known. A Measured Mineral Resource estimate will be based on a substantial amount of reliable data, interpretation and evaluation which allows a clear determination to be made of the shapes, sizes, densities and grades |
| **mine** | an excavation from which valuable materials are recovered |
| **mineable** | portion of a mineralized deposit for which extraction is technically and economically feasible |
| **mineral deposit** | a body of mineralization that represents a concentration of valuable metals. The limits can be defined by geological contracts or assay cut-off grade criteria |
| **mineral reserve** | under the FSU Classification, the equivalent of the western ore reserve and mineral resource. Mineral reserves are subdivided into A, B, C1 and C2 categories depending on the level of |

definition and technological study

**Mineral Resource** According to the JORC Code, a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such a form that there are reasonable prospects for the eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided in order of increasing confidence into Inferred Mineral Resources, Indicated Mineral Resources and Measured Mineral Resources

**open pit** a mine that is entirely on the Earth's surface; also referred to as an open-cut or open-cast mine

**ore** natural mineral matter containing metals or metal compounds in quantities and in a form suitable for commercial extraction

**ore body** a distinct naturally occurring agglomeration of ore defined structurally and geologically by a particular element or combination thereof

**Ore Reserve** according to the JORC Code, the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could be reasonably justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves

**P&P reserve** Proved and Probable Ore Reserve

**Probable Ore Reserve** according to the JORC Code, the economically mineable part of a Measured and/or Indicated Mineral Resource. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified

**Proved Ore Reserve** according to the JORC Code, the economically mineable part of a Measured Mineral Resource. It is estimated with a high level of confidence. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. These assessments demonstrate at the time of reporting that

| | |
|---|---|
| | extraction is reasonably justified |
| **reserves** | the part of a mineral deposit, extraction of which from the Earth's crust is economically and legally feasible at the time the reserves are identified |
| **SPPP** | Strategic Price Protection Program |
| **stripping** | activities undertaken to remove waste material and gain access to a specific section of the ore body |
| **tailings** | material that remains after all metals/minerals considered economic have been removed from the ore |
| **Tier 1 assets** | long-life (a life-of-mine of more than 15 years), large-scale (an average life-of-mine production rate of not less than 0.3 moz) and low-cost (an average life-of-mine TCC of less than US$600/oz) assets |
| **TOP** | Total Optimization Program |
| **tonne** | 1,000 kilogrammes |
| **underground mining** | extraction of minerals from the Earth's crust using a system of underground mine workings |
| **vein** | a tabular deposit of mineralized rock |

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS


### ANNUAL CONSOLIDATED FINANCIAL STATEMENTS OF PJSC POLYUS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016

Independent Auditors' Report

Consolidated statement of profit or loss

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of changes in equity

Consolidated statement of cash flows

Notes to the consolidated financial statements

### ANNUAL CONSOLIDATED FINANCIAL STATEMENTS OF PJSC POLYUS AS AT AND FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

Independent Auditors' Report

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Consolidated statements of comprehensive income

Consolidated statements of financial position

Consolidated statements of changes in equity

Consolidated statements of cash flows

Notes to the consolidated financial statements

### CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF PJSC POLYUS AS AT AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017 (UNAUDITED)

Condensed consolidated interim statement of profit or loss for the three and nine months ended 30 September 2017 (unaudited)

Condensed consolidated interim statement of comprehensive income for the three and nine months ended 30 September 2017 (unaudited)

Condensed consolidated interim statement of financial position as of 30 September 2017 (unaudited)

Condensed consolidated interim statement of changes in equity for the three and nine months ended 30 September 2017 (unaudited)

Condensed consolidated interim statement of cash flows for the three and nine months ended 30 September 2017 (unaudited)

Notes to the interim condensed consolidated financial statements (unaudited)

# PJSC “Polyus”

**Consolidated financial statements for the year ended 31 December 2016**

## Responsibility statement

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

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

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

Directors are also responsible for:

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

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

By order of the Board of Directors,

Chief Executive Officer and Director

Pavel Grachev

Deloitte.

ZAO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047,
Russia

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**INDEPENDENT AUDITOR'S REPORT**

**To the Shareholders and Board of Directors of Public Joint Stock Company "Polyus"**

We have audited the consolidated financial statements of Public Joint Stock Company "Polyus" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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| Why the matter was determined to be a key audit matter | How the matter was addressed in the audit |
|---|---|
| **Potential impairment of fixed assets (Notes 4 and 8)**<br><br>The carrying value of the Group's non-current assets associated with Natalka mine amounted to $1,477 million as at 31 December 2016 (2015: $1,053 million). Prior impairment analyses of Natalka assets revealed sensitivity of its results to certain key macroeconomic assumptions. A decline in the gold spot rates in the last quarter of 2016 coupled with appreciation of the Rouble lead management to conclude that their assessment of recoverable amount of these assets needs to be updated.<br><br>Management has completed a value in use calculation based on a life of mine model, and using specialist input on key operational assumptions. Following the downgrade of the estimate in reserves identified during 2014 management undertook a detailed technical review to optimise Natalka mining plan, which has been substantially completed by the end of 2016. The discounted cash flow value determined by management, which reflected the revised operational plans for the mining asset, was significantly higher than the carrying value, and accordingly no impairment was recorded.<br><br>Given the size of the carrying value Natalka asset and significant judgement inherent in preparation of the discounted cash flow model on Natalka, we considered the test for impairment to be a key audit matter. | We challenged management's significant assumptions regarding the Natalka impairment test by:<br><br>• Using our internal mining specialists who have extensive valuation experience to analyse management's long term mining plans which form the basis of their recoverable value model;<br>• Reviewing the validity of key assumptions used in the model;<br>• Assessing the long term gold price forecast methodology and benchmarking the long term gold price forecasts to other external forecasts;<br>• Considering the discount rates used by recalculation and comparison to other gold producers;<br>• Running a range of sensitivity tests to confirm that no impairment was required if a range of less optimistic assumptions were adopted instead of the forecasted gold price, discount and exchange rates are applied;<br>• Discussing the plans with the Directors and Senior Operational Management as well as discussing assumptions used in the mining plan with the independent experts used by Management; and<br>• Assessing whether the accounts disclose the key assumptions and the sensitivity of the model to their changes. |
| **Valuation and hedge accounting for financial instruments (Note 13)**<br><br>The Group entered into a number of different derivative contracts to mitigate exposure to gold price, currency fluctuations and reduce interest rate exposure. The valuation of these contracts is based on management's judgements and estimates which could significantly affect the amounts recognised in the consolidated financial statements.<br><br>The most complex of these instruments is a commodity hedge known as the "Revenue Stabiliser" to hedge the gold price. The Group uses hedge accounting for certain tranches of these instruments. The key assumptions underlying their valuations are around the credit risk | We completed the following procedures in respect of derivative financial instruments:<br><br>• We involved internal financial instruments specialists to perform an independent valuation on a sample of these transactions, including the process for deriving the gold price and exchange rate applied;<br>• We reviewed management's methodology for assessment of credit risk against the requirements set out in IFRS 13;<br>• We assessed the appropriateness of applying hedge accounting to the Revenue Stabiliser;<br>• We assessed the allocation of changes in fair values of derivatives between |

| Why the matter was determined to be a key audit matter | How the matter was addressed in the audit |
|---|---|
| calculation of the Group and its counterparties, i.e. probability of default and recovery rate.<br><br>In addition, as at 31 December 2016 the Group has a liability of $434 million (2015: $509 million) recognised for cross currency swaps and there are other derivative financial instruments which are not hedge accounted. The valuation of these, which reflect debit valuation adjustments in respect of own credit risk required by the relevant accounting standards, involve management judgement. | other comprehensive income and profit or loss, as appropriate; and<br>• Reviewed the disclosures required by IFRS 7 in the Group accounts as appropriate. |

**Other Information**

Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

**Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements**

Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Directors.
- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Michael Raikhman,
Engagement partner

Deloitte

20 February 2017

The Entity: Public Joint Stock Company "Polyus"

Primary State Registration Number: 1068400002990

Certificate of registration in the Unified State Register № 84 000060259 of 17.03.2006, issued by Interdistrict Inspectorate of the Federal Tax Authorities № 2 of Krasnoyarsk territory, Taimyr (Dolgan-Nenets) and Evenki autonomous okrugs

Address: 123104, Russian Federation, Moscow, Tverskoy bulvar, 15/1

Audit Firm: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

## PJSC “POLYUS”

**CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2016**
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## 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** |

## PJSC “POLYUS”

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION
### AT 31 DECEMBER
*(in millions of US Dollars)*

| | Notes | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 2,938 | 2,023 |
| Derivative financial instruments and investments | 13 | 57 | 411 |
| Inventories | 14 | 264 | 184 |
| Deferred tax assets | 20 | 75 | 46 |
| Other non-current assets | | 37 | 8 |
| | | **3,371** | **2,672** |
| **Current assets** | | | |
| Inventories | 14 | 369 | 296 |
| Derivative financial instruments and investments | 13 | 10 | 205 |
| Deferred expenditures | | 10 | 13 |
| Trade and other receivables | | 58 | 23 |
| Advances paid to suppliers and prepaid expenses | | 19 | 17 |
| Taxes receivable | 15 | 89 | 59 |
| Cash and cash equivalents | 16 | 1,740 | 1,825 |
| | | **2,295** | **2,438** |
| **Total assets** | | **5,666** | **5,110** |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 17 | 7 | 7 |
| Additional paid-in capital | 17 | 2,288 | 2,273 |
| Treasury shares | 17 | (3,712) | – |
| Cash flow hedge revaluation reserve | | 12 | 123 |
| Translation reserve | | (2,720) | (2,623) |
| Retained earnings | | 3,617 | 2,196 |
| **Equity attributable to shareholders of the Company** | | **(508)** | **1,976** |
| Non-controlling interests | | 94 | 71 |
| | | **(414)** | **2,047** |
| **Non-current liabilities** | | | |
| Site restoration, decommissioning and environmental obligations | | 38 | 32 |
| Borrowings | 18 | 4,698 | 2,151 |
| Derivative financial instruments | 13 | 456 | 509 |
| Deferred revenue | 19 | 76 | – |
| Deferred tax liabilities | 20 | 182 | 133 |
| Other non-current liabilities | | 32 | 20 |
| | | **5,482** | **2,845** |
| **Current liabilities** | | | |
| Borrowings | 18 | 283 | 38 |
| Trade and other payables | 21 | 222 | 151 |
| Taxes payable | 22 | 93 | 29 |
| | | **598** | **218** |
| **Total liabilities** | | **6,080** | **3,063** |
| **Total equity and liabilities** | | **5,666** | **5,110** |

## PJSC "POLYUS"

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
### FOR THE YEAR ENDED 31 DECEMBER
*(in millions of US Dollars)*

| | Notes | Number of outstanding shares'000 | Share capital | Additional paid-in capital | Treasury shares | Cash flow hedge revaluation reserve | Translation reserve | Retained earnings | Total | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Equity attributable to shareholders of the Company | | | | | | | | |
| **Balance at 31 December 2014** | | **190,628** | **7** | **2,266** | **–** | **108** | **(2,090)** | **1,425** | **1,716** | **83** | **1,799** |
| Profit for the year | | – | – | – | – | – | – | 987 | **987** | 34 | **1,021** |
| Increase in cash flow hedge revaluation reserve | | – | – | – | – | 15 | – | – | **15** | – | **15** |
| Effect of translation to presentation currency | | – | – | – | – | – | (533) | – | **(533)** | (21) | **(554)** |
| **Total comprehensive income / (loss)** | | **–** | **–** | **–** | **–** | **15** | **(533)** | **987** | **469** | **13** | **482** |
| Equity-settled share-based payment plans (LTIP) | 17 | – | – | 7 | – | – | – | – | **7** | – | **7** |
| Increase of ownership in subsidiaries | | – | – | – | – | – | – | (216) | **(216)** | (14) | **(230)** |
| Declared dividends | | – | – | – | – | – | – | – | **–** | (11) | **(11)** |
| **Balance at 31 December 2015** | | **190,628** | **7** | **2,273** | **–** | **123** | **(2,623)** | **2,196** | **1,976** | **71** | **2,047** |
| Profit for the year | | – | – | – | – | – | – | 1,420 | **1,420** | 25 | **1,445** |
| Decrease in cash flow hedge revaluation reserve | | – | – | – | – | (111) | – | – | **(111)** | – | **(111)** |
| Effect of translation to presentation currency | | – | – | – | – | – | (94) | – | **(94)** | 14 | **(80)** |
| **Total comprehensive (loss) / income** | | **–** | **–** | **–** | **–** | **(111)** | **(94)** | **1,420** | **1,215** | **39** | **1,254** |
| Equity-settled share-based payment plans (LTIP) | 17 | – | – | 15 | – | – | – | – | **15** | – | **15** |
| Increase of ownership in subsidiaries | | – | – | – | – | – | – | (2) | **(2)** | (1) | **(3)** |
| Buy-back of treasury shares | 17 | (60,519) | – | – | (3,443) | – | – | – | **(3,443)** | – | **(3,443)** |
| Settlement of issued loans by own shares | 17 | (4,477) | – | – | (269) | – | – | – | **(269)** | – | **(269)** |
| Release of translation reserve due to disposal of subsidiary | | – | – | – | – | – | (3) | 3 | **–** | – | **–** |
| Declared dividends | | – | – | – | – | – | – | – | **–** | (15) | **(15)** |
| **Balance at 31 December 2016** | | **125,632** | **7** | **2,288** | **(3,712)** | **12** | **(2,720)** | **3,617** | **(508)** | **94** | **(414)** |

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER
*(in millions of US Dollars)*

| | Notes | 2016 | 2015 |
|---|---|---|---|
| **Operating activities** | | | |
| **Profit before income tax** | | **1,771** | **1,212** |
| Adjustments for: | | | |
| Reversal of impairment | 8 | (4) | (22) |
| Finance costs, net | 9 | 145 | 45 |
| Interest income | | (40) | (69) |
| (Gain) / loss on derivative financial instruments and investments, net | 10 | (119) | 125 |
| Depreciation and amortisation | | 148 | 128 |
| Foreign exchange gain, net | | (396) | (149) |
| Other | | 26 | 5 |
| | | **1,531** | **1,275** |
| Movements in working capital | | | |
| Inventories | | (42) | 42 |
| Deferred expenditures | | (1) | (3) |
| Trade and other receivables | | (47) | (6) |
| Advances paid to suppliers and prepaid expenses | | (10) | (11) |
| Taxes receivable | | (27) | (8) |
| Trade and other payables | | 13 | 27 |
| Other non-current liabilities | | (1) | 5 |
| Taxes payable | | 23 | (1) |
| **Cash flows from operations** | | **1,439** | **1,320** |
| Income tax paid | | (261) | (217) |
| **Net cash generated from operating activities** | | **1,178** | **1,103** |
| **Investing activities**[1] | | | |
| Purchases of property, plant and equipment | | (405) | (326) |
| Advance paid for the participation in the auction for the Sukhoi Log | 12 | (138) | – |
| Proceeds from government grants | | 76 | – |
| Interest received | | 50 | 62 |
| Increase in bank deposits | | – | (74) |
| Proceeds from redemption of bank deposits | | – | 340 |
| Payment for currency collars | | – | (494) |
| Loans issued | | – | (190) |
| Proceeds from repayment of loans issued | | 124 | – |
| Proceeds from disposal of subsidiary, net of cash disposed of | | 10 | – |
| Other | | 3 | 6 |
| **Net cash utilised in investing activities** | | **(280)** | **(676)** |
| **Financing activities**[1] | | | |
| Interest paid | | (245) | (124) |
| Commission paid | | (51) | (6) |
| Proceeds from sales and leaseback transactions | | 2 | – |
| Lease payments | | (1) | – |
| Net proceeds on exchange of interest payments under interest and cross currency rate swaps | 9 | 44 | 52 |
| Payment for buy-back of treasury shares | 17 | (3,443) | – |
| Dividends paid to non-controlling interests | | (16) | (10) |
| Proceeds from borrowings | | 3,432 | 627 |
| Repayment of borrowings | | (734) | (89) |
| Cash used to increase of ownership in subsidiaries | | (3) | (230) |
| **Net cash (utilised in) / generated from financing activities** | | **(1,015)** | **220** |
| **Net (decrease) / increase in cash and cash equivalents** | | **(117)** | **647** |
| **Cash and cash equivalents at beginning of the year** | 16 | **1,825** | **1,213** |
| Effect of foreign exchange rate changes on cash and cash equivalents | | 32 | (35) |
| **Cash and cash equivalents at end of the year** | 16 | **1,740** | **1,825** |

[1] Significant non-cash transactions in regard of investing and financing activities are disclosed in note 17 to these consolidated financial statements.

## 1. GENERAL

Public Joint Stock Company "Polyus" (the "Company" or "Polyus") was incorporated in Moscow, Russian Federation, on 17 March 2006.

The principal activities of the Company and its controlled entities (the "Group") are the extraction, refining and sale of gold. The mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and the Sakha Republic of the Russian Federation. The Group also performs research, exploration and development works; the development works being primarily at the Natalka licence area located in the Magadan region of the Russian Federation. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 26.

The shares of the Company are "level one" listed at Moscow Exchange. The controlling shareholder of the Company is Polyus Gold International Limited ("PGIL"), a public limited company registered in Jersey, which, until delisting from the London Stock Exchange's premium listed market in December 2015, was the primary reporting entity for the group of companies that included the Company and its controlled entities. Prior to 2016, PGIL prepared and published its consolidated financial statements, which complied with International Financial Reporting Standards ("IFRS") as adopted by the European Union. As of 31 December 2016 and 31 December 2015, the ultimate controlling party of the Company was Mr. Said Kerimov.

## 2. BASIS OF PREPARATION AND PRESENTATION

### Going concern

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

### Compliance with the International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). IFRS include the standards and interpretations approved by the IASB including IFRS, International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

### Basis of presentation

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

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

***IFRS standards update***

The following is a list of standards that have been adopted during the year ended 31 December 2016 and new or amended IFRS standards that have been issued by the IASB:

| Title | Subject |
|---|---|
| IFRS 14 | Regulatory deferral accounts |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment entities: applying the consolidation exception |
| Amendments to IAS 1 | Disclosure initiative |
| Annual Improvements to IFRSs 2012–2014 Cycle | Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34 |
| Amendments to IAS 27 | Equity method in separate financial statements |
| Amendments to IAS 16 and IAS 41 | Agriculture: bearer plants |
| Amendments to IAS 16 and IAS 38 | Clarification of acceptable methods of depreciation and amortisation |
| Amendments to IFRS 11 | Accounting for acquisition of interests in joint operations |

Adoption of the new and revised standards and interpretation as mentioned above had no effect on the amounts presented in consolidated financial statements for the year ended 31 December 2016 or overall presentation and disclosures.

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

| Title | Subject | Effective for annual periods beginning on or after | Expected effect on the consolidated financial statements |
|---|---|---|---|
| Amendments to IAS 7 | Statement of Cash Flows | 1 January 2017 | No effect |
| Amendments to IAS 12 | Recognition of deferred tax assets for unrealised losses | 1 January 2017 | No effect |
| Amendments to IAS 40 | Investment Property | 1 January 2018 | No effect |
| Amendments to IFRS 1 | First-time Adoption of International Financial Reporting Standards | 1 January 2018 | No effect |
| Amendments to IFRS 2 | Share-based payment | 1 January 2018 | Under review |
| IFRS 9 | Financial instruments | 1 January 2018 | Under review |
| Amendments to IFRS 10 and IAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | Date will be determined later | No effect |
| Amendments to IFRS 12 | Disclosure of Interests in Other Entities | 1 January 2017 | Under review |
| IFRS 15 | Revenue from contracts with customers | 1 January 2018 | Under review |
| IFRS 16 | Leases | 1 January 2019 | Under review |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | 1 January 2018 | Under review |

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of consolidation

***Subsidiaries***

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

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

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

When the Company has less than a majority of the voting rights of an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it the power, including:

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

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

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

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

When the Group loses control of a subsidiary, the profit and or loss on disposal is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

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

***Functional currency***

The individual financial statements of the Group's subsidiaries are each prepared in their respective functional currencies. The functional currency of the Company and all the subsidiaries of the Group is the Russian Rouble ("RUB").

### 3.2 Presentation currency

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

- all assets, liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting date;
- starting from 1 January 2016 all income and expenses are translated at the monthly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions. All income and expenses for the year ended 31 December 2015 are translated at the quarterly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions;
- resulting exchange differences are included in equity and presented as *Effect of translation to presentation currency* within the *Translation reserve* (on disposal of such entities this *Translation reserve* is reclassified into the consolidated statement of profit or loss); and
- in the statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. Starting from 1 January 2016 all cash flows are translated at the monthly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions. Cash flows for the year ended 31 December 2015 are translated at the quarterly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions.

Individually significant items continue to be translated at exchange rate on the date of transaction.

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

| | 31 December | |
|---|---|---|
| **Russian Rouble/US Dollar** | **2016** | **2015** |
| Year-end rate | 60.66 | 72.88 |

### 3.3 Foreign currencies

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

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

### 3.4 Revenue recognition

***Gold sales revenue***

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

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

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

***Other revenue***

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

### 3.5 Income tax

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

***Current tax***

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

***Deferred tax***

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements of the separate legal entities and the corresponding tax bases used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries and associates are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

***Current and deferred tax for the year***

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

### 3.6 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessee***

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Costs for operating leases are recognised on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user’s benefit. Contingent rentals are recognised as expenses in the periods in which they are incurred.

### 3.7 Dividends

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

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

### 3.8 Property, plant and equipment

***Mineral rights***

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

***Fixed assets***

Fixed assets are recorded at cost less accumulated depreciation. Fixed assets include the cost of acquiring and developing mining properties, pre-production expenditure and mine infrastructure,

processing plant, mineral rights and mining and exploration licences and the present value of future mine closure, rehabilitation and decommissioning costs.
Fixed assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of the mines in accordance with the mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives. Depreciation is charged from the date a new mine reaches commercial production quantities and is included in the *Cost of production*. The estimated remaining useful lives of the Group’s significant mines based on the mine operating plans are as follows:

| | |
|---|---|
| Blagodatnoye | 15 years |
| Olimpiada | 12 years |
| Verninskoye | 11 years |
| Kuranakh | 7 years |
| Titimukhta | 1 years |

***Stripping activity asset***

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

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

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

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

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

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

***Capital construction in progress***

Assets under construction at operating mines are accounted for as capital construction in progress. The cost of capital construction in progress comprises its purchase price and any directly attributable costs to bring it into working condition for its intended use. When the capital construction in progress has been completed and, in a condition necessary to be capable of operating in the manner intended by management, the objects are reclassified to fixed assets.

Capital construction in progress is not depreciated.

***Mine under development***

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

### 3.9 Finance costs directly attributable to the construction of qualifying assets

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

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

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

### 3.10 Impairment of long-lived tangible assets

***Impairment of fixed assets, capital construction in progress and mine under development***

An impairment review of long-lived tangible assets is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell or value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the consolidated statement of profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

***Impairment of exploration and evaluation assets***

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

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

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

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

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

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

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

### 3.11 Financial instruments

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

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

#### Financial assets

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

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

- financial assets at FVTPL; and
- loans and receivables.

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

***Financial assets at FVTPL***

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any dividend or interest earned on the financial asset and is included in the *Gain/(loss) on derivative financial instruments and investments, net* line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 13.

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

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

***Loans and receivables***

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

***Impairment of financial assets***

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

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

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

***Derecognition of financial assets***

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

***Effective interest method***

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

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

**Financial liabilities**

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

***Financial liabilities at FVTPL***

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

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any interest paid on the financial liability and is included in the *Gain/(loss) on derivative financial instruments and investments, net* line item in the income statement.

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

***Derecognition of financial liabilities***

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

**Derivative financial instruments**

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk as well as risk of volatility in the gold price.

As well as the other financial assets and liabilities at FVTPL, derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivative financial instruments are presented as current assets or current liabilities.

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

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

**3.12 Cash flow hedges**

The Group uses derivative financial instruments for hedge accounting as determined in accordance with IAS 39. The Group applies hedge accounting for cash flow hedges against the risk of decline of the gold prices. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective.

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

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

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

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

### 3.13 Inventories

***Refined gold, ore stockpiles and gold-in-process***

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

***Stores and materials***

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

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

### 3.14 Deferred expenditures

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

### 3.15 Cash and cash equivalents

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

### 3.16 Provisions

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

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

### 3.17 Site restoration, decommissioning and environmental obligations

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

Ongoing restoration costs are expensed when incurred.

### 3.18 Government grants

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

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

### 3.19 Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 17.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### Critical judgements in applying accounting policies

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

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

### *4.1 Economic useful lives of property, plant and equipment*

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

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

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

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

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

### *4.2 Depreciation method for property, plant and equipment*

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

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

### *4.3 Borrowing costs capitalisation*

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Capitalisation commences when the Group undertakes activities that are necessary to prepare the asset for its intended use or sale and it ceases once the asset is complete and available for use. Interest is then charged to the income statement as a depreciation expense over the life of the relevant asset. However, capitalisation is suspended for the extended periods of inactivity. Determination of the time period for which the borrowing costs need to be capitalised may require significant judgement.

Capitalisation of the borrowings costs relating to Natalka mine development was discontinued in December 2014 following the Group's decision to review its approach to the project and substantially reduce construction activities. Significant development activities were resumed by the Group in the second half of 2015. Accordingly, capitalisation of Natalka borrowing costs was continued starting from 1 July 2015.

### *4.4 Determination of functional currency*

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

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

### *4.5 Cash flow hedge designation*

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

**Key sources of estimation uncertainty**

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

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

### *4.6 Exploration and evaluation assets*

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

### *4.7 Impairment of long-lived assets*

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

Factors which could impact the underlying cash flows include:

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

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

### *4.8 Stripping activity asset*

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

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

Each discrete stage of mining, identified in the mine plans, is considered as a unit of account. If the mine plan initially identifies several discrete stages of mining which will take place consecutively (one after the another), these stages would be identified as components. These assessments are undertaken for each individual mine. Stripping costs incurred during the production phase should be allocated between inventory produced and the stripping activity asset by using the allocation basis. The Group considers that an allocation basis that compares the expected average life of mine stripping ratio with the actual stripping ratio in the period for the identified component of the ore body to determine if further stripping costs are to be allocated to stripping activity asset or the cost of inventory, to be the most suitable allocation basis.

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

Costs that are incurred in the production process are accumulated as stockpiles, gold-in-process and gold doré. Stockpiles are measured based on each stockpile’s average cost per tonne; gold-in-process and gold doré are measured based on recoverable ounces of gold. Stockpile quantities are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces based on assay data and the estimated recovery percentage based on the expected processing method. Stockpile tonnages are verified by periodic surveys.

Although the quantities of recoverable gold are reconciled by comparing the grades of ore to the quantities of gold actually recovered (metallurgical balancing), the nature of the process inherently limits the ability to monitor precisely recoverability levels. As a result, the metallurgical balancing process is constantly monitored and engineering estimates are refined based on actual results over time. Variations between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realisable value are accounted for on a prospective basis. The split of stockpiles and gold-in-process between current (expected to be recovered within 12 months) and non-current (expected to be recovered after 12 months) is based on approved mine operating plans.

### *4.10 Site restoration, decommissioning and environmental obligations*

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

### *4.11 Income taxes*

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

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

## 5. SEGMENT INFORMATION

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

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

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

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

Business segment assets and liabilities are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements. The Group does not allocate the results of companies that perform management, investing activities and certain other administrative functions within its internal reporting.

| | Gold sales | Ounces of gold sold in thousands | Adjusted EBITDA | TCC (USD per ounce) | Capital expenditures |
|---|---|---|---|---|---|
| **For the year ended 31 December 2016** | | | | | |
| **Business units** | | | | | |
| Krasnoyarsk | 1,773 | 1,396 | 1,170 | 367 | 120 |
| Irkutsk alluvial | 220 | 169 | 90 | 598 | 16 |
| Irkutsk ore | 232 | 186 | 146 | 389 | 24 |
| Yakutia Kuranakh | 199 | 160 | 107 | 499 | 33 |
| Exploration | 5 | 4 | 1 | 1,010 | 10 |
| Magadan | – | – | (2) | – | 215 |
| Capital construction | – | – | 1 | – | 43 |
| Unallocated | – | – | 23 | – | 7 |
| | **2,429** | **1,915** | **1,536** | **389** | **468** |
| Advances paid for the participation in the auction for the Sukhoi Log | – | – | – | – | 138 |
| **Total** | **2,429** | **1,915** | **1,536** | **389** | **606** |
| **For the year ended 31 December 2015** | | | | | |
| **Business units** | | | | | |
| Krasnoyarsk | 1,611 | 1,293 | 1,007 | 399 | 58 |
| Irkutsk alluvial | 191 | 168 | 76 | 582 | 5 |
| Irkutsk ore | 189 | 161 | 115 | 417 | 21 |
| Yakutia Kuranakh | 165 | 144 | 70 | 598 | 10 |
| Exploration | 3 | 2 | 3 | 694 | 7 |
| Magadan | – | – | – | – | 113 |
| Capital construction | – | – | 1 | – | 53 |
| Unallocated | – | – | 6 | – | 1 |
| **Total** | **2,159** | **1,768** | **1,278** | **424** | **268** |

Gold sales reported above represent revenue generated from external customers (note 25). There were no inter-segment gold sales during the years ended 31 December 2016 and 2015. Included within gold sales in 2016 are realised gains on derivatives of USD 67 million (note 13) (2015: USD 116 million).

## Gold sales

| | Year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Refined gold | 2,353 | 2,147 |
| Other gold-bearing products | 76 | 12 |
| **Total** | **2,429** | **2,159** |

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| **Profit for the year** | **1,445** | **1,021** |
| Income tax expense | 326 | 191 |
| Depreciation and amortisation | 148 | 128 |
| Finance costs, net (note 9) | 145 | 45 |
| Long term incentive plan (note 17) | 19 | 7 |
| Foreign exchange gain, net | (396) | (149) |
| (Gain)/loss on derivative financial instruments and investments, net (note 10) | (119) | 125 |
| Interest income | (40) | (69) |
| Reversal of impairment | (4) | (22) |
| Other | 12 | 1 |
| **Adjusted EBITDA** | **1,536** | **1,278** |

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| **Cost of gold sales** | **891** | **876** |
| *Adjusted for:* | | |
| Depreciation and amortisation (note 12) | (154) | (126) |
| Other non-cash items in cost of gold sales | 8 | (1) |
| **TCC** | **745** | **749** |
| Ounces of gold sold, in thousands | 1,915 | 1,768 |
| **TCC per ounce of gold sold (USD per ounce)** | **389** | **424** |

**Capital expenditures are primarily related to the following projects:**

- ***Magadan business unit:*** ongoing construction in all major areas of the first stage of the Natalka mill project, the tendering process is finished and external contractors have been selected for the main process equipment of the mill, ongoing infrastructure construction.
- ***Krasnoyarsk business unit:*** finishing reconfiguration of the Titimukhta mill and preparations for connecting to the new Razdolinskaya-Taiga grid, ongoing upgrading and expanding of the Blagodatnoye mill, launching works to build new BIOX unit.
- ***Yakutia Kuranakh business unit:*** completing project to increase equipment productivity, launched construction works at heap leach project, completed grading and levelling, ongoing heap construction, contractors have been selected for the main process equipment.
- ***Construction business unit:*** finishing construction of the Razdolinskaya-Taiga electricity grid.
- ***Irkutsk ore business unit:*** completed installation of the main process equipment as part of the project to increase the mill capacity to 2.5 million tons ore per year within the same mill, consulting company AMC finalized the report with proposals of the strategy of further development of the Irkutsk hub strategy.

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

## 6. COST OF GOLD SALES

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Consumables and spares | 242 | 205 |
| Labour | 227 | 239 |
| Tax on mining | 134 | 140 |
| Fuel | 72 | 74 |
| Power | 22 | 35 |
| Outsourced mining services | 8 | 12 |
| Refining costs | 3 | 3 |
| Other | 55 | 57 |
| **Total cash operating costs** | **763** | **765** |
| Depreciation and amortisation of operating assets (note 12) | 154 | 126 |
| **Total cost of production** | **917** | **891** |
| Increase in stockpiles, gold-in-process and refined gold inventories | (26) | (15) |
| **Total** | **891** | **876** |

## 7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Salaries | 105 | 100 |
| Taxes other than mining and income taxes | 12 | 12 |
| Professional services | 10 | 12 |
| Depreciation and amortisation (note 12) | 5 | 3 |
| Other | 19 | 16 |
| **Total** | **151** | **143** |

## 8. IMPAIRMENT TEST

Following a decline in the gold spot rates in the last quarter of 2016, appreciation of the Rouble and a revision of the model for the Natalka project's mining and processing operations an impairment test for carrying value of the associated costs capitalised in the balance sheet principally within *Mine under development* was performed as of 31 December 2016. A detailed discounted cash flow model has been used to consider whether the value held is impaired which concluded that no impairment was required.

There are a number of subjective factors that are necessarily incorporated into such a review, both operational and financial, using the best evidence available. The values derived are particularly sensitive to the assumptions regarding the planned mining operations and flowsheet and the financial assumptions for the RUB to USD exchange rate, gold price and discount rates. The operational considerations reflect the most likely and optimal updated mining plan developed using the revised JORC reserves estimate and with the advice of the mining consultants. The financial assumptions include significant judgements associated with forecast gold prices determined at a volatile time for our markets.

The key long-term assumptions that were used in the impairment testing were a weighted average long-term gold price of USD 1,327 per ounce, exchange rate of 65.7 RUB for 1 USD and a post-tax discount rate of approximately 8.8%. The assumptions are provided in real terms.

A 20% appreciation of the Russian Rouble against the US dollar or decrease in the price of gold does not cause the impairment of Natalka's assets.

## 9. FINANCE COSTS, NET

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Interest on borrowings | 281 | 132 |
| Unwinding of discounts on site restoration, decommissioning and environmental liabilities | 3 | 4 |
| Gain on exchange of interest payments under cross currency swap (note 13) | (34) | (39) |
| Gain on exchange of interest payments under interest rate swaps (note 13) | (10) | (13) |
| Other | 2 | 2 |
| **Sub-total finance cost** | **242** | **86** |
| Interest included in the cost of qualifying assets | (97) | (41) |
| **Total** | **145** | **45** |

## 10. GAIN/(LOSS) ON DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS, NET

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Revaluation gain / (loss) on cross currency swaps (note 13) | 172 | (198) |
| Gain on disposal of subsidiary | 18 | – |
| Revaluation (loss) / gain on revenue stabiliser under Tranche 3 and 4 (note 13) | (58) | 49 |
| Revaluation (loss) / gain on interest rate swap (note 13) | (9) | 4 |
| Revaluation (loss) / gain on ineffective part of the revenue stabiliser under Tranches 1 and 2 (note 13) | (4) | 19 |
| Gain on currency collars (note 13) | – | 2 |
| Other | – | (1) |
| **Total** | **119** | **(125)** |

## 11. INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Current tax expense | 297 | 198 |
| ***Deferred tax*** | | |
| Origination and reversal of temporary differences | 28 | (29) |
| Deferred tax released from other comprehensive income | 12 | 22 |
| Effect of the revision of income tax rate (see below) | (11) | – |
| | **29** | **(7)** |
| **Total** | **326** | **191** |

On 11 May 2016, the Federal Law No. 144-FZ "On amendments to parts one and two of the Tax Code of the Russian Federation" (signed by the President of the Russian Federation on 23 May 2016) was adopted amending the regulation of the preferential tax treatment of "Regional Investment Project" (thereafter "RIP").

Entities that meet certain restrictive conditions, in particular:

- Place of location and implementation of the RIP is the territory of one of regions of the Russian Federation specified in item 1 clause 1 of article 25.8 of the Tax Code of the Russian Federation;
- The amount of capital investment is not less than RUB 500 million with the condition of investing within a period not exceeding 5 (five) years from the date of RIP commencement but not earlier than 1 January 2013; and

- Revenues from the sale of goods produced following RIP implementation are not less than 90% of all revenues considered in determining the taxable base for income tax (specific requirement applicable only in respect of income tax);

have the right to apply reduced Tax on mining rate and Income tax rate.

JSC "Pervenets", a 100% subsidiary of JSC "Polyus", meets the criteria set up for precious metals mining operations and has applied for accession to the RIP in respect of Tax on mining and intends to apply not later than 28 February 2017 for accession to the RIP in respect of Income Tax starting from 1 January 2017.

Thus, from 1 August 2016 to 31 July 2018, JSC "Pervenets" has the right to apply Tax on mining rate at 0%. Every two following years the rate will increase to 1.2% until reaching 6% as it was before the entrance into the RIP.

In addition, from 1 January 2017 to 31 December 2021, JSC "Pervenets" will have the right to apply Income Tax rate at 0%; from 1 January 2022 to 31 December 2026 – 10%. Thereafter, Income Tax rate will be 20%, as it was before the entrance into the RIP.

As a result of the RIP, deferred tax assets and liabilities were recalculated by applying expected income tax rates in the respective periods. As of 31 December 2016, the resulting difference in the amount of USD 11 million was recognised in profit and loss and presented in reconciliation below in the line *Effect of the revision of income tax due to RIP*.

The corporate income tax rate in the Russian Federation is 20%. A reconciliation of Russian Federation statutory income tax, the location of the Group's major production entities and operations, to the income tax expense recorded in the consolidated statement of profit or loss is as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| **Profit before income tax** | **1,771** | **1,212** |
| Income tax at statutory rate applicable to principal entities (20%) | 354 | 242 |
| Effect of the revision of income tax due to RIP | (11) | – |
| Decrease in deductible temporary differences on revaluation of derivatives, for which no deferred tax was recognised and deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss | (15) | (37) |
| Income tax associated with intra-group sales of investments in subsidiary | 8 | – |
| Tax effect of non-deductible expenses and other permanent differences | (4) | (4) |
| Non-taxable income on disposals of subsidiary | (4) | – |
| Reversal of losses carried forward resulted from impairments | (1) | (6) |
| Income tax effect of impairment reversals | (1) | (4) |
| **Income tax expense** | **326** | **191** |

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Fixed assets | Mine under development | Stripping activity assets | Capital construction in progress | Exploration and evaluation assets | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance at 31 December 2014** | **1,538** | **1,134** | **203** | **199** | **307** | **3,381** |
| Additions | – | 111 | 104 | 146 | 11 | **372** |
| Transfers from capital construction in progress | 134 | – | – | (134) | – | **–** |
| Change in site restoration, decommissioning and environmental obligations | (6) | – | – | – | – | **(6)** |
| Disposals | (38) | (3) | – | (1) | – | **(42)** |
| Reclassifications | 15 | – | – | (3) | 3 | **15** |
| Effect of translation to presentation currency | (360) | (274) | (64) | (54) | (72) | **(824)** |
| **Balance at 31 December 2015** | **1,283** | **968** | **243** | **153** | **249** | **2,896** |
| Additions | – | 215 | 55 | 227 | 154[(1)] | **651** |
| Transfers from capital construction in progress | 133 | – | – | (133) | – | **–** |
| Change in site restoration, decommissioning and environmental obligations | 1 | – | – | – | – | **1** |
| Disposals | (11) | (12) | – | (3) | – | **(26)** |
| Disposed on disposal of subsidiary | – | – | – | – | (105) | **(105)** |
| Reclassifications | 27 | (15) | – | 12 | (15) | **9** |
| Effect of translation to presentation currency | 270 | 214 | 55 | 45 | 23 | **607** |
| **Balance at 31 December 2016** | **1,703** | **1,370** | **353** | **301** | **306** | **4,033** |
| **Accumulated amortisation, depreciation and impairment** | | | | | | |
| **Balance at 31 December 2014** | **(753)** | **(32)** | **(38)** | **(10)** | **(197)** | **(1,030)** |
| Charge | (134) | – | (21) | – | – | **(155)** |
| Disposals | 36 | – | – | – | – | **36** |
| Reversal of impairment | – | 19 | – | – | 5 | **24** |
| Effect of translation to presentation currency | 188 | 4 | 14 | 3 | 43 | **252** |
| **Balance at 31 December 2015** | **(663)** | **(9)** | **(45)** | **(7)** | **(149)** | **(873)** |
| Charge | (128) | – | (41) | – | – | **(169)** |
| Disposals | 10 | – | – | – | – | **10** |
| Disposed on disposal of subsidiary | – | – | – | – | 105 | **105** |
| Reclassifications | (9) | – | – | – | – | **(9)** |
| Reversal of impairment | – | 3 | – | 1 | – | **4** |
| Effect of translation to presentation currency | (148) | (1) | (13) | (2) | 1 | **(163)** |
| **Balance at 31 December 2016** | **(938)** | **(7)** | **(99)** | **(8)** | **(43)** | **(1,095)** |
| **Net book value at** | | | | | | |
| **31 December 2015** | **620** | **959** | **198** | **146** | **100** | **2,023** |
| **31 December 2016** | **765** | **1,363** | **254** | **293** | **263** | **2,938** |

(1) Additions for Exploration and evaluation assets include USD 138 million of advances paid to the Russian Federal Agency for Subsoil Use ("Rosnedra") on 21 December 2016 for the participation in the auction for the Sukhoi Log. Refer to note 27 for more details.

### 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 USD 141 million paid to the Russian Federal Agency for Subsoil Use (“Rosnedra”) for the participation in the auction for the Sukhoi Log license was presented within Mineral rights as part of Exploration and evaluation assets. Refer to note 27 for more details.

Depreciation and amortisation charge is allocated as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Cost of gold sales | 142 | 122 |
| Depreciation in change in inventory | 12 | 4 |
| **Total depreciation and amortisation within cost of production (note 6)** | **154** | **126** |
| Capitalised within property, plant and equipment | 13 | 27 |
| Selling, general and administrative expenses (note 7) | 5 | 3 |
| Cost of other sales | 1 | 3 |
| **Total depreciation and amortisation** | **173** | **159** |
| Less: amortisation of other non-current assets | (4) | (4) |
| **Total depreciation of property, plant and equipment** | **169** | **155** |

### Capitalised borrowing costs

Included in the cost of *qualifying assets* are capitalised borrowing costs consisted of the following:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | **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 comprised of two components:

- zero cost Asian gold collars ("revenue stabiliser"); and
- gold forward contracts.

#### *Revenue stabiliser*

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

The Group entered into revenue stabiliser agreements for Tranches 1 and 2 in 2014, Tranche 3 in 2015 and Tranche 4 during the year ended 31 December 2016. In 2015, the Group restructured Tranches 1 and 2 resulting in a partial close out of the fourth year options and lowering barriers on the remaining options for the first three years of each instrument.

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 | – |
| ***Tranche 4 (covering the period 1 April 2016 – 31 December 2020)*** | | | | | | | | | |
| **First three years (put)** | | | | | | | | | |
| Strike | – | – | 1,271 | 1,271 | – | 1,271 | – | 1,271 | – |
| Knock-out barrier | – | – | 900 | 900 | – | 900 | – | 900 | – |
| **First three years (call)** | | | | | | | | | |
| Strike | – | – | 1,300 | 1,300 | – | 1,350 | – | 1,350 | – |
| Knock-in barrier | – | – | 1,433 | 1,450 | – | 1,450 | – | 1,450 | – |
| **Thereafter (put)** | | | | | | | | | |
| Strike | – | – | – | – | – | – | – | 1,000 | 1,000 |
| Knock-out barrier | – | – | – | – | – | – | – | 950 | 950 |
| **Thereafter (call)** | | | | | | | | | |
| Strike | – | – | – | – | – | – | – | 1,350 | 1,420 |
| Knock-in barrier | – | – | – | – | – | – | – | 1,450 | 1,620 |

As a result of Tranche 1 of the revenue stabiliser, the Group ensures a minimum weighted average price of USD 1,383 per ounce for 300 thousand ounces of gold output annually during the first three years of the Programme, provided the gold price does not fall below USD 911 per ounce. During the first three years the Group benefits from price increases until the gold price reaches USD 1,634 per ounce, in which case the weighted average price is capped at USD 1,518 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted average price of USD 1,107 per ounce for the price-protected amount of 420 thousand ounces, provided the gold price does not fall below USD 900 per ounce. Additionally, in the fourth year of the Programme, the Group will have an obligation to sell 420 thousand ounces of gold at USD 1,551 per ounce should the gold price exceed USD 1,750 per ounce.

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

As a result of Tranche 3 of the revenue stabiliser, the Group ensures a minimum weighted average price of USD 1,232 per ounce for 280 thousand ounces of gold annually output during the first three years of the Programme, provided the gold price does not fall below USD 900 per ounce. During the first three years the Group benefits from price increases until the gold price reaches USD 1,450 per ounce, in which case the weighted average price is capped at USD 1,350 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted average price of USD 971 per ounce for the price-protected amount of 840 thousand ounces, provided the gold price does not fall below USD 921 per ounce. Additionally, in the fourth year of the Programme, the Group will have an obligation to sell 840 thousand ounces of gold at USD 1,391 per ounce should the gold price exceed USD 1,591 per ounce.

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

The revenue stabiliser options are exercised quarterly.

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

Tranches 1 and 2 of the revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity, whilst the remaining change in the fair value of USD 4 million loss is reflected in the consolidated statement of profit or loss (note 10) (2015: gain of USD 19 million). During the year ended 31 December 2016, under Tranches 1 and 2, a loss of USD 65 million was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity (2015: a gain of USD 126 million) and following the sale of the hedged

volume of gold and the exercise of certain options USD 53 million was subsequently reclassified to Gold sales within the consolidated statement of profit or loss (2015: USD 91 million).
Tranches 3 and 4 are accounted at fair value through profit and loss. The loss resulted from the change in their fair value totalled USD 58 million and is presented within the note 10 of the consolidated statement of profit or loss (2015: gain of USD 49 million) and following the sale of the hedged volume of gold and the exercise of certain options USD 6 million was subsequently reclassified to *Gold sales* within the consolidated statement of profit or loss (2015: nil).

***Gold forward***

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

There are no outstanding balances in regard of gold forward as of 31 December 2016.
The gold forward contract was designated as a cash flow hedge.

Any change in the forward fair value was recognised in *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity. During the year ended 31 December 2016, a loss of USD 12 million was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity (2015: a gain of USD 18 million) and following the sale of the hedged amount of gold USD 8 million was reclassified from the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity into *Gold sales* within the consolidated statement of profit or loss (2015: USD 25 million).

The fair value was determined using the Black-Scholes valuation technique. Input data used in the valuation model (forward gold prices and volatility) corresponded to Level 2 of the fair value hierarchy in IFRS 13. The Group performed prospective and retrospective effectiveness testing for the instruments designated as a cash flow hedge at least at each reporting date.

**Cross currency swaps**

***RUB denominated credit facilities with fixed interest rate***

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

During the year ended 31 December 2014, the Group entered into cross currency swaps with leading Russian banks to economically hedge interest payments and principal amounts nominated in RUB. According to the cross currency swap agreements dated to 2014 the Group quarterly paid to the banks LIBOR + Margin 2.47% in USD and received from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group has to exchange principal amounts paying USD 1,023 million and receiving RUB 35,999 million.

During the year 2016, the Group amended previous cross currency contracts and entered into new fixed rate swap, offsetting the floating swap, so that the following terms were in place as of 31 December 2016:

- the Group quarterly pays to the banks 3.94% in USD and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group exchanges principal amounts paying USD 808 million and receiving RUB 28,443 million (amended terms of cross currency swap agreements with the same banks dated to 2014);
- the Group quarterly pays to the banks 3.98% in USD and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group exchanges principal amounts paying USD 215 million and receiving RUB 7,557 million. These terms were achieved by keeping unchanged previous cross currency contracts and entering into new fixed rate swaps.

No premium was paid or received on modification of original swaps and entering into the new interest rate swap.

***Rusbonds***

The Group entered into cross currency swaps with leading Russian banks for a total amount of RUB 15 billion to economically hedge interest payments and principal amounts for Rusbonds. According to the cross currency swap agreements the Group will semi-annually pay to the banks (6MLIBOR + Margin 4.45% for RUB 10 billion and + 5.9% for RUB 5 billion) in USD and receive from the banks 12.1% in RUB; and at maturity (July 2021) the Group will exchange principal amounts paying USD 255 million and receiving RUB 15 billion.

According to IAS 39, the swaps were not eligible to be designated as cash flow or fair value hedges. The Group accounted for these derivative financial instruments at fair value which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps for the year ended 31 December 2016 resulted in a revaluation gain of USD 172 million recognised in the consolidated statement of profit or loss (note 10) (2015: a loss of USD 198 million). The gain on the exchange of interest payments in amount of USD 34 million is recognised within the *Finance cost* (note 9) (2015: USD 39 million). The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

**Interest rate swaps**

In 2014, the Group entered into interest rate swap agreements with leading Russian banks, according to which the Group pays semi-annually and until 29 April 2020 LIBOR + 3.55% in USD and receives 5.625% in USD in respect of a USD 750 million nominal amount. The purpose of this swap was to decrease the effective interest rate for the USD 750 million Eurobonds.

During the year ended 31 December 2016, the Group signed new offsetting interest rate swap agreements, according to which the Group pays semi-annually and until 29 April 2020 5.342% in USD and receives LIBOR + 3.55% in USD in respect of a USD 750 million nominal amount, to effectively swap variable interest rate payments under 2014 interest rate swaps into fixed ones.

Certain of the new interest rate swap agreements were concluded with the same counterparties and will settle on a net basis. Those swaps are presented on a net basis. No premium was paid or received on entering into the offsetting swap agreements.

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

In 2016, the loss on changes in the fair value of the interest rate swaps in the amount of USD 9 million is recognised in the consolidated statement of profit or loss (note 10) (2015: gain USD 4 million). The gain on the exchange of interest payments in the amount of USD 10 million is recognised within the *Finance cost* (note 9) (2015: USD 13 million).

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

**Loans issued to related parties**

***Loans issued to PGIL***

During the year ended 31 December 2016, all loans previously issued to PGIL and outstanding as of 31 December 2015 were settled in full in advance of their maturity dates:

| | Due date | Interest rate, % | 31 December 2016 | 31 December 2015 |
|---|---|---|---|---|
| Loan 1 | 03/11/16 | 2.40 | – | 185 |
| Loan 2 | 01/04/17 | 3.89 | – | 198 |
| **Total (refer to note 23)** | | | **–** | **383** |

## 14. INVENTORIES

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| **Inventories expected to be recovered after 12 months** | | |
| Stockpiles | 253 | 174 |
| Gold-in-process | 11 | 10 |
| **Sub-total** | **264** | **184** |
| **Inventories expected to be recovered in the next 12 months** | | |
| Stores and materials | 253 | 188 |
| Gold-in-process | 54 | 59 |
| Stockpiles | 51 | 44 |
| Refined gold | 23 | 13 |
| Less: obsolescence provision for stores and materials | (12) | (8) |
| **Sub-total** | **369** | **296** |
| **Total** | **633** | **480** |

## 15. TAXES RECEIVABLES

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Reimbursable value added tax | 73 | 43 |
| Income tax prepaid | 9 | 15 |
| Other prepaid taxes | 7 | 1 |
| **Total** | **89** | **59** |

## 16. CASH AND CASH EQUIVALENTS

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Bank deposits | | |
| - USD | 1,443 | 1,630 |
| - RUB | 82 | 71 |
| Current bank accounts | | |
| - USD | 41 | 59 |
| - RUB | 82 | 33 |
| Cash in the Federal Treasury (refer to note 19) | 74 | – |
| Other cash and cash equivalents | 18 | 32 |
| **Total** | **1,740** | **1,825** |

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

| **Interest rates on bank deposits denominated in:** | 2016 | 2015 |
|---|---|---|
| - USD | 1.1–4.4% | 1.0–6.0% |
| - RUB | 8.4–10.2% | 8.0–11.1% |

## 17. SHARE CAPITAL

Authorised, issued and fully paid share capital of the Company comprised 190,627,747 ordinary shares at par value of RUB 1.

On 10 March 2016, the Board of Directors of the Company approved the distribution by LLC "Polyus-Invest", a 100% indirect subsidiary of the Group, of an Information Memorandum to the holders of PJSC "Polyus" ordinary shares and ADRs in respect of the terms and conditions for the submission of applications to enter into securities purchase agreements. As a result of the completion of the above mentioned buy-back program, LLC "Polyus-Invest" purchased the following number of ordinary shares:

| Name of shareholders submitted its shares for buy-back | Number of shares'000 | Ownership*, as % | Price per 1 share, RUB | Consideration, USD million |
|---|---|---|---|---|
| PGIL | 60,212 | 31.59% | 4,041 | 3,423 |
| Minority shareholders | 307 | 0.16% | 4,041 | 19 |
| Buy-back direct expenses | – | – | – | 1 |
| **Total** | **60,519** | **31.75%** | | **3,443** |

* as of 10 March 2016, the date of buy back approval

Additionally, on 30 September 2016, a 100% subsidiary of the Company obtained from PGIL 4,477 thousands of the Company's ordinary shares in exchange for an early settlement of the loans issued by the Group to PGIL and related accrued interest in the total amount of USD 269 million.

There were no dividends declared and paid for the year ended 31 December 2016 and 2015.

### New dividend policy

On 7 October 2016, the Board of Directors (the "Board") has approved the Company's dividend policy, pursuant to which the Company will pay dividends on a semi-annual basis in an amount of 30% of the EBITDA of PJSC Polyus for the respective reporting period. Payment will be calculated on the basis of the consolidated financial statements of the Company in accordance with IFRS requirements, provided that the net debt/adjusted EBITDA (last 12 months) ratio based on the consolidated financial statements of PJSC Polyus is lower than 2.5x.

Should the net debt / adjusted EBITDA (for the last 12 months) ratio increase to higher than 2.5x, the Board will exercise discretion on dividends, considering the Company's financial position, free cash flow, outlook and macro environment. The Board may consider the possibility of payment of special dividends, subject to the Company's liquidity position, capex requirements, free cash flows and leverage.

### Equity-settled share-based payment plans (long term incentive plan)

During the year ended 31 December 2015, a long term incentive plan ("LTIP") was approved by PGIL according to which the members of top management were entitled to a conditional award in the form of the PGIL's ordinary shares linked to achieving a combination of financial and non-financial performance targets. The LTIP stipulated three three-year rolling performance periods, starting from 2015, 2016 and 2017. This plan was ended following a delisting of PGIL's shares from the London Stock Exchange.

On 22 December 2016, the Board of Directors of PJSC "Polyus" approved a new long term incentive plan according to which the members of top management of the Group are entitled to a conditional award in the form of PJSC Polyus' ordinary shares which vest upon achievement of financial and non-financial performance targets. The LTIP stipulates three rolling performance periods: 2016-2017; 2016-2018; and 2017-2019. The total number of shares that may be distributed under the LTIP is up to 1.5% of the total share capital of the Company, which can be granted from newly issued ordinary shares or from treasury shares, if any.

Total expense for the reporting period arising from LTIP was immediately recognised in the consolidated statement of profit and loss within the line *Salaries* included within *Selling, general and administrative expenses* in the amount of USD 19 million (2015: 7 million).

**Weighted average number of ordinary shares**

The weighted average number of ordinary shares for the year ended 31 December 2016 and 2015 used in the calculation of basic and diluted earnings (“EPS”) per share is presented below:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| **Ordinary shares’000 in issue at the beginning of the year’000** | **190,628** | **190,628** |
| Treasury shares’000 (64,996 during period from 10 March 2016 to 30 September 2016) | (49,863) | – |
| **Weighted average number of ordinary shares’000 – basic EPS** | **140,765** | **190,628** |
| LTIP’000 | 9 | – |
| **Weighted average number of ordinary shares’000 – dilutive EPS** | **140,774** | **190,628** |

## 18. BORROWINGS

| | | 31 December | |
|---|---|---|---|
| | **Nominal rate %** | **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** |

The Company and subsidiaries of the Group from time to time obtain credit facilities from different financial institutions, raise financing from the lenders to fund its general corporate purposes and to finance its capital investment projects.

### *Unused committed credit facilities*

During the year ended 31 December 2014, one of the companies of the Group, entered into a five year RUB 40,000 million credit line with a bank to fund its general corporate purposes. As of 31 December 2016 and 31 December 2015, the amount of unused credit facilities was RUB 40,000 million equivalent to USD 659 million and USD 549 million, respectively.

During the year ended 31 December 2015, one of the companies of the Group, entered into an eleven year RUB 6,054 million credit line with a bank to fund construction of Razdolinskaya-Taiga power grid. As of 31 December 2016 and 31 December 2015, the credit facilities in the amount of USD 18 million (RUB 1,072 million) and USD 65 million (RUB 4,707 million), respectively were unused. As of 31 December 2016 and 31 December 2015, all shares of AO “TES”, a 100% subsidiary of the Group were pledged to secure credit line.

### *Other matters*

JSC “Gold Mining Company Polyus”, a 100% subsidiary of the Group, guaranteed liabilities of all the companies in the Group for all borrowings.

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

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

The Group was in compliance with covenants as of 31 December 2016.

***Reclassification of Rusbonds to short-term borrowings***

On 22 December 2016, the Company’s shareholders approved the merger of LLC Polyus-Invest into PJSC Polyus. Pursuant to Article 60 of the Russian Civil Code, immediately thereafter the holders of Rusbonds became entitled to an early redemption of the bonds. The bondholders must notify the issuer by 13 March 2017 to exercise their right. As a result, the full outstanding amount of Rusbonds was reclassified to short-term as of 31 December 2016.

***Fair value***

The fair value of the Notes due in 2021 are within Level 1 of the fair value hierarchy. Whilst measured at amortised cost, the fair value measurement of all of the Group’s borrowings except for Notes due in 2021 is within Level 2 of the fair value hierarchy in accordance with IFRS 13. The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB interest rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value. The fair value of the borrowings as of 31 December 2016 was equal to USD 4,520 million (2015: USD 2,013 million).

## 19. DEFERRED REVENUE

On 13 September 2016, the Ministry for the Development of the Russian Far East (the “Minvostokrazvitiya”) and JSC “Matrosova Mine” (the “Matrosova Mine”), a 100% subsidiary of the Group representing Magadan business unit, entered into an agreement under which Minvostokrazvitiya has to provide to Matrosova Mine government grant in the following maximum amounts:

| **During the year ended 31 December** | **2016 [1]** |
|---|---|
| 2016 | 76 |
| 2017 | 43 |
| 2018 | 45 |
| **Total** | **164** |

[1] All amounts were translated from RUB to USD at exchange rate as of 31 December 2016.

Under the agreement Matrosova Mine receives the government grant, cash from which should be used for the construction of: (i) electricity transmission line 220 kW “Ust’-Omchug – Omchak New”, (ii) 220 kW distribution point and (iii) electric power substation for 220 kW “Omchak New”. The construction is expected to be completed during the second quarter of the year ending 31 December 2019. Unutilised balance of the government grant will have to be returned to Minvostokrazvitiya. JSC “Gold Mining Company Polyus” is a guarantor under the agreement.

The movement in the carrying value of deferred revenue, associated with government grant was as follows:

| | **2016** |
|---|---|
| **Carrying value at the beginning of the year** | **–** |
| Received cash | 76 |
| **Carrying value at the end of the year** | **76** |

## 20. DEFERRED TAX ASSETS AND LIABILITIES

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| **Net deferred tax liability at beginning of the year** | **87** | **103** |
| Recognised in the consolidated statement of profit or loss | 29 | (7) |
| Recognised in the consolidated statement of comprehensive income | (27) | 13 |
| Effect of translation to presentation currency | 18 | (22) |
| **Net deferred tax liability at end of the year** | **107** | **87** |

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

| | 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Property, plant and equipment | 213 | 155 |
| Tax losses carried-forward | (160) | (106) |
| Inventory | 61 | 43 |
| Trade and other payables | (10) | (4) |
| Deferred expenditures | 3 | 3 |
| Other | – | (4) |
| **Total** | **107** | **87** |

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset) as they are presented in the consolidated statement of financial position:

| | 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Deferred tax assets | (75) | (46) |
| Deferred tax liabilities | 182 | 133 |
| **Net deferred tax liabilities position** | **107** | **87** |

***Unrecognised deferred tax asset***

| | 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Unrecognised deferred tax asset resulting from losses on derivative financial instruments | 123 | 115 |
| Unrecognized deferred tax assets resulted from impairments | 12 | 33 |
| Unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit | 8 | 18 |
| **Total** | **143** | **166** |

***Unrecognised deferred tax liability***

| | 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Taxable temporary differences associated with investments in subsidiaries | 348 | 80 |

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

Due to a change in the Russian legislation in 2016 the usage of tax losses carried forward would no longer be limited by 10 years from the year they are incurred, however the Group continues not to

recognise some of its prior tax losses as it is not probable that the future taxable profits will be available to offset them in certain of the Group entities.

## 21. TRADE AND OTHER PAYABLES

| | 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Wages and salaries payable | 77 | 56 |
| Interest payable | 58 | 31 |
| Trade payables to third parties | 34 | 25 |
| Other accounts payable and accrued expenses | 32 | 22 |
| Accrued annual leave | 21 | 16 |
| Dividends payable to non-controlling interests | – | 1 |
| **Total** | **222** | **151** |

The average credit period for trade payables at 31 December 2016 was 27 days (2015: 21 days). No interest was charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

## 22. TAXES PAYABLE

| | 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Income tax payable | 40 | 4 |
| Value added tax | 30 | 6 |
| Tax on mining | 11 | 10 |
| Social taxes | 6 | 5 |
| Property tax | 3 | 2 |
| Other taxes | 3 | 2 |
| **Total** | **93** | **29** |

## 23. RELATED PARTIES

Related parties include substantial shareholders, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of business, generally obtain and issues loans from / (to) related parties and makes appropriate accruals and cash receipts of interest income and expense.

### *Immediate shareholder*

The Group entered into the following transactions with parent entity:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Interest income | 6 | 11 |
| Interest received | 7 | – |
| Interest expense | 4 | 21 |
| Interest capitalised | 45 | 25 |
| Repayment of borrowing and interest accrued | 46 | 47 |
| Acquisition of treasury shares | 3,423 | – |
| Cash used for acquisition of non-controlling interest in subsidiaries | – | 230 |
| Loans issued | – | 190 |
| Proceeds from loans issued | 124 | – |
| Settlement of issued loans by own shares (refer to note 17) | 269 | – |
| Loans received | 500 | – |
| Commission paid | 13 | – |

The Group had the following outstanding balances and investments with parent entity:

| | 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Loans received (note 18) | 1,237 | 750 |
| Interest payable | 12 | 9 |
| Loans issued (note 13) | – | 383 |
| Interest receivable | – | 10 |

***Key management personnel***

| | Year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Short-term compensation of key management personnel | 19 | 15 |
| Long-term compensation of key management personnel (LTIP) | 19 | 7[1] |
| Termination benefits to the former key management personnel | – | 1 |
| **Total** | **38** | **23** |

[1] Accrual of costs related to the old LTIP which was ended due to delisting of PGIL. Refer to note 17 for more details.

## 24. COMMITMENTS AND CONTINGENCIES

### Commitments

***Capital commitments***

The Group's capital expenditure commitments are as follows:

| | 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Project Natalka | 190 | 9 |
| Other capital commitments | 67 | 21 |
| **Total** | **257** | **30** |

***Operating leases: Group as a lessee***

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2065. Future minimum lease payments due under non-cancellable operating lease agreements at the end of the year were as follows:

| | 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Due within one year | 3 | 4 |
| From one to five years | 9 | 18 |
| Thereafter | 20 | 17 |
| **Total** | **32** | **39** |

### Contingencies

***Litigations***

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

### *Taxation contingencies in the Russian Federation*

Commercial legislation in the Russian Federation, including tax legislation, is subject to varying interpretations and frequent changes. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed with additional taxes, penalties and interest. Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also, according to the clarification of the Russian Constitutional Court, the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayer has obstructed or hindered a tax inspection.

Management of the Group is confident that applicable taxes have all been accrued and, consequently, creation of provisions is not required. Under the Russian tax legislation, the authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by the authorities could affect the Group's previously submitted and assessed tax declarations. With regards to matters where practice concerning payment of taxes is unclear, management estimate that there were no tax exposures as of 31 December 2016 and 2015.

### *Environmental matters*

The Group is subject to extensive federal and local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns. The Group's management believes that its mining and production technologies are in compliance with existing Russian environmental legislation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group adapts its technology to meet more stringent standards.

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

### *Operating environment*

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Rouble exchange rate.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. In the first quarter of 2015, international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook. The above mentioned events have led to reduced access of Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

## 25. FINANCIAL INSTRUMENTS RISK MANAGEMENT ACTIVITIES

### Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt which is borrowings (note 18) less cash and cash equivalents (note 16), and equity of the Group.

### Major categories of financial instruments

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

| | 31 December | |
|---|---|---|
| | **2016** | **2015** |
| **Financial assets** | | |
| Cash and cash equivalents | 1,740 | 1,825 |
| Trade and other receivables | 58 | 23 |
| Derivative financial instruments | 59 | 231 |
| Loan receivables | 1 | 385 |
| **Total financial assets** | **1,858** | **2,464** |
| **Financial liabilities** | | |
| Borrowings | 4,981 | 2,189 |
| Derivative financial instruments | 456 | 509 |
| Account payables | 201 | 135 |
| **Total financial liabilities** | **5,638** | **2,833** |

Derivative financial instruments are carried at fair value.

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

### Gold price risk

The Group is exposed to changes in the gold price due to its significant volatility. According to the approved hedging strategy the Group may hedge up to 1/2 of its annual gold sales. During 2014, the Group entered into a number of derivative transactions (revenue stabiliser and gold forward agreements) under a Strategic Price Protection Programme to limit its exposure to future possible fluctuations of gold price (as detailed further in note 13). Under the terms of the revenue stabiliser the Group ensures a minimum selling gold price in the case of declines in the gold price and at the same time may benefit from increases in the gold price until certain barrier prices are reached on the call options, at which point the sale price is capped.

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

### Interest rate risk

The Group is exposed to interest rate risk as it borrows funds. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Before 2016, the Group entered into a number of derivative transactions with leading Russian banks (note 13). During 2016, in order to mitigate negative effect from expected increases of LIBOR, the Group has economically switched USD floating interest rate under cross-currency and interest rate swaps into USD fixed interest rate (as detailed further in note 13).

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

If interest rates used in calculations of fair values of interest rate and cross currency swaps as of 31 December 2016 were 0.5% higher / lower, the gain on revaluation would be USD 4 million lower / higher, respectively (2015: USD 39 million).

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

**Foreign currency exchange rate risk**

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

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

| | 31 December | |
|---|---|---|
| | **2016** | **2015** |
| **Assets** | | |
| USD | 1,585 | 2,134 |
| EURO (presented in USD at closing exchange rate) | – | 1 |
| **Total** | **1,585** | **2,135** |
| **Liabilities** | | |
| USD | 4,642 | 2,084 |
| EURO (presented in USD at closing exchange rate) | 9 | 14 |
| **Total** | **4,651** | **2,098** |

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level. The table below details the Group's sensitivity to changes in exchange rates by 25% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in the respective currencies.

If the USD or EURO exchange rate had increased by 25% for the year ended 31 December 2016 and year ended 31 December 2015 compared to RUB as of the end of respective year, the Group would have incurred the following losses / (gains):

| | Year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| Loss / (gain) (USD exchange rate increased compared to RUB) | 764 | (13) |
| Loss (EURO exchange rate increased compared to RUB) | 2 | 3 |

**Credit risk**

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

In order to mitigate credit risk, the Group conducts its business with creditworthy and reliable counterparties, and minimises advance payments to suppliers. The Group employs a methodology for in-house financial analysis of banks and non-banking counterparties, which enables management to estimate an acceptable level of credit risk with regard to particular counterparties and to set appropriate individual risk limitations.

Within the Group's core companies the procedures for preparing new agreements include analysis and contemplation of credit risk, estimation of the aggregate risk associated with a counterparty (arising both from an agreement under consideration and from previously existing contracts, if any) and verifying compliance with individual credit limits.

Credit risk inherent to the contract was incorporated in the fair value of derivative financial instruments at the reporting date. The credit risk incorporated into valuations is based on the quoted counterparty CDS for the counterparty risk. The Group's credit risk profile is regularly monitored by management in order to avoid undesirable increases in risk, to limit concentration of credit and to ensure compliance with the above mentioned policies and procedures. Deposits, current bank accounts and derivative financial instruments are held with major Russian and international banks, with reasonable and appropriate diversification, which decreases concentration risk by spreading the credit risk exposure across several top rated banks.

Although the Group sells more than 90% of the total gold sales to 4 major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore the credit risk related to trade receivables is minimal.

As of 31 December 2016, trade receivables for gold sales was USD 36 million (31 December 2015: USD nil).

Gold sales to the Group's major customers are presented as follows (note 5):

| | Year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| VTB Bank | 906 | 493 |
| Sberbank | 647 | 651 |
| Otkritie Bank | 561 | 668 |
| MDM Bank | 72 | 166 |
| Other | 243 | 181 |
| **Total** | **2,429** | **2,159** |

**Liquidity risk**

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

For assessing own credit risk, a proxy CDS for the industry is used since Polyus does not have quoted CDS. The Group's cash management procedures include medium-term forecasting (a budget approved each financial year and updated on a quarterly basis), short-term forecasting (monthly cash-flow budgets are established for each business unit and a review of each entity's daily cash position is performed using a two-week rolling basis).

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

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

Presented below is the maturity profile of the Group’s financial liabilities as of 31 December 2015 based on undiscounted contractual payments, including interest payments:

| | Borrowings | | Account | |
|---|---|---|---|---|
| | Principal | Interest | payables | Total |
| Due in the first year | 38 | 141 | 104 | **283** |
| Due in the second year | 258 | 138 | – | **396** |
| Due in the third year | 418 | 132 | – | **550** |
| Due in the fourth year | 578 | 90 | – | **668** |
| Due in the fifth year | 762 | 40 | – | **802** |
| Due in the period between sixth to eight years | 144 | 17 | – | **161** |
| **Total** | **2,198** | **558** | **104** | **2,860** |

Maturity of the derivative financial instruments in presented within note 13.

## 26. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

### 26.1 Significant restrictions on the Company’s ability to access or use the assets and settle the liabilities of the Group

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

### 26.2 Information about significant subsidiaries of the Group

| | | Effective % held[1] as of 31 December | |
|---|---|---|---|
| **Subsidiaries** | **Nature of business** | **2016** | **2015** |
| **Incorporated in Russian Federation** | | | |
| JSC “Gold Mining Company Polyus” | Mining (open pit) | 100 | 100 |
| JSC “Aldanzoloto GRK” | Mining (open pit) | 100 | 100 |
| JSC “Pervenets” | Mining (open pit) | 100 | 100 |
| PJSC “Lenzoloto” | Holding company | 64 | 64 |
| JSC “ZDK Lenzoloto” | Mining (alluvial) | 66 | 66 |
| JSC “Svetliy” | Mining (alluvial) | 56 | 56 |
| JSC “Matrosova Mine” | Mining (development stage) | 100 | 100 |
| LLC “Polyus Stroy” | Construction | 100 | 100 |
| JSC “TaigaEnergoStroy” | Construction | 100 | 100 |
| LLC "SL Gold" | Participation in the auction for the Sukhoi Log license | 51 | – |

[1] Effective % held by the Company, including holdings by other subsidiaries of the Group.

### 26.3 Summarised financial information of each of the Group's subsidiaries that have a material non-controlling interest

| | PJSC "Lenzoloto" 31 December | | LLC "SL Gold" 31 December | |
|---|---|---|---|---|
| **Summarised statements** | **2016** | **2015** | **2016** | **2015** |
| Current assets | 222 | 179 | 148 | – |
| Non-current assets | 60 | 51 | 141 | – |
| Current liabilities | 14 | 15 | 289 | – |
| Non-current liabilities | 12 | 11 | – | – |
| Equity attributable to the shareholders of the subsidiary | 188 | 136 | – | – |
| Non-controlling interests | 68 | 68 | – | – |

| | PJSC "Lenzoloto" Year ended 31 December | | LLC "SL Gold" Year ended 31 December | |
|---|---|---|---|---|
| **Summarised statements** | **2016** | **2015** | **2016** | **2015** |
| Revenue | 224 | 197 | – | – |
| Profit for the year | 43 | 72 | – | – |
| Profit attributable to non-controlling interests | 13 | 15 | – | – |
| Net cash inflow from operating activities | 61 | 56 | 1 | – |
| Net cash (outflow) / inflow from investing activities | (13) | 70 | (138) | – |
| Net cash (outflow) / inflow from financing activities | (13) | (12) | 286 | – |
| Dividends paid to non-controlling interests | 13 | 12 | – | – |

## 27. EVENTS AFTER THE REPORTING DATE

### Sukhoi Log

On 26 January 2017, the Russian Federal Agency for Subsoil Use ("Rosnedra") held an auction for the Sukhoi Log license, the largest undeveloped deposit globally and the biggest gold greenfield in Russia. According to the information available to the Company, LLC SL Gold ("SL Gold"), a company established by JSC Polyus and a Russian state-owned corporation Russian Technologies ("Rostec"), submitted the highest bid in the auction of USD 153 million (of which USD 138 million was advanced to Rosnedra for the participation in the auction for the Sukhoi Log and translated from RUB to USD at exchange rate as at 21 December 2016).

The Government of the Russian Federation on 17 February 2017 announced SL Gold as a winner of the auction. It may take up to three months or potentially longer for the Rosnedra to issue the license for Sukhoi Log to SL Gold.

Under a number of option agreements entered into between JSC Polyus and Rostec on 16 December 2016, JSC Polyus expects to increase its stake in SL Gold by 23.9 per cent of participation interest within the next five years (with the right to accelerate) at the following prices totalling approximately US$141 million (at the exchange rate as of the auction date):

| To be paid | Ownership, % | Amount, USD million |
|---|---|---|
| First half of 2017 | 3.6 | 21 |
| Beginning of 2019 | 4.8 | 28 |
| Beginning of 2020 | 4.8 | 28 |
| Beginning of 2021 | 4.8 | 28 |
| Beginning of 2022 | 5.9 | 36 |
| **Total** | **23.9** | **141** |

**PGIL completed USD 800 million Notes issuance**

On 7 February 2017, PGIL issued USD 800 million notes due in 2023 with a coupon of 5.25% per annum (the "Notes"). The Notes are guaranteed by JSC "Gold Mining Company Polyus", a 100% subsidiary of the Group. Group intends to borrow the net proceeds from the issue of the Notes and use primarily for debt refinancing and other general corporate purposes of the Group, including the financing of operating activities and development projects of the Group.

# PJSC “Polyus”

**Consolidated financial statements**
**for the years ended 31 December 2015 and 2014**

# PJSC "POLYUS"

## CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

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## PJSC "POLYUS"

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 AND 2014

Management of Public Joint Stock Company "Polyus" and its subsidiaries (the "Group") are responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2015 and 2014, and the results of its operations, cash flows and changes in equity for the years then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

In preparing the consolidated financial statements, management is responsible for:

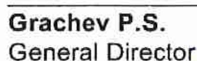
- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient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

Management is also responsible for:

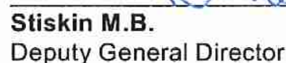
- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position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

The consolidated financial statements of the Group for the years ended 31 December 2015 and 2014 were approved by management on 27 December 2016.

On behalf of management:



**Grachev P.S.**
General Director



**Stiskin M.B.**
Deputy General Director

Moscow, Russia
27 December 2016

# Deloitte.

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## INDEPENDENT AUDITOR'S REPORT

**To the Shareholders and Board of Directors of Public Joint Stock Company "Polyus":**

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "Polyus" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statements of financial position as at 31 December 2015 and 2014 and the consolidated statements of profit or loss and consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for years then ended, and summaries of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

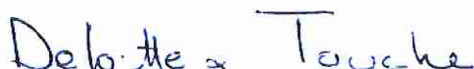
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



27 December 2016

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## PJSC "POLYUS"

### CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED 31 DECEMBER

*(in millions of US Dollars, except for earnings per share data)*

| | Notes | 2015 | 2014 |
|---|---|---|---|
| Gold sales | 5 | 2,159 | 2,197 |
| Other sales | | 29 | 42 |
| **Total revenue** | | **2,188** | **2,239** |
| Cost of gold sales | 6 | (876) | (1,174) |
| Cost of other sales | | (25) | (33) |
| **Gross profit** | | **1,287** | **1,032** |
| Selling, general and administrative expenses | 7 | (143) | (174) |
| Reversal of impairment | 8 | 22 | 17 |
| Other expenses, net | | (2) | (22) |
| **Operating profit** | | **1,164** | **853** |
| Finance costs, net | 9 | (45) | (26) |
| Interest income | | 69 | 31 |
| Loss on derivative financial instruments and investments, net | 10 | (125) | (934) |
| Foreign exchange gain, net | | 149 | 123 |
| **Profit before income tax** | | **1,212** | **47** |
| Income tax expense | 11 | (191) | (222) |
| **Profit / (loss) for the year** | | **1,021** | **(175)** |
| Profit / (loss) for the year attributable to: | | | |
| Shareholders of the Company | | 987 | (216) |
| Non-controlling interests | | 34 | 41 |
| | | **1,021** | **(175)** |
| Weighted average number of ordinary shares'000 | 18 | 190,628 | 186,315 |
| Earnings / (loss) per share (US Dollar), basic and diluted[1] | | 5.18 | (1.16) |

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

## PJSC "POLYUS"

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
### FOR THE YEARS ENDED 31 DECEMBER
*(in millions of US Dollars)*

| | Notes | 2015 | 2014 |
|---|---|---|---|
| **Profit / (loss) for the year** | | **1,021** | **(175)** |
| **Other comprehensive income / (loss) for the year** | | | |
| ***Items that may be subsequently reclassified to profit or loss:*** | | | |
| Increase in revaluation of cash flow hedge reserve on revenue stabiliser | 13 | 126 | 132 |
| Increase in revaluation of cash flow hedge reserve on gold forward | 13 | 18 | 36 |
| Deferred tax relating to increase in revaluation of cash flow hedge reserve | | (35) | (26) |
| | | **109** | **142** |
| ***Items that will not be subsequently reclassified through profit or loss:*** | | | |
| Effect of translation to presentation currency | | (554) | (1,746) |
| ***Items that have been reclassified through profit or loss:*** | | | |
| Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser | 13 | (91) | (35) |
| Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward | 13 | (25) | (6) |
| Deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss | | 22 | 7 |
| | | **(94)** | **(34)** |
| **Other comprehensive loss for the year** | | **(539)** | **(1,638)** |
| **Total comprehensive income / (loss) for the year** | | **482** | **(1,813)** |
| Total comprehensive income / (loss) for the year attributable to: | | | |
| Shareholders of the Company | | 469 | (1,812) |
| Non-controlling interests | | 13 | (1) |
| | | **482** | **(1,813)** |

## PJSC "POLYUS"

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER

*(in millions of US Dollars)*

| | Notes | 2015 | 2014 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 2,023 | 2,351 |
| Derivative financial instruments and investments | 13 | 411 | 172 |
| Inventories | 14 | 184 | 227 |
| Deferred tax assets | 20 | 46 | 47 |
| Other non-current assets | | 8 | 3 |
| | | **2,672** | **2,800** |
| **Current assets** | | | |
| Inventories | 14 | 296 | 440 |
| Derivative financial instruments and investments | 13 | 205 | 193 |
| Deferred expenditures | | 13 | 13 |
| Other receivables | | 23 | 10 |
| Advances paid to suppliers and prepaid expenses | | 17 | 16 |
| Taxes receivable | 15 | 59 | 47 |
| Bank deposits | 16 | – | 269 |
| Cash and cash equivalents | 17 | 1,825 | 1,213 |
| | | **2,438** | **2,201** |
| **Total assets** | | **5,110** | **5,001** |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 18 | 7 | 7 |
| Additional paid-in capital | 18 | 2,273 | 2,266 |
| Cash flow hedge revaluation reserve | | 123 | 108 |
| Translation reserve | | (2,623) | (2,090) |
| Retained earnings | | 2,196 | 1,425 |
| **Equity attributable to shareholders of the Company** | | **1,976** | **1,716** |
| Non-controlling interests | | 71 | 83 |
| | | **2,047** | **1,799** |
| **Non-current liabilities** | | | |
| Site restoration, decommissioning and environmental obligations | | 32 | 49 |
| Borrowings | 19 | 2,151 | 1,728 |
| Derivative financial instruments | 13 | 509 | 423 |
| Deferred tax liabilities | 20 | 133 | 150 |
| Other non-current liabilities | | 20 | 21 |
| | | **2,845** | **2,371** |
| **Current liabilities** | | | |
| Borrowings | 19 | 38 | 90 |
| Derivative financial instruments | 13 | – | 547 |
| Trade and other payables | 21 | 151 | 158 |
| Taxes payable | 22 | 29 | 36 |
| | | **218** | **831** |
| **Total liabilities** | | **3,063** | **3,202** |
| **Total equity and liabilities** | | **5,110** | **5,001** |

## PJSC "POLYUS"

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
### FOR THE YEARS ENDED 31 DECEMBER
*(in millions of US Dollars)*

| | Notes | Number of outstanding shares'000 | Equity attributable to shareholders of the Company | | | | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Share capital | Additional paid-in capital | Treasury shares | Cash flow hedge revaluation reserve | Translation reserve | Retained earnings | Total | | |
| **Balance at 31 December 2013** | | **186,130** | **7** | **2,266** | **(262)** | **–** | **(386)** | **2,284** | **3,909** | **78** | **3,987** |
| (Loss) / profit for the year | | – | – | – | – | – | – | (216) | **(216)** | 41 | **(175)** |
| Increase in cash flow hedge revaluation reserve | | – | – | – | – | 108 | – | – | **108** | – | **108** |
| Effect of translation to presentation currency[1] | | – | – | – | – | – | (1,704) | – | **(1,704)** | (42) | **(1,746)** |
| **Total comprehensive income / (loss)** | | **–** | **–** | **–** | **–** | **108** | **(1,704)** | **(216)** | **(1,812)** | **(1)** | **(1,813)** |
| Sale of treasury shares | | 4,498 | – | – | 262 | – | – | (167) | **95** | – | **95** |
| Decrease of ownership in subsidiaries | | – | – | – | – | – | – | 285 | **285** | 16 | **301** |
| Loan provided to the controlling shareholder | | – | – | – | – | – | – | (761) | **(761)** | – | **(761)** |
| Declared dividends | | – | – | – | – | – | – | – | **–** | (10) | **(10)** |
| **Balance at 31 December 2014** | | **190,628** | **7** | **2,266** | **–** | **108** | **(2,090)** | **1,425** | **1,716** | **83** | **1,799** |
| Profit for the year | | – | – | – | – | – | – | 987 | **987** | 34 | **1,021** |
| Increase in cash flow hedge revaluation reserve | | – | – | – | – | 15 | – | – | **15** | – | **15** |
| Effect of translation to presentation currency[1] | | – | – | – | – | – | (533) | – | **(533)** | (21) | **(554)** |
| **Total comprehensive income / (loss)** | | **–** | **–** | **–** | **–** | **15** | **(533)** | **987** | **469** | **13** | **482** |
| Equity-settled share-based payment plans (long term incentive plan) | 18 | – | – | 7 | – | – | – | – | **7** | – | **7** |
| Increase of ownership in subsidiaries | 18 | – | – | – | – | – | – | (216) | **(216)** | (14) | **(230)** |
| Declared dividends | | – | – | – | – | – | – | – | **–** | (11) | **(11)** |
| **Balance at 31 December 2015** | | **190,628** | **7** | **2,273** | **–** | **123** | **(2,623)** | **2,196** | **1,976** | **71** | **2,047** |

[1] Following a decrease in exchange rate of the Russian Rouble against the US Dollar a translation loss of USD 554 million was recognised in other comprehensive income / (loss), mainly relates to property, plant and equipment (2014: translation loss of USD 1,746 million).

## PJSC "POLYUS

### CONSOLIDATED STATEMENTS OF CASH FLOWS
### FOR THE YEARS ENDED 31 DECEMBER
*(in millions of US Dollars)*

| | Notes | 2015 | 2014 |
|---|---|---|---|
| **Operating activities** | | | |
| **Profit before income tax** | | **1,212** | **47** |
| Adjustments for: | | | |
| Reversal of impairment | 8 | (22) | (17) |
| Finance costs, net | 9 | 45 | 26 |
| Interest income | | (69) | (31) |
| Loss on derivative financial instruments and investments, net | 10 | 125 | 934 |
| Depreciation and amortisation | 12 | 128 | 182 |
| Foreign exchange gain, net | | (149) | (123) |
| Other | | 5 | 10 |
| | | **1,275** | **1,028** |
| Movements in working capital | | | |
| Inventories | | 42 | (121) |
| Deferred expenditures | | (3) | (5) |
| Other receivables | | (6) | 3 |
| Advances paid to suppliers and prepaid expenses | | (11) | (2) |
| Taxes receivable | | (8) | 123 |
| Trade and other payables | | 27 | 54 |
| Other non-current liabilities | | 5 | 1 |
| Taxes payable | | (1) | (25) |
| **Cash flows from operations** | | **1,320** | **1,056** |
| Income tax paid | | (217) | (185) |
| **Net cash generated from operating activities** | | **1,103** | **871** |
| **Investing activities** | | | |
| Purchases of property, plant and equipment | | (326) | (570) |
| Interest received | | 62 | 30 |
| Increase in bank deposits | | (74) | (475) |
| Proceeds from redemption of bank deposits | | 340 | 248 |
| Proceeds from derivatives | | – | 43 |
| Payment for derivatives | | (494) | (55) |
| Loans issued | 23 | (190) | (1,034) |
| Loans repaid | 23 | – | 80 |
| Other | | 6 | 6 |
| **Net cash utilised in investing activities** | | **(676)** | **(1,727)** |
| **Financing activities** | | | |
| Interest paid | | (124) | (75) |
| Net proceeds on exchange of interest payments under interest and cross currency rate swaps | 9 | 52 | 20 |
| Dividends paid to non-controlling interests | | (10) | (10) |
| Proceeds from borrowings | | 621 | 1,254 |
| Repayment of borrowings | | (89) | (232) |
| Proceeds from sale of treasury shares | | – | 95 |
| Cash used to increase of ownership in subsidiaries | | (230) | – |
| Proceeds from decrease of ownership in subsidiaries | | – | 301 |
| **Net cash generated from financing activities** | | **220** | **1,353** |
| **Net increase in cash and cash equivalents** | | **647** | **497** |
| **Cash and cash equivalents at beginning of the year** | **17** | **1,213** | **792** |
| Effect of foreign exchange rate changes on cash and cash equivalents | | (35) | (76) |
| **Cash and cash equivalents at end of the year** | **17** | **1,825** | **1,213** |

## 1. GENERAL

Public Joint Stock Company "Polyus" (the "Company" or "Polyus") was incorporated in Moscow, Russian Federation, on 17 March 2006.

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

The Group also performs research, exploration and development works; the development works being primarily at the Natalka licence area located in the Magadan region of the Russian Federation. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 26.

The Company is a subsidiary of Polyus Gold International Limited ("PGIL"). PGIL is an ex-public company which publishes its consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). As of 31 December 2015 and 31 December 2014, the ultimate controlling party of the Company was Mr. Said Kerimov.

## 2. BASIS OF PREPARATION AND PRESENTATION

### Going concern

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

### Compliance with the International Financial Reporting Standards

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

### Basis of presentation

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

The consolidated financial statements of the Group are prepared on the historical cost basis, except for derivative financial instruments, which are accounted for at amortised cost or at fair value, as explained in the accounting policies below.

***IFRS standards update***

The following is a list of standards that have been adopted during the year ended 31 December 2015 and new or amended IFRS standards that have been issued by the IASB:

| Title | Subject | Effective for annual periods beginning on or after | Expected effect on the consolidated financial statements |
|---|---|---|---|
| IAS 19 | Amendments to the standard | 1 February 2015 | No effect |
| Annual Improvements to IFRSs 2010 – 2012 Cycle (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38, IAS 24) | Amendments to the standards | 1 February 2015 | No effect |
| Annual Improvements to IFRSs 2011 – 2013 Cycle (IFRS 3, IFRS 13, IAS 40) | Amendments to the standards | 1 January 2015 | No effect |

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

| Title | Subject | Effective for annual periods beginning on or after | Expected effect on the consolidated financial statements |
|---|---|---|---|
| Amendments to IAS 7 | Statement of Cash Flows | 1 January 2017 | No effect |
| Amendments to IAS 12 | Recognition of deferred tax assets for unrealised losses | 1 January 2017 | No effect |
| Amendments to IFRS 2 | Share-based payment | 1 January 2018 | To be determined |
| IFRS 9 | Financial instruments | 1 January 2018 | To be determined |
| IFRS 14 | Regulatory deferral accounts | 1 January 2016 | To be determined |
| IFRS 15 | Revenue from contracts with customers | 1 January 2018 | To be determined |
| IFRS 16 | Leases | 1 January 2019 | To be determined |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment entities: applying the consolidation exception | 1 January 2016 | To be determined |
| Amendments to IFRS 10 and IAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | Date will be determined later | No effect |
| Amendments to IAS 1 | Disclosure initiative | 1 January 2016 | To be determined |
| Annual Improvements to IFRSs 2012–2014 Cycle | Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34 | 1 January 2016 | To be determined |
| Amendments to IAS 27 | Equity method in separate financial statements | 1 January 2016 | To be determined |
| Amendments to IAS 16 and IAS 41 | Agriculture: bearer plants | 1 January 2016 | To be determined |
| Amendments to IAS 16 and IAS 38 | Clarification of acceptable methods of depreciation and amortisation | 1 January 2016 | To be determined |
| Amendments to IFRS 11 | Accounting for acquisition of interests in joint operations | 1 January 2016 | To be determined |

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of consolidation

***Subsidiaries***

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

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

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

When the Company has less than a majority of the voting rights of an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it the power, including:

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

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

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

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

When the Group loses control of a subsidiary, the profit and or loss on disposal is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

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

***Functional currency***

The individual financial statements of the Company and its subsidiaries are each prepared in their respective functional currencies. The functional currency of the Company and its subsidiaries is the Russian Rouble ("RUB").

### 3.2 Presentation currency

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

- all assets, liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting date;
- starting from 1 January 2015 all income and expenses are translated at the average quarterly exchange rates, except for significant transactions that are translated at a rate on the date of each transaction. All income and expenses for the year ended 31 December 2014 are translated at the average exchange rates for the year presented; except for significant transactions that are translated at a rate on the date of each transaction;
- resulting exchange differences are included in equity and presented as *Effect of translation to presentation currency* within the *Translation reserve* (on disposal of such entities this *Translation reserve* is reclassified into the consolidated statement of profit or loss); and
- in the statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. Starting from 1 January 2015 all cash flows are translated at the average quarterly exchange rates, except for significant transactions that are translated at a rate on the date of each transaction. Cash flows for year ended 31 December 2014 are translated at the average exchange rate for the year, except for significant transactions that are translated at a rate on the date of transaction.

Exchange rates at the end of year presented in these consolidated financial statements were as follows:

| | 31 December | |
|---|---|---|
| | **2015** | **2014** |
| **Russian Rouble/US Dollar** | | |
| rate | 72.88 | 56.26 |

### 3.3 Foreign currencies

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

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

### 3.4 Revenue recognition

***Gold sales revenue***

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

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

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

***Other revenue***

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

### 3.5 Income tax

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

***Current tax***

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

***Deferred tax***

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements of the separate legal entities and the corresponding tax bases used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries and associates are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

***Current and deferred tax for the year***

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

### 3.6 Operating leases

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

### 3.7 Dividends

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

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

### 3.8 Property, plant and equipment

***Mineral rights***

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

***Fixed assets***

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

Fixed assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of the mines in accordance with the mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Depreciation is charged from the date a new mine reaches commercial production quantities and is included in the *Cost of production*. The estimated remaining useful lives of the Group's significant mines based on the mine operating plans are as follows:

| | |
|---|---|
| Blagodatnoye | 16 years |
| Olimpiada | 13 years |
| Verninskoye | 12 years |
| Kuranakh | 8 years |
| Titimukhta | 2 years |

***Stripping activity asset***

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

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

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

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

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

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

**Capital construction-in-progress**

Assets under construction at operating mines are accounted for as capital construction-in-progress. The cost of capital construction-in-progress comprises its purchase price and any directly attributable costs to bringing it into working condition for its intended use. When the capital construction-in-progress has been completed and, in a condition necessary to be capable of operating in the manner intended by management, the objects are reclassified to fixed assets.

Capital construction-in-progress is not depreciated.

**Mine under development**

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

### 3.9 Finance costs directly attributable to the construction of qualifying assets

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

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

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

### 3.10 Impairment of long-lived tangible assets

***Impairment of fixed assets, capital construction-in-progress and mine under development***

An impairment review of long-lived tangible assets is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell or value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the consolidated statement of profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

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

***Impairment of exploration and evaluation assets***

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

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

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

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

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

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

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

**3.11 Financial instruments**

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

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

**Financial assets**

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

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

- financial assets at FVTPL; and
- loans and receivables.

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

***Financial assets at FVTPL***

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any dividend or interest earned on the financial asset and is included in the *Loss on derivative financial instruments and investments, net* line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 13.

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

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

***Loans and receivables***

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

***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of profit or loss.

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

***Derecognition of financial assets***

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

***Effective interest method***

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

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

**Financial liabilities**

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

***Financial liabilities at FVTPL***

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

A financial liability is classified as held for trading if:

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

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

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

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

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

***Derecognition of financial liabilities***

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

**Derivative financial instruments**

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk as well as risk of volatility in the gold price.

As well as the other financial assets and liabilities at FVTPL, derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivative financial instruments are presented as current assets or current liabilities.

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

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

### 3.12 Cash flow hedges

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

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

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

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

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

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

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

### 3.13 Inventories

***Refined gold, ore stockpiles and gold-in-process***

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

***Stores and materials***

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

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

### 3.14 Deferred expenditures

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

### 3.15 Cash and cash equivalents

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

### 3.16 Provisions

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

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

### 3.17 Site restoration, decommissioning and environmental obligations

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

Ongoing restoration costs are expensed when incurred.

### 3.18 Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 18.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### Critical judgements in applying accounting policies

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

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

#### *4.1 Economic useful lives of property, plant and equipment*

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

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

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

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

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

#### *4.2 Depreciation method for property, plant and equipment*

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

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

***4.3 Borrowing costs capitalisation***

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Capitalisation commences when the Group undertakes activities that are necessary to prepare the asset for its intended use or sale and it ceases once the asset is complete and available for use. Interest is then charged to the income statement as a depreciation expense over the life of the relevant asset. However, capitalisation is suspended for the extended periods of inactivity. Determination of the time period for which the borrowing costs need to be capitalised may require significant judgement.

Capitalisation of the borrowings costs relating to Natalka mine development was discontinued in December 2014 following the Group’s decision to review approach to the project and substantial reduction in construction activities. Significant development activities were resumed by the Group in the second half of 2015. Accordingly, capitalisation of Natalka borrowing costs was continued starting from 1 July 2015.

***4.4 Determination of functional currency***

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

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

***4.5 Cash flow hedge designation***

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

**Key sources of estimation uncertainty**

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

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

***4.6 Exploration and evaluation assets***

Management’s judgement is involved in the determination of whether the expenditures which are capitalised as exploration and evaluation assets may be recouped by future exploitation or sale or should be impaired. Determining this, management estimates the possibility of finding recoverable ore reserves related to a particular area of interest. However, these estimates are subject to significant uncertainties. The Group is involved in exploration and evaluation activities and some of its licensed properties contain gold resources under the definition of the Russian Resource Reporting Code. A number of licensed properties have no mineral resource delineation.

Management assumes that all licences will be renewed. Many of the factors, assumptions and variables involved in estimating resources are beyond the Group's control and may prove to be incorrect over time. Subsequent changes in gold resources estimates could impact the carrying value of exploration and evaluation assets.

### *4.7 Impairment of long-lived assets*

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

Factors which could impact the underlying cash flows include:

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

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

### *4.8 Stripping activity asset*

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

Each discrete stage of mining, identified in the mine plans, is considered as a unit of account. If the mine plan initially identifies several discrete stages of mining which will take place consecutively (one after the another), these stages would be identified as components. These assessments are undertaken for each individual mine. Stripping costs incurred during the production phase should be allocated between inventory produced and the stripping activity asset by using the allocation basis. The Group considers that an allocation basis that compares the expected average life of mine stripping ratio with the actual stripping ratio in the period for the identified component of the ore body to determine if further stripping costs are to be allocated to stripping activity asset or the cost of inventory, to be the most suitable allocation basis.

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

Costs that are incurred in the production process are accumulated as stockpiles, gold-in-process and gold doré. Stockpiles are measured based on each stockpile's average cost per tonne; gold-in-process and gold doré are measured based on recoverable ounces of gold. Stockpile quantities are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces based on assay data and the estimated recovery percentage based on the expected processing method. Stockpile tonnages are verified by periodic surveys.

Although the quantities of recoverable gold are reconciled by comparing the grades of ore to the quantities of gold actually recovered (metallurgical balancing), the nature of the process inherently limits the ability to monitor precisely recoverability levels. As a result, the metallurgical balancing process is constantly monitored and engineering estimates are refined based on actual results over time. Variations between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realisable value are accounted for on a prospective basis.
The split of stockpiles and gold-in-process between current (expected to be recovered within 12 months) and non-current (expected to be recovered after 12 months) is based on approved mine operating plans.

### *4.10 Site restoration, decommissioning and environmental obligations*

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

### *4.11 Income taxes*

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

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

## 5. SEGMENT INFORMATION

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

- ***Krasnoyarsk business unit*** (Krasnoyarsk region of the Russian Federation) – mining (including initial processing) and sale of gold from the Olimpiada, Blagodatnoye and Titimukhta mines, as well as research, exploration and development work at the Olimpiada and Blagodatnoye deposits;
- ***Irkutsk alluvial business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from several alluvial deposits;
- ***Irkutsk ore business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from the Verninskoye mine, research, exploration and development works at the Smezhny and Medvezhy Zapadny deposits;
- ***Yakutia Kuranakh business unit*** (Sakha Republic of the Russian Federation) – mining (including initial processing) and sale of gold from the Kuranakh mines;
- ***Magadan business unit*** (Magadan region of the Russian Federation) – Represented by JSC "Matrosova Mine" which performs development works at the Natalka deposit;

- ***Exploration business unit*** (Krasnoyarsk region, Irkutsk region, Amur region, and others) – Research and exploration works in several regions of the Russian Federation;
- ***Capital construction unit*** - Represented by LLC "Polyus Stroy", JSC "TaigaEnergoStroy" and JSC "VitimEnergoStroy" which perform construction works at Natalka, Verninskoye, Olimpiada and other deposits;
- ***Unallocated*** – the Group does not allocate segment results of companies that perform management, investing activities and certain other functions. Neither standalone results nor the aggregated results of these companies are required to be disclosed as operating segments because quantitative thresholds are not met.

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

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

Business segment assets and liabilities are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements. The Group does not allocate the results of companies that perform management, investing activities and certain other administrative functions within its internal reporting.

| | Gold sales | Ounces of gold sold in thousands | Adjusted EBITDA | Total cash cost per ounce of gold sold (USD per ounce) | Capital expenditures |
|---|---|---|---|---|---|
| **For the year ended 31 December 2015** | | | | | |
| **Business units** | | | | | |
| Krasnoyarsk | 1,611 | 1,293 | 1,007 | 399 | 58 |
| Irkutsk alluvial | 191 | 168 | 76 | 582 | 5 |
| Irkutsk ore | 189 | 161 | 115 | 417 | 21 |
| Yakutia Kuranakh | 165 | 144 | 70 | 598 | 10 |
| Exploration | 3 | 2 | 3 | 694 | 7 |
| Magadan | – | – | – | – | 113 |
| Capital construction | – | – | 1 | – | 53 |
| Unallocated | – | – | 6 | – | 1 |
| **Total** | **2,159** | **1,768** | **1,278** | **424** | **268** |
| **For the year ended 31 December 2014** | | | | | |
| **Business units** | | | | | |
| Krasnoyarsk | 1,602 | 1,219 | 822 | 541 | 84 |
| Irkutsk alluvial | 234 | 190 | 70 | 735 | 17 |
| Irkutsk ore | 186 | 146 | 89 | 594 | 38 |
| Yakutia Kuranakh | 175 | 136 | 50 | 868 | 6 |
| Exploration | – | – | (5) | – | 6 |
| Magadan | – | – | (5) | – | 308 |
| Capital construction | – | – | (3) | – | 54 |
| Unallocated | – | – | – | – | 12 |
| **Total** | **2,197** | **1,691** | **1,018** | **585** | **525** |

Gold sales reported above represent revenue generated from external customers (note 25). There were no inter-segment gold sales during the years ended 31 December 2015 and 2014. Included within gold sales in 2015 are realised gains on derivatives of USD 116 million (note 13) (2014: USD 41 million).

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

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| **Profit / (loss) for the year** | **1,021** | **(175)** |
| Income tax expense | 191 | 222 |
| Depreciation and amortisation (note 12) | 128 | 182 |
| Loss on derivative financial instruments and investments, net (note 10) | 125 | 934 |
| Finance costs, net (note 9) | 45 | 26 |
| Long term incentive plan (note 18) | 7 | – |
| Foreign exchange gain, net | (149) | (123) |
| Interest income | (69) | (31) |
| Reversal of impairment | (22) | (17) |
| Other | 1 | – |
| **Adjusted EBITDA** | **1,278** | **1,018** |

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

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| **Cost of gold sales** | **876** | **1,174** |
| *Adjusted for:* | | |
| Depreciation and amortisation (note 12) | (126) | (174) |
| Other non-cash items in cost of gold sales | (1) | (11) |
| **TCC** | **749** | **989** |
| Ounces of gold sold, in thousands | 1,768 | 1,691 |
| **TCC per ounce of gold sold (USD per ounce)** | **424** | **585** |

**Capital expenditures are primarily related to the following projects:**

- ***Magadan business unit:*** ongoing construction in all major areas of the first stage of the Natalka mill project, the tendering process is finished and external contractors have been selected for the main process equipment of the mill, ongoing infrastructure construction;
- ***Krasnoyarsk business unit:*** finishing reconfiguration of the Titimukhta mill and preparations for connecting to the new Razdolinskaya-Taiga grid, ongoing upgrading and expanding of the Blagodatnoye mill, launching works to build new BIOX unit;
- ***Yakutia Kuranakh business unit:*** completing project to increase equipment productivity, launched construction works at heap leach project, completed grading and levelling, ongoing heap construction, contractors have been selected for the main process equipment;
- ***Construction business unit:*** finishing construction of the Razdolinskaya-Taiga electricity grid;
- ***Irkutsk ore business unit:*** completed installation of the main process equipment and finishing installation of the auxiliary equipment as part of the project to increase the mill capacity to 2.5 million tons ore per year, consulting company AMC is finishing the current stage of the Irkutsk hub strategy development.

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

## 6. COST OF GOLD SALES

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Labour | 239 | 320 |
| Consumables and spares | 205 | 281 |
| Tax on mining | 140 | 154 |
| Fuel | 74 | 131 |
| Power | 35 | 44 |
| Outsourced mining services | 12 | 19 |
| Refining costs | 3 | 4 |
| Other | 57 | 67 |
| **Total cash operating costs** | **765** | **1,020** |
| Depreciation and amortisation and of operating assets (note 12) | 126 | 174 |
| **Total cost of production** | **891** | **1,194** |
| Increase in stockpiles, gold-in-process and refined gold inventories | (15) | (20) |
| **Total** | **876** | **1,174** |

## 7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Salaries | 100 | 121 |
| Taxes other than mining and income taxes | 12 | 22 |
| Professional services | 12 | 11 |
| Depreciation and amortisation (note 12) | 3 | 4 |
| Other | 16 | 16 |
| **Total** | **143** | **174** |

## 8. REVERSAL OF IMPAIRMENT

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Mine under development (note 12) | 19 | (37) |
| Exploration and evaluation assets (note 12) | 5 | (1) |
| Fixed assets (note 12) | – | 29 |
| Stripping activity asset (note 12) | – | 13 |
| Capital construction-in-progress (note 12) | – | (6) |
| Long-term stockpiles | (2) | 19 |
| **Total reversal of impairment** | **22** | **17** |

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

Impairment test was performed as of 31 December 2015.

There are a number of subjective factors that are necessarily incorporated into such a review, both operational and financial, using the best evidence available. The values derived are particularly sensitive to the assumptions regarding the planned mining operations and flowsheet and the financial assumptions for the RUB to USD exchange rate, gold price and discount rates. The operational considerations reflect the most likely and optimal updated mining plan developed using the revised JORC reserves estimate and with the advice of the mining consultants.

The financial assumptions include significant judgements associated with forecast gold prices determined at a volatile time for our markets.

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

- if the Rouble strengthened to below 59.6 RUB for 1 US Dollar; or
- if the gold price decreased below US Dollar 1,076 per oz; or
- if the discount rate increased above 15.3%.

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

## 9. FINANCE COSTS, NET

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Interest on borrowings | 132 | 100 |
| Unwinding of discounts on site restoration, decommissioning and environmental liabilities | 4 | 4 |
| Gain on exchange of interest payments under cross currency swap (note 13) | (39) | (16) |
| Gain on exchange of interest payments under interest rate swaps (note 13) | (13) | (4) |
| Other | 2 | 2 |
| **Sub-total finance cost** | **86** | **86** |
| Interest capitalised in the cost of Mine under development | (41) | (60) |
| **Total finance cost expensed** | **45** | **26** |

## 10. LOSS ON DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS, NET

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Revaluation gain on ineffective part of the revenue stabiliser under Tranche 3 (note 13) | 49 | – |
| Revaluation gain on ineffective part of the revenue stabiliser under Tranches 1 and 2 (note 13) | 19 | 15 |
| Revaluation gain on interest rate swap (note 13) | 4 | 9 |
| Gain / (loss) on currency collars (note 13) | 2 | (594) |
| Gain on initial exchange of cross currency swaps (note 13) | – | 34 |
| Revaluation loss on cross currency swaps (note 13) | (198) | (403) |
| Other | (1) | 5 |
| **Total** | **(125)** | **(934)** |

## 11. INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Current tax expense | 198 | 220 |
| Deferred tax (benefit) / expense | (7) | 2 |
| **Total** | **191** | **222** |

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

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

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| **Profit before income tax** | **1,212** | **47** |
| Income tax at statutory rate applicable to principal entities (20%) | 242 | 9 |
| Increase/(decrease) in deductible temporary differences on revaluation of derivatives, for which no deferred tax was recognised and deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss | (37) | 185 |
| Unrecognised deferred tax assets and write-off / (reversal) of losses carried forward resulted from impairments | (6) | 19 |
| Income tax effect of impairment reversals | (4) | (6) |
| Tax effect of non-deductible expenses and other permanent differences | (4) | 15 |
| **Income tax expense** | **191** | **222** |

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Fixed assets | Mine under development | Stripping activity assets | Capital construction in progress | Exploration and evaluation assets | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance at 31 December 2013** | **2,466** | **1,584** | **221** | **299** | **510** | **5,080** |
| Additions | – | 308 | 109 | 205 | 12 | **634** |
| Transfers from capital construction-in-progress | 163 | – | – | (163) | – | **–** |
| Change in site restoration, decommissioning and environmental obligations | 8 | 1 | – | – | – | **9** |
| Disposals | (19) | – | – | – | – | **(19)** |
| Effect of translation to presentation currency | (1,080) | (759) | (127) | (142) | (215) | **(2,323)** |
| **Balance at 31 December 2014** | **1,538** | **1,134** | **203** | **199** | **307** | **3,381** |
| Additions | – | 111 | 104 | 146 | 11 | **372** |
| Transfers from capital construction-in-progress | 134 | – | – | (134) | – | **–** |
| Change in site restoration, decommissioning and environmental obligations | (6) | – | – | – | – | **(6)** |
| Disposals | (38) | (3) | – | (1) | – | **(42)** |
| Reclassifications | 15 | – | – | (3) | 3 | **15** |
| Effect of translation to presentation currency | (360) | (274) | (64) | (54) | (72) | **(824)** |
| **Balance at 31 December 2015** | **1,283** | **968** | **243** | **153** | **249** | **2,896** |
| **Accumulated amortisation, depreciation and impairment** | | | | | | |
| **Balance at 31 December 2013** | **(1,113)** | **(11)** | **(68)** | **(21)** | **(336)** | **(1,549)** |
| Charge | (214) | – | (16) | – | – | **(230)** |
| Disposals | 17 | – | – | – | – | **17** |
| Reversal of impairment / (impairment losses) (notes 8) | 29 | (37) | 13 | (6) | (1) | **(2)** |
| Effect of translation to presentation currency | 528 | 16 | 33 | 17 | 140 | **734** |
| **Balance at 31 December 2014** | **(753)** | **(32)** | **(38)** | **(10)** | **(197)** | **(1,030)** |
| Charge | (134) | – | (21) | – | – | **(155)** |
| Disposals | 36 | – | – | – | – | **36** |
| Reversal of impairment (notes 8) | – | 19 | – | – | 5 | **24** |
| Effect of translation to presentation currency | 188 | 4 | 14 | 3 | 43 | **252** |
| **Balance at 31 December 2015** | **(663)** | **(9)** | **(45)** | **(7)** | **(149)** | **(873)** |
| **Net book value at** | | | | | | |
| **31 December 2014** | **785** | **1,102** | **165** | **189** | **110** | **2,351** |
| **31 December 2015** | **620** | **959** | **198** | **146** | **100** | **2,023** |

### Mineral rights

The carrying values of mineral rights included in fixed assets, mine under development and exploration and evaluation assets were as follows:

| | 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Mineral rights presented within fixed assets | 46 | 45 |
| Mineral rights presented within mine under development | 28 | 37 |
| Mineral rights presented within exploration and evaluation assets | 15 | 19 |
| **Total** | **89** | **101** |

### Exploration and evaluation assets

The carrying values of exploration and evaluation assets were as follows:

| | 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Chertovo Koryto | 23 | 30 |
| Razdolinskoye | 16 | 18 |
| Olympiada | 14 | 16 |
| Panimba | 13 | 16 |
| Bamsky | 11 | 12 |
| Smezhny | 7 | 9 |
| Blagodatnoye | 6 | 6 |
| Burgakhchan area | 5 | – |
| Medvezhy Zapadny | 2 | 2 |
| Other | 3 | 1 |
| **Total** | **100** | **110** |

Depreciation and amortisation charge is allocated as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Cost of gold sales attributable to property, plant and equipment | 122 | 174 |
| Depreciation in change in inventory | 4 | – |
| **Total depreciation within cost of production (note 6)** | **126** | **174** |
| Capitalised within capital construction-in-progress | 23 | 48 |
| Selling, general and administrative expenses (note 7) | 3 | 4 |
| Cost of other sales | 3 | 4 |
| **Total** | **155** | **230** |

### Mine under development

Mine under development includes only the Natalka mine (Magadan business unit).

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

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Interest expenses | 41 | 60 |
| Foreign exchange losses | 1 | 33 |
| Interest income on bank deposits | (5) | (7) |
| **Total** | **37** | **86** |

Following temporary cessation of the active construction at Natalka during the year ended 31 December 2014 borrowing costs capitalisation has been suspended until 30 June 2015. Natalka mine construction has been restarted in the second half of the 2015 year, and, respectively, the Group commenced the capitalisation of the related borrowing costs starting from 1 July 2015.

## 13. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS

| | 31 December | |
|---|---|---|
| | **2015** | **2014** |
| **Non-current assets** | | |
| Revenue stabiliser | 200 | 132 |
| Loans issued to related parties | 198 | 1 |
| Interest rate swaps | 11 | 9 |
| Loans issued | 2 | – |
| Gold forward | – | 30 |
| **Sub-total** | **411** | **172** |
| **Current assets** | | |
| Loans issued to related parties | 185 | 193 |
| Gold forward | 20 | – |
| **Sub-total** | **205** | **193** |
| **Total assets** | **616** | **365** |
| **Non-current liabilities** | | |
| Cross currency swaps | 509 | 403 |
| Revenue stabiliser | – | 20 |
| **Sub-total** | **509** | **423** |
| **Current liabilities** | | |
| Currency collars | – | 547 |
| **Total liabilities** | **509** | **970** |

### Strategic Price Protection Programme

In March 2014, the Group initiated a Strategic Price Protection Programme (the "Programme").

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

- zero cost Asian gold collars ("revenue stabiliser"); and
- gold forward contracts.

#### *Revenue stabiliser*

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

The Group entered into revenue stabiliser agreements for Tranches 1 and 2 in 2014, Tranche 3 in 2015. In 2015, the Group restructured Tranches 1 and 2 resulting in a partial close out of the fourth year options and lowering barriers on the remaining options for the first three years of each instrument. The allocation of volumes, strikes and barriers between years under the revenue stabiliser agreements after restructuring is presented below:

| | Years ended 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | | **2018** | | **2019** | **Total** |
| **Revenue stabiliser volumes under put and call option agreements (thousand ounces)** | | | | | | | | | |
| ***Tranche 1 (covering the period 1 April 2014 - 30 March 2018)*** | | | | | | | | | |
| Total as per options agreements | 225 | 300 | 300 | 75 | 315 | – | 105 | – | **1,320** |
| Exercised | (225) | (300) | – | – | – | – | – | – | **(525)** |
| **Outstanding as of 31 December 2015** | – | – | **300** | **75** | **315** | – | **105** | – | **795** |
| ***Tranche 2 (covering the period 1 July 2014 – 29 June 2018)*** | | | | | | | | | |
| Total as per options agreements | 60 | 120 | 120 | 60 | 180 | – | 180 | – | **720** |
| Exercised | (60) | (120) | – | – | – | – | – | – | **(180)** |
| **Outstanding as of 31 December 2015** | – | – | **120** | **60** | **180** | – | **180** | – | **540** |
| ***Tranche 3 (covering the period 1 January 2016 – 31 December 2019)*** | | | | | | | | | |
| Total as per options agreements | – | – | 280 | 280 | – | 280 | – | 840 | **1,680** |
| Exercised | – | – | – | – | – | – | – | – | – |
| **Outstanding as of 31 December 2015** | – | – | **280** | **280** | – | **280** | – | **840** | **1,680** |
| **Total outstanding as of 31 December 2015** | – | – | **700** | **415** | **495** | **280** | **285** | **840** | **3,015** |

| | Years ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | | **2018** |
| ***Tranche 1 (covering the period 1 April 2014 - 30 March 2018)*** | | | | | | |
| **First three years (put)** | | | | | | |
| Strike | 1,383 | 1,383 | 1,383 | 1,383 | – | – |
| Knock-out barrier | 950 | 950 | 921 | 911 | – | – |
| **First three years (call)** | | | | | | |
| Strike | 1,518 | 1,518 | 1,518 | 1,518 | – | – |
| Knock-in barrier | 1,662 | 1,655 | 1,634 | 1,634 | – | – |
| **Fourth year (put)** | | | | | | |
| Strike | – | – | – | – | 1,107 | 1,107 |
| Knock-out barrier | – | – | – | – | 900 | 900 |
| **Fourth year (call)** | | | | | | |
| Strike | – | – | – | – | 1,551 | 1,551 |
| Knock-in barrier | – | – | – | – | 1,750 | 1,750 |
| ***Tranche 2 (covering the period 1 July 2014 – 29 June 2018)*** | | | | | | |
| **First three years (put)** | | | | | | |
| Strike | 1,359 | 1,359 | 1,359 | 1,359 | – | – |
| Knock-out barrier | 950 | 950 | 950 | 950 | – | – |
| **First three years (call)** | | | | | | |
| Strike | 1,425 | 1,425 | 1,425 | 1,425 | – | – |
| Knock-in barrier | 1,525 | 1,525 | 1,525 | 1,525 | – | – |
| **Fourth year (put)** | | | | | | |
| Strike | – | – | – | – | 1,100 | 1,100 |
| Knock-out barrier | – | – | – | – | 900 | 900 |
| **Fourth year (call)** | | | | | | |
| Strike | – | – | – | – | 1,500 | 1,500 |
| Knock-in barrier | – | – | – | – | 1,650 | 1,650 |

| | Years ended 31 December | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | | **2018** | | **2019** |
| ***Tranche 3 (covering the period 1 January 2016 – 31 December 2019)*** | | | | | | | | |
| **First three years (put)** | | | | | | | | |
| Strike | – | – | 1,232 | 1,232 | – | 1,232 | – | 971 |
| Knock-out barrier | – | – | 900 | 900 | – | 900 | – | 921 |
| **First three years (call)** | | | | | | | | |
| Strike | – | – | 1,350 | 1,350 | – | 1,350 | – | 1,391 |
| Knock-in barrier | – | – | 1,450 | 1,450 | – | 1,450 | – | 1,591 |
| **Fourth year (put)** | | | | | | | | |
| Strike | – | – | – | – | – | – | – | 971 |
| Knock-out barrier | – | – | – | – | – | – | – | 921 |
| **Fourth year (call)** | | | | | | | | |
| Strike | – | – | – | – | – | – | – | 1,391 |
| Knock-in barrier | – | – | – | – | – | – | – | 1,591 |
| ***Weighted average strikes for Tranches 1, 2 and 3*** | | | | | | | | |
| **Leg 1 (put)** | | | | | | | | |
| Strike | 1,378 | 1,377 | 1,319 | 1,278 | – | – | – | – |
| Knock-out barrier | 950 | 950 | 918 | 909 | – | – | – | – |
| **Leg 2 (call)** | | | | | | | | |
| Strike | 1,498 | 1,491 | 1,435 | 1,391 | – | – | – | – |
| Knock-in barrier | 1,633 | 1,618 | 1,542 | 1,494 | – | – | – | – |
| **Leg 3 (put)** | | | | | | | | |
| Strike | – | – | – | – | 1,105 | 1,232 | 1,103 | 971 |
| Knock-out barrier | – | – | – | – | 900 | 900 | 900 | 921 |
| **Leg 4 (call)** | | | | | | | | |
| Strike | – | – | – | – | 1,533 | 1,350 | 1,519 | 1,391 |
| Knock-in barrier | – | – | – | – | 1,714 | 1,450 | 1,687 | 1,591 |

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

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

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

The revenue stabiliser options are exercised quarterly in equal amounts.

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

Tranches 1 and 2 of the revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity, whilst the remaining change in the fair value of USD 19 million gain is reflected in the consolidated statement of profit or loss (note 10) (2014: gain of USD 15 million).

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

Tranche 3 is accounted at fair value through profit and loss. Gain resulted from the change in their fair value totalled USD 49 million and is presented within the note 10 of the consolidated statement of profit or loss.

***Gold forward***

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

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

The gold forward contract is designated as a cash flow hedge. Any change in the forward fair value is recognised in *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity. During the year ended 31 December 2015, USD 18 million was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity (2014: USD 36 million) and following the sale of the hedged amount of gold USD 25 million was reclassified from the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity into *Gold sales* within the consolidated statement of profit or loss (2014: USD 6 million). The remaining balance is expected to be evenly reclassified monthly to the consolidated statement of profit or loss through to 30 June 2016.

The fair value is determined using the Black-Scholes valuation technique. Input data used in the valuation model (forward gold prices and volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13. The Group performs prospective and retrospective effectiveness testing for the instruments designated as a cash flow hedge at least at each reporting date.

**Currency collars**

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

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

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

The Group classified these contracts as financial instruments at FVTPL. The fair value was determined using the Black-Scholes valuation technique using the inputs (forward currency exchange rates and volatility) which were observable in the market and correspondently classified as Level 2 in accordance with the hierarchy of fair value.

**Cross currency swaps**

***RUB denominated credit facilities with fixed interest rate***

The revenue of the Group is linked to US dollars, because the gold price is denominated in US dollars. The Group entered into cross currency swaps with leading Russian banks to economically hedge interest payments and principal amounts exchange nominated in RUB.

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

***Rusbonds***

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

According to IAS 39 the swaps were not eligible to be designated as cash flow or fair value hedges. The Group accounted for these derivative financial instruments at fair value which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps for the year ended 31 December 2015 resulted in a revaluation loss of USD 198 million recognised in the consolidated statement of profit or loss (note 10) (2014: a loss of USD 403 million). The gain on the exchange of interest payments in amount of USD 39 million is recognised within the *Finance cost* (note 9) (2014: USD 16 million).

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

**Interest rate swaps**

In 2014, the Group entered into an interest rate swap agreements with leading Russian banks, according to which the Group pays semi-annually and until 29 April 2020 LIBOR+3.55% in USD and receives 5.625% in USD in respect of a USD 750 million nominal amount. The purpose of this swap is to decrease the effective interest rate for the USD 750 million Eurobonds (note 19). According to IAS 39 the swaps were not eligible to be designated as either a cash flow or fair value hedge. The Group accounts for it at fair value which was determined using a discounted cash flow valuation technique.

In 2015, the gain on changes in the fair value of the interest rate swaps in the amount of USD 4 million is recognised in the consolidated statement of profit or loss (note 10) (2014: gain USD 9 million). The gain on the exchange of interest payments in amount of USD 13 million is recognised within the *Finance cost* (note 9) (2014: USD 4 million).

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

**Loans issued to related parties**

***Loans issued to PGIL***

As of 31 December 2015, the Group issued loan to PGIL in the amount of USD 185 million (31 December 2014: nil) for the twelve-month period and interest rate 2.4% p.a. As of 31 December 2015, the Group issued loan to PGIL in the amount of USD 198 million (31 December 2014: USD 193 million), including accrued and unpaid interest in the amount of USD 5 million (31 December 2014: nil). The loan was issued during the year ended 31 December 2014 for six-month period and interest rate 3.89% p.a. but later during the year ended 31 December 2015, repayment date was prolonged. Based on revised schedule of payment the loan has to be cash-settled in full at 1 April 2017.

| | Due date | Interest rate, % | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Loan 1 | 03/11/16 | 2.40 | 185 | – |
| Loan 2 | 01/04/17 | 3.89 | 198 | 193 |
| **Total (refer to note 23)** | | | **383** | **193** |

## 14. INVENTORIES

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Inventories expected to be recovered after 12 months** | | |
| Stockpiles | 174 | 224 |
| Gold-in-process | 10 | 3 |
| **Sub-total** | **184** | **227** |
| **Inventories expected to be recovered in the next 12 months** | | |
| Stores and materials | 188 | 292 |
| Gold-in-process | 59 | 63 |
| Stockpiles | 44 | 79 |
| Refined gold | 13 | 17 |
| Less: obsolescence provision for stores and materials | (8) | (11) |
| **Sub-total** | **296** | **440** |
| **Total** | **480** | **667** |

## 15. TAXES RECEIVABLES

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Reimbursable value added tax | 43 | 45 |
| Income tax prepaid | 15 | 1 |
| Other prepaid taxes | 1 | 1 |
| **Total** | **59** | **47** |

## 16. BANK DEPOSITS

During the year ended 31 December 2015, the Group modified certain bank deposit agreements, so that as of 31 December 2015 all of the deposits were available on demand and respectively were presented under the cash and cash equivalents caption (note 17).

As of 31 December 2014, all Group's deposits were denominated in USD and had rates varying from 1.4% to 3.6% per annum.

## 17. CASH AND CASH EQUIVALENTS

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Bank deposits | | |
| - USD | 1,630 | 1,093 |
| - RUB | 71 | 50 |
| Current bank accounts | | |
| - USD | 59 | 38 |
| - RUB | 33 | 12 |
| Other cash and cash equivalents | 32 | 20 |
| **Total** | **1,825** | **1,213** |

Bank deposits within *Cash and cash equivalents* includes deposits with original maturity less than three months or repayable on demand without loss on principal and accrued interest amounts, and are denominated in RUB and USD and accrue interest at the following rates:

| | 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Interest rates on bank deposits denominated in: | | |
| - USD | 1.0-6.0% | 0.6-6.0% |
| - RUB | 8.0-11.1% | 8.9-25.0% |

## 18. SHARE CAPITAL

Authorised, issued and fully paid share capital of the Company comprised 190,627,747 ordinary shares at par value of RUB 1.

### Increase of ownership in subsidiaries

During the year ended 31 December 2015, the Group acquired from PGIL:

- 35.93% shares of PJSC “South-Verkhoyansk Mining Company”, for USD 65 million, which lead to increase of ownership to 100.00%; and
- 50.46% shares of Polyus Exploration Limited, for USD 165 million, which lead to increase of ownership to 100.00%.

Payment was made in cash in 2015 financial year. In result of the acquisition retained earnings of the Group and non-controlling interest decreased by USD 216 million and USD 14 million, respectively.

### Equity-settled share-based payment plans (long term incentive plan)

During the year ended 31 December 2015, PGIL approved a long term incentive plan (LTIP) according to which the members of top management of the PGIL Group are entitled to a conditional award in the form of the PGIL’s ordinary shares linked to the achievement of a combination of financial and non-financial performance conditions. Since top management of the Group and PGIL Group is the same persons, appropriate accounting was pushed down and reflected in the consolidated financial statement of the Group.

The LTIP stipulates three 3-year rolling performance periods (i.e. 2015-2017, 2016-2018 and 2017-2019). The total number of shares that may be distributed under the LTIP is up to 1% of the total share capital of the PGIL which can be granted from newly issued ordinary shares or from PGIL treasury shares, if any. At the end of each performance period the shares shall be transferred to the members of top management depending on whether the performance conditions have been achieved.

Fair value of PGIL shares were identified at the grant date of 19 May 2015 as the closing price per London Stock Exchange. Total expense for the reporting period arising from LTIP was immediately recognised in the consolidated statement of profit and loss within the line *Salaries* included within *Selling, general and administrative expenses* in the amount of USD 7 million.

### Sale of treasury shares

In 2014 the Group sold to PGIL 8,995,860 American Depositary Receipts (hereinafter – ADRs) that granted the right for 4,497,930 shares of PJSC Polyus. The nominal value of ADRs was USD 262 million, the selling price was USD 95 million (Note 23).

## 19. BORROWINGS

| | Nominal rate % | 31 December 2015 | 31 December 2014 |
|---|---|---|---|
| Credit facilities with financial institutions nominated in USD with variable interest rates | USD LIBOR + margins ranging from 0.55% to 4.95% | 785 | 365 |
| PGIL USD-credit facilities with fixed interest rate | 6.1% | 750 | 750 |
| Credit facilities with financial institutions nominated in RUR with fixed interest rates | 10.35% | 461 | 596 |
| Notes due in 2025 (Rusbonds) with noteholders' early repayment option in 2021 | 12.1% | 137 | – |
| Letters of credit with deferred payments terms with variable rates | Cost of fund (COF) + 2.7%, Euribor +1.8%, USD LIBOR + 2.35% | 38 | 107 |
| Credit facilities with financial institutions nominated in RUR with variable interest rates | Central bank rate + 2.3% | 18 | – |
| **Sub-total** | | **2,189** | **1,818** |
| Less: short-term borrowings and current portion of long-term borrowings due within 12 months | | (38) | (90) |
| **Long-term borrowings** | | **2,151** | **1,728** |

The Company and subsidiaries of the Group from time to time obtain credit facilities from different financial institutions, raise financing from the noteholders to fund its general corporate purposes and to finance its capital investment projects.

### *Unused committed credit facilities*

During the year ended 31 December 2014, one of the companies of the Group, entered into a five year RUB 40,000 million credit line with a bank to fund its general corporate purposes. As of 31 December 2015 and 31 December 2014, the amount of unused credit facilities was RUB 40,000 million equivalent to USD 549 million and USD 711 million, respectively.

During the year ended 31 December 2015, one of the companies of the Group, entered into an eleven year RUB 6,054 million credit line with a bank to fund construction of Razdolinskaya-Taiga power grid. As of 31 December 2015, the credit facilities in the amount of USD 65 million (RUB 4,707 million) were unused.

### *Other matters*

JSC "Gold Mining Company Polyus", a 100% subsidiary of the Group, guaranteed liabilities of all the companies in the Group for all borrowings.

There were a number of covenants under several loan agreements in effect as of 31 December 2015 according to which the respective subsidiaries of the Company and the Company itself are limited:

- in the distribution of their assets. The Group is not allowed to divest more than 10% of its assets in any form of transaction without prior consent of the banks. This limitation is applicable to the most significant subsidiaries of the Group;
- in its right to dispose of the controlling share in certain significant subsidiaries of the Group; and
- in the transfer of non-core assets between certain subsidiaries of the Group; and
- in its level of leverage and other financial and non-financial parameters.

The Group was in compliance with covenants as of 31 December 2015.

Whilst measured at amortised cost, the fair value of all of the borrowings are within Level 2 of the fair value hierarchy in accordance with IFRS 13. The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB interest rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value. The fair value of the borrowings as of 31 December 2015 was equal to USD 2,013 million (31 December 2014: USD 1,437 million).

## 20. DEFERRED TAX ASSETS AND LIABILITIES

The movement in the Group's deferred taxation position was as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| **Net deferred tax liability at beginning of the year** | **103** | **134** |
| Recognised in the consolidated statement of profit or loss | (7) | 2 |
| Recognised in the consolidated statement of comprehensive income | 13 | 19 |
| Effect of translation to presentation currency | (22) | (52) |
| **Net deferred tax liability at end of the year** | **87** | **103** |

Deferred taxation is attributable to tax losses carried-forward and the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

| | 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Property, plant and equipment | 155 | 160 |
| Inventory | 43 | 60 |
| Deferred expenditures | 3 | 3 |
| Derivative financial instruments and investments | – | 27 |
| Offset of deferred tax asset and liability within the same taxable entity | (68) | (100) |
| **Total deferred tax liabilities** | **133** | **150** |

| | 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Tax losses carried-forward | 106 | 131 |
| Payables | 4 | 10 |
| Accrued expenses | 3 | 4 |
| Property, plant and equipment | 1 | 2 |
| Offset of deferred tax asset and liability within the same taxable entity | (68) | (100) |
| **Total deferred tax assets** | **46** | **47** |

### *Unrecognised deferred tax asset*

| | 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Unrecognised deferred tax asset resulting from losses on derivative financial instruments | 115 | 185 |
| Unrecognized deferred tax assets resulted from impairments | 33 | 48 |
| Unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit | 18 | 30 |
| **Total** | **166** | **263** |

Tax losses carried forward expire in periods up to ten years, and some are not recognised as management does not believe it is probable that future taxable profit will be available against which the respective entities can utilise the benefits.

### *Unrecognised deferred tax liability*

| | 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Taxable temporary differences associated with investments in subsidiaries | 80 | 315 |

The deferred tax liability presented above was not recognised because the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

## 21. TRADE AND OTHER PAYABLES

| | 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Wages and salaries payable | 56 | 57 |
| Trade payables to third parties | 25 | 20 |
| Interest payable | 31 | 29 |
| Other accounts payable and accrued expenses | 22 | 31 |
| Accrued annual leave | 16 | 19 |
| Dividends payable to non-controlling interests | 1 | 2 |
| **Total** | **151** | **158** |

The average credit period for trade payables at 31 December 2015 was 21 days (2014: 18 days). No interest was charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

## 22. TAXES PAYABLE

| | 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Tax on mining | 10 | 11 |
| Value added tax | 6 | 3 |
| Social taxes | 5 | 6 |
| Income tax payable | 4 | 11 |
| Property tax | 2 | 2 |
| Other taxes | 2 | 3 |
| **Total** | **29** | **36** |

## 23. RELATED PARTIES

Related parties include substantial shareholders, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of business, generally obtains and issues loans from / (to) related parties and makes appropriate accruals and cash receipts of interest income and expense.

### *Immediate shareholder*

The Group entered into the following transactions with parent entity:

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Interest income | 11 | 1 |
| Interest expense | 21 | 1 |
| Interest capitalised | 25 | 47 |
| Proceeds from borrowings | – | 5 |
| Repayment of borrowing and interest accrued | 47 | 84 |
| Proceeds from sale of treasury shares | – | 95 |
| Proceeds from disposal of non-controlling interest in subsidiaries | – | 301 |
| Cash used for acquisition of non-controlling interest in subsidiaries | 230 | – |
| Loans issued | 190 | 1,034 |
| Proceeds from loans issued | – | 80 |

The Group had the following outstanding balances and investments with parent entity:

| | 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Loans received (note 19) | 750 | 750 |
| Interest payable | 9 | 12 |
| Loans issued (note 13) | 383 | 193 |
| Interest receivable | 10 | – |

***Key management personnel***

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Short-term compensation of key management personnel | 15 | 21 |
| Long-term compensation of key management personnel (LTIP) | 7 | – |
| Termination benefits to the former key management personnel | 1 | 8 |
| **Total** | 23 | 29 |

## 24. COMMITMENTS AND CONTINGENCIES

### Commitments

***Capital commitments***

The Group's contracted capital expenditure commitments are as follows:

| | 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Project Natalka | 9 | 11 |
| Other capital commitments | 21 | 12 |
| **Total** | **30** | **23** |

***Operating leases: Group as a lessee***

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2060. Future minimum lease payments due under non-cancellable operating lease agreements at the end of the year were as follows:

| | 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Due within one year | 4 | 3 |
| From one to five years | 18 | 8 |
| Thereafter | 17 | 20 |
| **Total** | **39** | **31** |

### Contingencies

***Litigations***

In the ordinary course of business, the Group is subject to litigation in a number of jurisdictions, the outcome of which is uncertain and could give rise to adverse outcomes. At the date of issuance of these consolidated financial statements there were no material claims and litigation applicable to the Group.

***Taxation contingencies in the Russian Federation***

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

Commercial legislation in the Russian Federation, including tax legislation, is subject to varying interpretations and frequent changes. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed with additional taxes, penalties and interest.

***Environmental matters***

The Group is subject to extensive federal and local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns.

The Group's management believes that its mining and production technologies are in compliance with existing Russian environmental legislation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernises technology to meet more stringent standards.

The Group is obliged under the terms of various laws, mining licences and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses site restoration, decommissioning and environmental obligations for its operations. Estimations are based on management's understanding of the current legal requirements and the terms of the licence agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional site restoration, decommissioning and environmental obligations.

***Operating environment***

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.
Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. In the first quarter of 2015 international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

## 25. FINANCIAL INSTRUMENTS RISK MANAGEMENT ACTIVITIES

### Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt which is borrowings (note 19) less banks deposits (note 16) and cash and cash equivalents (note 17), and equity of the Group.

### Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, derivative financial instruments and accounts payable. The main purpose of these financial instruments is to finance the Group's operations. The Group has various financial assets such as cash and cash equivalents, other receivables, derivative financial instruments, loans receivable and bank deposits.

| | 31 December | |
|---|---|---|
| | **2015** | **2014** |
| **Financial assets** | | |
| Cash and cash equivalents | 1,825 | 1,213 |
| Loans receivable | 385 | 194 |
| Derivative financial instruments | 231 | 171 |
| Other receivables | 23 | 10 |
| Bank deposits | – | 269 |
| **Total financial assets** | **2,464** | **1,857** |
| **Financial liabilities** | | |
| Borrowings | 2,189 | 1,818 |
| Derivative financial instruments | 509 | 970 |
| Accounts payable | 135 | 139 |
| **Total financial liabilities** | **2,833** | **2,927** |

Derivative financial instruments are carried at fair value.

The main risks arising from the Group's financial instruments are gold price, interest rate, foreign currency exchange rates, credit and liquidity risks.

### *Gold price risk*

The Group is exposed to changes in the gold price due to its significant volatility. According to the approved hedging strategy the Group may hedge up to 1/3 of its annual gold sales. During 2014, the Group entered into a number of derivative transactions (revenue stabiliser and gold forward agreements) under a Strategic Price Protection Programme to limit its exposure to future possible fluctuations of gold price (as detailed further in note 13).

Under the terms of the revenue stabiliser the Group ensures a minimum selling gold price in the case of declines in the gold price and at the same time may benefit from increases in the gold price until certain barrier prices are reached on the call options, at which point the sale price is capped.
If the gold price was 10% higher / lower during the year ended 31 December 2015 gold sales for the year would have increased / decreased by USD 134 million / USD 138 million, respectively (2014: USD 181 million / USD 175 million).

### Interest rate risk

The Group is exposed to interest rate risk as it borrows funds. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's current policy considering the relatively low LIBOR rates is to borrow funds in USD with floating interest rates. During 2014, the Group, in order to align its borrowings with the policy, entered into a number of derivative transactions (note 13):

- to swap cash flows under a 36 billion Rouble denominated credit facility with a fixed interest rate of 10.35% into USD dollar denominated cash flows with a floating interest rate of LIBOR+2.32%. The credit facility was initially arranged in RUB with the view to swapping it into a USD denominated cash flow, because this was more cost effective than obtaining funding directly in USD (note 19); and
- to swap interest payments under the 750 million credit facility from a fixed rate of 6.1% into a floating rate of LIBOR+3.55% (note 19);
- to swap cash flows under a 10 billion Rouble denominated bonds issued by the Parent with a fixed coupon of 12.1% into USD dollar denominated cash flows with a floating interest rate of 6MLIBOR+4.45%. The bond was initially arranged in RUB with the view to swapping it into a USD denominated cash flow, because this was more cost effective than obtaining funding directly in USD.

If the interest rate was 0.5% higher / lower during the year ended 31 December 2015 interest expense excluding effect of change in fair value of interest rate and cross currency swaps for year ended 31 December 2015 would have increased / decreased by USD 8 million (31 December 2014: USD 5 million).

If interest rates used in calculations of fair values of interest rate and cross currency swaps as of 31 December 2015 was 0.5% higher / lower, the gain on revaluation would be USD 39 million lower / higher, respectively (2014: USD 44 million).

0.5% is the sensitivity rate used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible / negative change in interest rates.

### Foreign currency exchange rate risk

Currency risk is the risk that the financial results of the Group will be adversely affected by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. Prices for gold are quoted in USD based on international quoted market prices. The majority of the Group's expenditures are denominated in RUB, accordingly, operating profits are adversely impacted by appreciation of the RUB against the USD. In assessing this risk, management takes into consideration changes in the gold price.

During the year ended 31 December 2014, the Group entered into a number of derivative agreements, in the form of currency collars (note 13) in order to economically hedge its Russian rouble denominated expenses. As of 31 December 2015, no currency collars remained outstanding.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than the functional currencies of the individual Group entities were as follows:

| | 31 December | |
|---|---|---|
| | **2015** | **2014** |
| **Assets** | | |
| USD | 2,134 | 1,770 |
| EURO (presented in USD at closing exchange rate) | 1 | 17 |
| **Total** | **2,135** | **1,787** |
| **Liabilities** | | |
| USD | 2,084 | 2,144 |
| EURO (presented in USD at closing exchange rate) | 14 | 71 |
| **Total** | **2,098** | **2,215** |

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

The table below details the Group's sensitivity to changes in exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in the respective currencies.

If the USD or EURO exchange rate had increased by 25% for the year ended 31 December 2015 and year ended 31 December 2014 compared to RUB as of the end of respective year, the Group would have incurred the following losses:

| | 31 December | |
|---|---|---|
| | **2015** | **2014** |
| (Gain) / loss (USD exchange rate increased compared to RUB) | (13) | 94 |
| Loss (EURO exchange rate increased compared to RUB) | 3 | 14 |

### Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. Credit risk arises from cash, cash equivalents and deposits kept with banks, derivative agreements, loans granted, advances paid and other receivables.

In order to mitigate credit risk, the Group conducts its business with creditworthy and reliable counterparties, and minimises advance payments to suppliers.

The Group employs a methodology for in-house financial analysis of banks and non-banking counterparties, which enables management to estimate an acceptable level of credit risk with regard to particular counterparties and to set appropriate individual risk limitations. Within the Group's core companies the procedures for preparing new agreements include analysis and contemplation of credit risk, estimation of the aggregate risk associated with a counterparty (arising both from an agreement under consideration and from previously existing contracts, if any) and verifying compliance with individual credit limits.

Credit risk inherent to the contract was incorporated in the fair value of derivative financial instruments at the reporting date. The credit risk incorporated into valuations is based on the quoted counterparty CDS for the counterparty risk.

The Group's credit risk profile is regularly monitored by management in order to avoid undesirable increases in risk, to limit concentration of credit and to ensure compliance with the above mentioned policies and procedures.

Deposits, current bank accounts and derivative financial instruments are held with major Russian and international banks, with reasonable and appropriate diversification, which decreases concentration risk by spreading the credit risk exposure across several top rated banks.

Although the Group sells more than 90% of the total gold sales to 4 major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore the credit risk related to trade receivables is minimal. There were no outstanding receivables for gold sales as of 31 December 2015.

Gold sales to the Group's major customers are presented as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Otkritie Bank | 668 | 704 |
| Sberbank | 651 | 220 |
| VTB Bank | 493 | 841 |
| MDM Bank | 166 | 298 |
| Bank of Moscow | – | 85 |
| Other | 181 | 49 |
| **Gold sales** | **2,159** | **2,197** |

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting and cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

For assessing own credit risk, a proxy CDS for the industry is used since Polyus does not have quoted CDS. The Group's cash management procedures include medium-term forecasting (a budget approved each financial year and updated on a quarterly basis), short-term forecasting (monthly cash-flow budgets are established for each business unit and a review of each entity's daily cash position is performed using a two-week rolling basis).

Presented below is the maturity profile of the Group's financial liabilities as of 31 December 2015 based on undiscounted contractual payments, including interest payments:

| | Borrowings | | Accounts | |
|---|---|---|---|---|
| | **Principal** | **Interest** | **payable** | **Total** |
| Due in the first year | 38 | 141 | 104 | **283** |
| Due in the second year | 258 | 138 | – | **396** |
| Due in the third year | 418 | 132 | – | **550** |
| Due in the fourth year | 578 | 90 | – | **668** |
| Due in the fifth year | 762 | 40 | – | **802** |
| Due in the period between sixth to eight years | 144 | 17 | – | **161** |
| **Total** | **2,198** | **558** | **104** | **2,860** |

Presented below is the maturity profile of the Group’s financial liabilities as of 31 December 2014 based on undiscounted contractual payments , including interest payments:

| | Borrowings | | Accounts | |
|---|---|---|---|---|
| | **Principal** | **Interest** | **payable** | **Total** |
| Due in the first year | 90 | 122 | 110 | **322** |
| Due in the second year | 38 | 120 | – | **158** |
| Due in the third year | 87 | 119 | – | **206** |
| Due in the fourth year | 886 | 91 | – | **977** |
| Due in the fifth year | 710 | 34 | – | **744** |
| Due in the period between sixth to eight years | 14 | – | – | **14** |
| **Total** | **1,825** | **486** | **110** | **2,421** |

## 26. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

### 26.1 Information about significant subsidiaries of the Group

| | | Effective % held[1] at 31 December | |
|---|---|---|---|
| **Subsidiaries[2]** | **Nature of business** | **2015** | **2014** |
| **Incorporated in Russian Federation** | | | |
| JSC “Gold Mining Company Polyus” | Mining (open pit) | 100 | 100 |
| JSC “Aldanzoloto GRK” | Mining (open pit) | 100 | 100 |
| JSC “Pervenets” | Mining (open pit) | 100 | 100 |
| PJSC “Lenzoloto” | Market agent | 64 | 64 |
| JSC “ZDK Lenzoloto” | Mining (alluvial) | 66 | 66 |
| JSC “Svetliy” | Mining (alluvial) | 56 | 56 |
| JSC “Matrosova Mine” | Mining (development stage) | 100 | 100 |
| LLC “Polyus Stroy” | Construction | 100 | 100 |
| JSC “TaigaEnergoStroy” | Construction | 100 | 100 |
| **Incorporated in British Virgin Islands** | | | |
| Polyus Exploration Limited[3] | Geological research | 100 | 50 |

### 26.2 Summarised financial information of each of the Group’s subsidiary that have a material non-controlling interest

| | PJSC “Lenzoloto” consolidated 31 December | |
|---|---|---|
| **Summarised statements** | **2015** | **2014** |
| Current assets | 179 | 155 |
| Non-current assets | 51 | 46 |
| Current liabilities | 15 | 16 |
| Non-current liabilities | 11 | 10 |
| Equity attributable to the shareholders of the subsidiary | 136 | 110 |
| Non-controlling interests | 68 | 65 |

[1] Effective % held by the Company, including holdings by other subsidiaries of the Group.
[2] Following change in legislation, most of the significant subsidiaries were renamed from open joint stock company (OJSC) and from closed joint stock company (CJSC) into joint stock company (JSC).
[3] The Company maintains control of this entity as it continues to govern their financial and operating policies and manage returns from them through its ability to appoint the majority in the Board of Directors. A majority of the Board members for these entities are representatives of the Company and they are therefore consolidated even though the effective interest is less than 50% as of 31 December 2014 and for the year then ended. Direct ownership in those subsidiaries by the immediate parent is in each case exceeds 50%, and there are no other additional agreements or other instances which could have set limits on the Company’s ability to execute its control over its subsidiaries.

| Summarised statements | PJSC "Lenzoloto" consolidated Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Revenue | 197 | 234 |
| Profit for the year | 72 | 89 |
| Profit attributable to non-controlling interests | 15 | 37 |
| Total comprehensive income | 72 | 89 |
| Net cash inflow from operating activities | 56 | 65 |
| Net cash inflow / (outflow) from investing activities | 70 | (61) |
| Net cash outflow from financing activities | (12) | (10) |
| Dividends paid to non-controlling interests | 12 | 10 |

### 26.3 Significant restrictions on the Company's ability to access or use the assets and settle the liabilities of the group

The basis of distribution of accumulated retained earnings for companies operating in the Russian Federation is defined by legislation as the current year net profit of the company, as calculated in accordance with Russian accounting standards. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

## 27. EVENTS AFTER THE REPORTING DATE

Except for stated below, there were no events subsequent to the reporting date that should be disclosed in these consolidated financial statements.

**Joint venture with Polymetal**

In January 2016, the Group completed an execution of a joint venture agreement with Polymetal International plc ("Polymetal"), under which Polymetal will participate in advancing the development of the Group's Nezhdaninskoye gold deposit in Yakutia, Russia. The arrangement will allow Polymetal to acquire up to 50% in the joint venture entity holding 100% of JSC South-Verkhoyansk Mining Company through an earn-in mechanism.

**Hedging activities**

In February 2016, the Group continued to economically hedge its gold sales by entering into the new revenue stabiliser agreements for an annual amount of 100 thousand ounces during the first three years and 300 thousand ounces during the fourth year.

**Loans received**

In March 2016, the Group obtained the following new bank credit facilities:

- USD 2,500 million credit facility agreement with maturity in 2023 at LIBOR + 4.5% nominal rate;
- USD 100 million credit facility agreement with maturity in 2019 at LIBOR + 4.5% nominal rate.

Proceeds were used for buy-back transactions as described below.

**Buy-back transactions**

On 10 March 2016, the Board of Directors of the Company approved the distribution by LLC "Polyus-Invest", a 100% indirect subsidiary of the Group, of an Information Memorandum to the holders of PJSC "Polyus" ordinary shares and ADRs in respect of the terms and conditions for the submission of applications to enter into securities purchase agreements.

As a result of the completion of the above mentioned buy-back program, LLC "Polyus-Invest" purchased the following number of ordinary shares:

| Name of shareholders submitted its shares for buy-back | Number of shares'000 | Ownership*, as % | Price per 1 share, RUB | Consideration, USD million |
|---|---|---|---|---|
| PGIL | 60,212 | 31.59% | 4,041 | 3,423 |
| Minority shareholders | 307 | 0.16% | 4,041 | 19 |
| Buy-back direct expenses | – | – | – | 1 |
| **Total** | **60,519** | **31.75%** | | **3,443** |

* as of the date of buy-back

### Settlement of loans issued

On 4 March 2016, PGIL settled in cash (in advance of maturity date) a loan issued by the Group in the total amount of USD 124 million.

On 30 September 2016, a 100% subsidiary of the Group obtained from PGIL 4,477 thousands of the Company's ordinary shares which were used as a settlement of remaining loans issued previously by the Group and the accrued interest thereon in the total amount of USD 269 million.

### New dividend policy

On 7 October 2016, the Board of Directors (the "Board") has approved the Company's dividend policy, pursuant to which the Company will pay dividends on a semi-annual basis in an amount of 30% of the EBITDA of PJSC Polyus for the respective reporting period. Payment will be calculated on the basis of the consolidated financial statements of the Company in accordance with IFRS requirements, provided that the net debt/adjusted EBITDA (last 12 months) ratio based on the consolidated financial statements of PJSC Polyus is lower than 2.5x.

Should the net debt / adjusted EBITDA (for the last 12 months) ratio increase to higher than 2.5x, the Board will exercise discretion on dividends, considering the Company's financial position, free cash flow, outlook and macro environment. The Board may consider the possibility of payment of special dividends, subject to the Company's liquidity position, capex requirements, free cash flows and leverage.

### PGIL completed USD 500 million Notes issuance

On 26 October 2016, PGIL issued USD 500 million notes due 28 March 2022 with a coupon of 4.699% per annum (the "Notes"). The Notes are guaranteed by JSC "Gold Mining Company Polyus", a 100% subsidiary of the Group. In November 2016, PGIL transferred in the form of the loan USD 500 million to JSC "Gold Mining Company Polyus". Net proceeds from the issue of the Notes will be primarily used for debt refinancing and other general corporate purposes of the Group, including the financing of operating activities and development projects of the Group.

### Government grant

On 13 September 2016, the Ministry for the Development of the Russian Far East (the "Minvostokrazvitiya") and JSC "Matrosova Mine" (the "Matrosova Mine"), a 100% subsidiary of the Group representing Magadan business unit, signed-off an agreement under which Minvostokrazvitiya has to provide to Matrosova Mine government grant in the following maximum amounts:

| During the year ended 31 December | 26 Dec. 2016[4] |
|---|---|
| 2016 | 76 |
| 2017 | 43 |
| 2018 | 45 |
| **Total** | **163** |

[4] – recalculated based on the official Central Bank of the Russian Federation ex-rate as of 26 December 2016.

Under the agreement Matrosova Mine receives the government grant, cash from which should be used for the construction of: (i) electricity transmission line 220 kW "Ust'-Omchug – Omchak New", (ii) 220 kW distribution point and (iii) electric power substation for 220 kW "Omchak New". The construction is expected to be completed during the second quarter of the year ending 31 December 2019. Unutilised balance of the government grant will have to be returned to Minvostokrazvitiya. JSC "Gold Mining Company Polyus" is a guarantor under the agreement.

On 20 December 2016, Matrosova Mine received USD 75 million at the ex-rate as of the date of cash collection (RUB 4,619 million) from the Ministry for the Development of the Russian Far East.

**Equity-settled share-based payment plans (long term incentive plan)**

On 22 December 2016, the Board of Directors of PJSC "Polyus" approved an amended incentive plan with the only effective change to replace a conditional award in the form of PJSC Polyus' ordinary shares instead of PGIL.

**Reclassification of Rusbonds to short-term borrowings**

On 22 December 2016, the Company's shareholders approved the merger of LLC Polyus-Invest into PJSC Polyus. Pursuant to Article 60 of the Russian Civil Code, immediately thereafter the holders of Rusbonds became entitled to an early redemption of the bonds. The bondholders must notify the issuer up to 13 March 2017 to exercise their right. As a result, the full outstanding amount of Rusbonds was reclassified into a short-term category since 22 December 2016.

# PJSC "Polyus"

**Condensed consolidated interim financial statements**

*for the three and nine months ended 30 September 2017 (unaudited)*

## Responsibility statement

Directors of PJSC “Polyus” (the “Company”) and its subsidiaries (the “Group”) are responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of the Group as of 30 September 2017, and the results of its operations, cash flows and changes in equity for the three and nine months then ended, in compliance with International Accounting Standard 34 (“IAS 34”) *Interim Financial Information*.

In preparing the condensed consolidated interim financial statements, Directors are responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- compliance with the requirements of IAS 34 *Interim Financial Information* and providing additional disclosures when compliance with the specific requirements in International Financial Reporting Standards (“IFRS”) are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s consolidated financial position and financial performance; and
- making an assessment of the Group’s ability to continue as a going concern.

Directors are also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group’s transactions and disclose with reasonable accuracy at any time the condensed consolidated interim financial position of the Group, and which enable them to ensure that the condensed consolidated interim financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards in the jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The condensed consolidated interim financial statements of the Group for the three and nine month ended 30 September 2017 were approved by Directors on 9 November 2017.

By order of the Board of Directors,

Chief Executive Officer and Director

Pavel Grachev

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Russia

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Deloitte.

**REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

To the Shareholders and Board of Directors of Public Joint Stock Company "Polyus"

**Introduction**

We have reviewed the accompanying condensed consolidated interim statement of financial position of PJSC "Polyus" and its subsidiaries (collectively - the "Group") as at 30 September 2017 and the related condensed consolidated interim statements of profit or loss, comprehensive income, changes in equity and cash flows for the three and nine months then ended, and selected explanatory notes. Directors are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

**Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Olga Tabakova
Engagement partner

9 November 2017

The Entity: Public Joint Stock Company Polyus

Primary State Registration Number: 1068400002990

Certificate of registration in the Unified State Register № 84 000060259 of 17 March 2006, issued by Interdistrict Inspectorate of Federal Tax Authorities №2 of Krasnoyarsk territory, Talmyr (Dolgan-Nenetsk) and Evenki autonomous okrugs

Address: 123104, Russian Federation, Moscow, Tverskoy bulvar, 15/1

Audit Firm: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

## POLYUS

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS
### FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2017 (UNAUDITED)

*(in millions of US Dollars, except for earnings per share data)*

| | Notes | Three months ended 30 September 2017 | Three months ended 30 September 2016 | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 |
|---|---|---|---|---|---|
| Gold sales | 4 | 733 | 700 | 1,950 | 1,769 |
| Other sales | | 11 | 6 | 28 | 19 |
| **Total revenue** | | **744** | **706** | **1,978** | **1,788** |
| Cost of gold sales | 5 | (264) | (253) | (719) | (632) |
| Cost of other sales | | (9) | (7) | (23) | (19) |
| **Gross profit** | | **471** | **446** | **1,236** | **1,137** |
| Selling, general and administrative expenses | 6 | (48) | (35) | (140) | (98) |
| Other expenses, net | | (13) | (10) | (32) | (20) |
| **Operating profit** | | **410** | **401** | **1,064** | **1,019** |
| Finance costs, net | 7 | (43) | (32) | (151) | (105) |
| Interest income | | 6 | 12 | 23 | 30 |
| Gain / (loss) on investments and revaluation of derivative financial instruments, net | 8 | 30 | 65 | 98 | (77) |
| Foreign exchange gain, net | | 43 | 34 | 112 | 291 |
| **Profit before income tax** | | **446** | **480** | **1,146** | **1,158** |
| Income tax expense | | (75) | (90) | (172) | (269) |
| **Profit for the period** | | **371** | **390** | **974** | **889** |
| Attributable to: | | | | | |
| Shareholders of the Company | | 360 | 367 | 969 | 863 |
| Non-controlling interests | | 11 | 23 | 5 | 26 |
| | | **371** | **390** | **974** | **889** |
| Weighted average number of ordinary shares'000 | | | | | |
| - for basic earnings per share | 15 | 131,218 | 130,109 | 127,516 | 145,846 |
| - for dilutive earnings per share | 15 | 132,651 | 130,109 | 128,077 | 145,846 |
| Earnings per share (US Dollar) | | | | | |
| - basic | 15 | 2.74 | 2.82 | 7.60 | 5.92 |
| - dilutive | 15 | 2.73 | 2.82 | 7.60 | 5.92 |

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2017 (UNAUDITED)

*(in millions of US Dollars)*

| | Notes | Three months ended 30 September 2017 | Three months ended 30 September 2016 | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 |
|---|---|---|---|---|---|
| **Profit for the period** | | **371** | **390** | **974** | **889** |
| **Other comprehensive income / (loss)** | | | | | |
| ***Items that may be subsequently reclassified to profit or loss:*** | | | | | |
| (Decrease) / increase in revaluation of cash flow hedge reserve on revenue stabiliser | 10 | - | (26) | 4 | (88) |
| Decrease in revaluation of cash flow hedge reserve on gold forward | | - | - | - | (12) |
| Deferred tax relating to decrease / (increase) in revaluation of cash flow hedge reserve | | - | 4 | (1) | 19 |
| | | **-** | **(22)** | **3** | **(81)** |
| ***Items that will not be reclassified through profit or loss:*** | | | | | |
| Effect of translation to presentation currency | | 15 | (3) | (5) | (54) |
| ***Items that have been reclassified through profit or loss:*** | | | | | |
| Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser | 10 | - | (4) | (19) | (37) |
| Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward | | - | - | - | (8) |
| Deferred tax relating to cash flow hedge reserve reclassified to consolidated statement of profit or loss | | - | - | 4 | 8 |
| | | **-** | **(4)** | **(15)** | **(37)** |
| **Other comprehensive income / (loss)** | | **15** | **(29)** | **(17)** | **(172)** |
| **Total comprehensive income** | | **386** | **361** | **957** | **717** |
| Attributable to: | | | | | |
| Shareholders of the Company | | 375 | 337 | 948 | 681 |
| Non-controlling interests | | 11 | 24 | 9 | 36 |
| | | **386** | **361** | **957** | **717** |

# POLYUS

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2017 (UNAUDITED)

*(in millions of US Dollars)*

| | Notes | 30 Sep. 2017 | 31 Dec. 2016 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 3,701 | 2,938 |
| Derivative financial instruments and investments | 10 | 30 | 57 |
| Inventories | 11 | 300 | 264 |
| Deferred tax assets | | 77 | 75 |
| Assets classified as held for sale | 14 | 98 | - |
| Other non-current assets | | 44 | 37 |
| | | **4,250** | **3,371** |
| **Current assets** | | | |
| Derivative financial instruments and investments | 10 | - | 10 |
| Inventories | 11 | 427 | 369 |
| Deferred expenditures | | 12 | 10 |
| Trade and other receivables | | 40 | 58 |
| Advances paid to suppliers and prepaid expenses | | 24 | 19 |
| Taxes receivable | 13 | 119 | 89 |
| Assets classified as held for sale | 14 | 47 | - |
| Cash and cash equivalents | 12 | 1,121 | 1,740 |
| | | **1,790** | **2,295** |
| **Total assets** | | **6,040** | **5,666** |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 15 | 5 | 7 |
| Additional paid-in capital | | 1,945 | 2,288 |
| Treasury shares | | (89) | (3,712) |
| Cash flow hedge revaluation reserve | 10 | - | 12 |
| Translation reserve | | (2,729) | (2,720) |
| Retained earnings | | 1,154 | 3,617 |
| **Equity attributable to shareholders of the Company** | | **286** | **(508)** |
| Non-controlling interests | | 100 | 94 |
| | | **386** | **(414)** |
| **Non-current liabilities** | | | |
| Site restoration, decommissioning and environmental obligations | | 47 | 38 |
| Borrowings | 16 | 4,262 | 4,698 |
| Derivative financial instruments | 10 | 456 | 456 |
| Deferred revenue | 19 | 79 | 76 |
| Deferred consideration | 20 | 214 | - |
| Deferred tax liabilities | | 192 | 182 |
| Other non-current liabilities | | 39 | 32 |
| | | **5,289** | **5,482** |
| **Current liabilities** | | | |
| Borrowings | 16 | 10 | 283 |
| Trade and other payables | 17 | 299 | 222 |
| Taxes payable | 18 | 56 | 93 |
| | | **365** | **598** |
| **Total liabilities** | | **5,654** | **6,080** |
| **Total equity and liabilities** | | **6,040** | **5,666** |

## POLYUS

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
### FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017 (UNAUDITED)

*(in millions of US Dollars)*

| | | Equity attributable to shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Number of outstanding shares'000 | Share capital | Additional paid-in capital | Treasury shares | Cash flow hedge revaluation reserve | Translation reserve | Retained earnings | Total | Non-controlling interest | Total |
| **Balance at 31 December 2015** | | **190,628** | **7** | **2,273** | **-** | **123** | **(2,623)** | **2,196** | **1,976** | **71** | **2,047** |
| Profit for the period | | - | - | - | - | - | - | 863 | **863** | 26 | **889** |
| Increase in cash flow hedge revaluation reserve | 10 | - | - | - | - | (118) | - | - | **(118)** | - | **(118)** |
| Effect of translation to presentation currency | | - | - | - | - | - | (64) | - | **(64)** | 10 | **(54)** |
| **Total comprehensive income / (loss)** | | **-** | **-** | **-** | **-** | **(118)** | **(64)** | **863** | **681** | **36** | **717** |
| Equity-settled share-based payment plans (LTIP) | | - | - | 10 | - | - | - | - | **10** | - | **10** |
| Increase of ownership in subsidiaries | | - | - | - | - | - | - | (2) | **(2)** | (1) | **(3)** |
| Buy-back of treasury shares | | (60,519) | - | - | (3,443) | - | - | - | **(3,443)** | - | **(3,443)** |
| Settlement of issued loans by own shares | | (4,477) | - | - | (269) | - | - | - | **(269)** | - | **(269)** |
| Release of translation reserve due to disposal of subsidiary | | - | - | - | - | - | (3) | 3 | **-** | - | **-** |
| Dividends declared to shareholders of non-controlling interests | | - | - | - | - | - | - | - | **-** | (7) | **(7)** |
| **Balance at 30 September 2016** | | **125,632** | **7** | **2,283** | **(3,712)** | **5** | **(2,690)** | **3,060** | **(1,047)** | **99** | **(948)** |
| **Balance at 31 December 2016** | | **125,632** | **7** | **2,288** | **(3,712)** | **12** | **(2,720)** | **3,617** | **(508)** | **94** | **(414)** |
| Profit for the period | | - | - | - | - | - | - | 969 | **969** | 5 | **974** |
| Decrease in cash flow hedge revaluation reserve | 10 | - | - | - | - | (12) | - | - | **(12)** | - | **(12)** |
| Effect of translation to presentation currency | | - | - | - | - | - | (9) | - | **(9)** | 4 | **(5)** |
| **Total comprehensive (loss) / income** | | **-** | **-** | **-** | **-** | **(12)** | **(9)** | **969** | **948** | **9** | **957** |
| Equity-settled share-based payment plans (LTIP), net of tax | | - | - | 15 | - | - | - | - | **15** | - | **15** |
| Buy-back of treasury shares | 15 | (14) | - | - | (1) | - | - | - | **(1)** | - | **(1)** |
| Cancellation of treasure shares | 15 | - | (2) | (749) | 3,604 | - | - | (2,853) | **-** | - | **-** |
| Issuance of shares | 15 | 6,016 | - | 389 | - | - | - | - | **389** | - | **389** |
| Purchase of additional ownership in SL Gold through issuance of treasury shares | 15 | 290 | - | 2 | 20 | - | - | - | **22** | - | **22** |
| Declared dividends | 15 | - | - | - | - | - | - | (579) | **(579)** | - | **(579)** |
| Dividends declared to shareholders of non-controlling interests | | - | - | - | - | - | - | - | **-** | (3) | **(3)** |
| **Balance at 30 September 2017** | | **131,924** | **5** | **1,945** | **(89)** | **-** | **(2,729)** | **1,154** | **286** | **100** | **386** |

## POLYUS

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
### FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2017 (UNAUDITED)
*(in millions of US Dollars)*

| | Notes | Three months ended 30 September 2017 | Three months ended 30 September 2016 | Nine months ended 30 September 2017 | Nine months ended 30 September 2016 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| **Profit before income tax** | | **446** | **480** | **1,146** | **1,158** |
| Adjustments for: | | | | | |
| Finance costs, net | 7 | 43 | 32 | 151 | 105 |
| Interest income | | (6) | (12) | (23) | (30) |
| Unrealised (gain) / loss on investments and revaluation of derivative financial instruments, net | 8 | (30) | (65) | (98) | 77 |
| Depreciation and amortisation | 9 | 47 | 41 | 129 | 107 |
| Foreign exchange gain, net | | (43) | (34) | (112) | (291) |
| Other | | 7 | 4 | 20 | 11 |
| | | **464** | **446** | **1,213** | **1,137** |
| Movements in working capital | | | | | |
| Inventories | | (46) | (16) | (61) | (56) |
| Deferred expenditures | | 21 | 11 | (2) | (2) |
| Trade and other receivables | | 13 | (14) | 27 | (19) |
| Advances paid to suppliers and prepaid expenses | | (6) | (2) | (10) | (5) |
| Taxes receivable | | (24) | (6) | (14) | (14) |
| Trade and other payables and accrued expenses | | 12 | 30 | 9 | 18 |
| Taxes payable | | 2 | 11 | (17) | 7 |
| Other | | (1) | (1) | (3) | (1) |
| **Cash flows from operations** | | **435** | **459** | **1,142** | **1,065** |
| Income tax paid | | (37) | (66) | (194) | (193) |
| **Net cash generated from operating activities** | | **398** | **393** | **948** | **872** |
| **Investing activities** | | | | | |
| Purchase of property, plant and equipment (excluding payments for the Sukhoi Log deposit) | | (223) | (115) | (510) | (255) |
| Payments for the Sukhoi Log deposit | 20 | - | - | (36) | - |
| Interest received | | 6 | 17 | 26 | 37 |
| Proceeds from repayment of loans issued | | - | 1 | - | 124 |
| Proceeds from disposal of joint venture | 8 | - | - | 100 | - |
| Proceeds from disposal of subsidiary, net of cash disposed of | | - | - | - | 10 |
| Other | | - | - | (3) | - |
| **Net cash utilised in investing activities** | | **(217)** | **(97)** | **(423)** | **(84)** |
| **Financing activities** | | | | | |
| Interest paid | | (71) | (49) | (234) | (163) |
| Commissions on borrowings paid | | (1) | - | (11) | (41) |
| Proceeds from leaseback transactions | | - | - | 11 | 2 |
| Repayments under lease | | (1) | - | (4) | - |
| Net proceeds on exchange of interest payments under interest and cross currency rate swaps | 10 | 13 | 12 | 30 | 28 |
| Payment for buy-back of shares | 15 | - | (1) | (1) | (3,443) |
| Proceeds from issuance of shares | 15 | 400 | - | 400 | - |
| Direct expenses associated with issuance of the Company's shares | | (3) | - | (3) | - |
| Proceeds from borrowings | 16 | - | 90 | 800 | 2,722 |
| Repayment of borrowings | 16 | (313) | (10) | (1,577) | (27) |
| Dividends paid to shareholders of the Company | 15 | (564) | - | (564) | - |
| Dividends paid to non-controlling interests | | (3) | (7) | (3) | (7) |
| Cash used to increase ownership in subsidiaries | | - | - | - | (3) |
| **Net cash (utilised in) / generated from financing activities** | | **(543)** | **35** | **(1,156)** | **(932)** |
| **Net (decrease) / increase in cash and cash equivalents** | | **(362)** | **331** | **(631)** | **(144)** |
| **Cash and cash equivalents at the beginning of the period** | 12 | **1,477** | **1,382** | **1,740** | **1,825** |
| Effect of foreign exchange rate changes on cash and cash equivalents | | 6 | (3) | 12 | 29 |
| **Cash and cash equivalents at the end of the period** | 12 | **1,121** | **1,710** | **1,121** | **1,710** |

## 1. GENERAL

Public Joint Stock Company Polyus (the "Company" or "Polyus") was incorporated in Moscow, Russian Federation, on 17 March 2006.

The principal activities of the Company and its controlled entities (the "Group") are the extraction, refining and sale of gold. The mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and the Sakha Republic of the Russian Federation. The Group also performs research, exploration and development works; the development works being primarily at the Natalka licence area located in the Magadan region of the Russian Federation. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 23.

The shares of the Company are "level one" listed at Moscow Exchange. On 5 July 2017, global depositary shares representing Polyus' shares (with two global depositary shares representing interest in one Polyus share) were admitted to the official list maintained by the United Kingdom Financial Conduct Authority and to trading on the main market for listed securities of the London Stock Exchange plc ("LSE"). The controlling shareholder of the Company is Polyus Gold International Limited ("PGIL"), a public limited company registered in Jersey. As at 30 September 2017 and 31 December 2016, the ultimate controlling party of the Company was Mr. Said Kerimov.

## 2. BASIS OF PREPARATION AND PRESENTATION

### Going concern

In assessing its going concern status, the Directors have taken account of the Group's financial position, expected future trading performance, its borrowings, available credit facilities and its capital expenditure commitments, considerations of the gold price, currency exchange rates and other risks facing the Group. After making appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of signing these condensed consolidated interim financial statements and that it is appropriate to adopt the going concern basis in preparing these condensed consolidated interim financial statements.

### Compliance with International Financial Reporting Standards

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* ("IAS 34"). Accordingly, the condensed consolidated interim financial statements do not include all information and disclosures required for a complete set of financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2016.

The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated interim financial statements as were applied in the Group's audited consolidated financial statements for the year ended 31 December 2016, except for the enhanced disclosure of the segments' performance by presenting two mines within Krasnoyarsk business unit as separate segments, to reflect business segments being analysed by the chief operating decision maker.

### Basis of presentation

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the Russian Federation where they are incorporated and registered. The accounting principles and financial reporting procedures in the Russian Federation may differ substantially from those generally accepted under International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board. Accordingly, such financial information has been adjusted to ensure that the condensed consolidated interim financial statements are presented in accordance with IFRS.

The condensed consolidated interim financial statements of the Group are prepared on the historical cost basis, except for *Derivative financial instruments*, which are accounted for at fair value.

### IFRS standards update

The following is a list of new or amended IFRS standards and interpretation that have been issued by the IASB that have been applied in the preparation of these condensed consolidated interim financial statements for the three and nine months ended 30 September 2017:

| Title | Subject |
|---|---|
| Amendments to IAS 7 | Statement of cash flows |
| Amendments to IAS 12 | Recognition of deferred tax assets for unrealised losses |
| Amendments to IFRS 12 | Disclosure of interests in other entities |

Adoption of the new and revised standards and interpretations as mentioned above had no effect on the amounts presented in the condensed consolidated interim financial statements for the three and nine months ended 30 September 2017 or overall presentation and disclosures.

The following standards and interpretations, which have not been applied in these condensed consolidated interim financial statements, were issued but not yet effective:

| Title | Subject | Effective for annual periods beginning on or after | Expected effect on the condensed consolidated interim financial statements |
|---|---|---|---|
| Amendments to IAS 40 | Investment property | 1 January 2018 | No effect |
| Amendments to IFRS 1 | First-time adoption of international financial reporting standards | 1 January 2018 | No effect |
| Amendments to IFRS 2 | Share-based payment | 1 January 2018 | No effect |
| 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 | Effective date deferred indefinitely | No effect |
| IFRS 15 | Revenue from contracts with customers | 1 January 2018 | Under review |
| IFRIC 22 | Foreign currency transactions and advance consideration | 1 January 2018 | No effect |
| IFRS 16 | Leases | 1 January 2019 | Under review |
| IFRIC 23 | Uncertainty over Income Tax Treatment | 1 January 2019 | Under review |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation | 1 January 2019 | Under review |

Management is currently considering the potential impact of the adoption of standards and amendments that are under review. However, it is not practicable to provide a reasonable estimate of their effect until a detailed review has been completed.

### Exchange rates

Exchange rates used in the preparation of these condensed consolidated interim financial statements were as follow:

| Russian Rouble/US Dollar | 30 Sep. 2017 | 31 Dec. 2016 |
|---|---|---|
| Period end rate | 58.02 | 60.66 |

All income or expenses and respective cash flows are translated at the monthly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions.

## 3. SIGNIFICANT ACCOUNTING POLICIES

Except as noted below, the critical accounting judgements, estimates and assumptions made by management of the Group and applied in the accompanying condensed consolidated interim financial statements for the three and nine months ended 30 September 2017 are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2016.

In the preparation of these condensed consolidated interim financial statements, the management of the Group has made a significant judgment in respect of *Initial recognition of share options agreements,* as presented below.

### Initial recognition of share options

On 16 December 2016, JSC Polyus Krasnoyarsk, a 100% subsidiary of the Group, entered into a number of put and call option agreements as well as certain other transaction documents (thereafter, the “First set of options”) with LLC RT Business Development (“RT”), a wholly owned subsidiary of Russian state-owned Rostec Corporation (“Rostec”) over the 23.9% interest in the Group’s subsidiary LLC SL Gold (“SL Gold) owned by RT. On 11 July 2017, JSC Polyus Krasnoyarsk entered into a series of additional put and call option agreements over the remaining 25.1% interest in SL Gold (thereafter, the “Second set of options”) with RT (note 20).

Based on standalone contractual rights and obligations the First set of options would be recognised as financial liabilities with a corresponding decrease in equity.

The management has concluded that the substance of the consideration payable by the Group under the First set of options represents an additional cost element of mineral rights licence for the Sukhoi Log deposit as the options were directly linked to the acquisition of the license and together with the payment for the licence itself represented a single transaction designed to achieve an overall commercial effect.

This conclusion was due mainly to the following reasons:

- the options become exercisable only if the license is received and remains valid;
- the option agreements considered on their own are not economically justified.

Similarly, as the Second set of options represented modification to the original terms of the transaction it has been concluded that a similar accounting treatment is appropriate under the circumstances. Therefore an additional liability of USD 131 million is recognised in respect of Deferred consideration payable by the Group under the Second set of options with a corresponding debit to the cost of Exploration and evaluation assets within Mineral rights (notes 9 and 20).

## 4. SEGMENT INFORMATION

For management purposes the Group is organised by separate business segments identified on a combination of operating activities and geographical area bases with separate financial information available and reported regularly to the chief operating decision maker ("CODM"). The Group enhanced the disclosure of the segmental performance by presenting two mines with Krasnoyarsk business unit as separate segments reflecting the way segments are now analysed by the chief operating decision maker. The following is a description of operations of the Group's nine identified reportable segments and those that do not meet the quantitative reporting threshold:

- ***Krasnoyarsk business unit Olimpiada mine*** (Krasnoyarsk region of the Russian Federation) – mining (including initial processing) and sale of gold from the Olimpiada mine, as well as research, exploration and development work at the Olimpiada deposit[1];
- ***Krasnoyarsk business unit Blagodatnoye mine*** (Krasnoyarsk region of the Russian Federation) – mining (including initial processing) and sale of gold from the Blagodatnoye mine, as well as research, exploration and development work at the Blagodatnoye deposit;
- ***Irkutsk alluvial business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from several alluvial deposits;
- ***Irkutsk ore business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from the Verninskoye mine, research, exploration and development works at the Smezhny and Medvezhy Zapadny deposits;
- ***Yakutia Kuranakh business unit*** (Sakha Republic of the Russian Federation) – mining (including initial processing) and sale of gold from the Kuranakh mines;
- ***Magadan business unit*** (Magadan region of the Russian Federation) – represented by JSC Matrosova Mine which performs development works at the Natalka deposit;
- ***Sukhoi Log business unit*** (Irkutsk region of the Russian Federation) – represented by SL Gold which performs exploration and evaluation works at the Sukhoi Log deposit;
- ***Exploration business unit*** (Krasnoyarsk region, Irkutsk region, Amur region, and others) – research and exploration works in several regions of the Russian Federation;
- ***Capital construction unit*** - represented by LLC Polyus Stroy, JSC TaigaEnergoStroy and JSC VitimEnergoStroy which perform construction works at Natalka, Verninskoye, Olimpiada and other deposits;
- ***Unallocated*** – the Group does not allocate segment results of companies that perform management, investing activities and certain other functions. Neither standalone results nor the aggregated results of these companies are required to be disclosed as operating segments because quantitative thresholds are not met.

The reportable gold production segments derive their revenue primarily from gold sales. The CODM performs an analysis of the operating results based on these separate business units and evaluates the reporting segment's results, for purposes of resource allocation, based on the measurements of:

- gold sales;
- ounces of gold sold, in thousands;
- adjusted earnings before interest, tax, depreciation and amortisation and other items (Adjusted EBITDA);
- total cash cost per ounce of gold sold (TCC); and
- capital expenditures.

Business segment assets and liabilities are not reviewed by the CODM and therefore are not disclosed in these condensed consolidated interim financial statements. The Group does not allocate the results of companies that perform management, investing activities and certain other administrative functions within its internal reporting.

[1] Results of Titimukhta mine are included within Krasnoyarsk business unit Olimpiada mine segment because extraction from the Titimukhta deposit is insignificant and Titimukhta processing facilities are now being used to process Olimpiada ore

| | Gold sales | Ounces of gold sold in thousand[2] | Adjusted EBITDA | TCC per ounce of gold sold (USD per ounce)[2] | Capital expenditures |
|---|---|---|---|---|---|
| **Three months ended 30 September 2017** | | | | | |
| **Business units** | | | | | |
| Krasnoyarsk - Olimpiada | 352 | 281 | 244 | 334 | 41 |
| Krasnoyarsk – Blagodatnoye | 148 | 116 | 104 | 333 | 17 |
| Irkutsk alluvial | 109 | 85 | 43 | 719 | 5 |
| Irkutsk ore | 68 | 53 | 42 | 406 | 11 |
| Yakutia Kuranakh | 56 | 43 | 30 | 472 | 17 |
| Exploration | - | - | - | - | 2 |
| Magadan | - | - | - | - | 126 |
| Capital construction | - | - | - | - | - |
| Unallocated | - | - | 12 | - | 1 |
| Sukhoi Log | - | - | - | - | 135 |
| **Total** | **733** | **578** | **475** | **380** | **355** |
| **Three months ended 30 September 2016** | | | | | |
| **Business units** | | | | | |
| Krasnoyarsk – Olimpiada | 310 | 228 | 205 | 429 | 17 |
| Krasnoyarsk – Blagodatnoye | 147 | 116 | 104 | 300 | 5 |
| Irkutsk alluvial | 132 | 100 | 70 | 514 | 5 |
| Irkutsk ore | 58 | 43 | 37 | 375 | 8 |
| Yakutia Kuranakh | 53 | 40 | 31 | 526 | 6 |
| Exploration | - | - | - | - | 4 |
| Magadan | - | - | (1) | - | 47 |
| Capital construction | - | - | - | - | 15 |
| Unallocated | - | - | (2) | - | 2 |
| **Total** | **700** | **527** | **444** | **406** | **109** |
| **Nine months ended 30 September 2017** | | | | | |
| **Business units** | | | | | |
| Krasnoyarsk – Olimpiada | 1,006 | 816 | 654 | 361 | 93 |
| Krasnoyarsk – Blagodatnoye | 440 | 346 | 311 | 312 | 30 |
| Irkutsk alluvial | 148 | 116 | 52 | 705 | 17 |
| Irkutsk ore | 201 | 160 | 120 | 403 | 23 |
| Yakutia Kuranakh | 155 | 123 | 79 | 538 | 39 |
| Exploration | - | - | - | - | 4 |
| Magadan | - | - | 3 | - | 305 |
| Capital construction | - | - | 1 | - | 13 |
| Unallocated | - | - | 17 | - | 13 |
| Sukhoi Log | - | - | - | - | 276 |
| **Total** | **1,950** | **1,561** | **1,237** | **380** | **813** |
| **Nine months ended 30 September 2016** | | | | | |
| **Business units** | | | | | |
| Krasnoyarsk – Olimpiada | 817 | 620 | 527 | 419 | 50 |
| Krasnoyarsk – Blagodatnoye | 446 | 347 | 326 | 286 | 14 |
| Irkutsk alluvial | 174 | 133 | 83 | 522 | 16 |
| Irkutsk ore | 179 | 143 | 111 | 399 | 14 |
| Yakutia Kuranakh | 148 | 118 | 85 | 495 | 18 |
| Exploration | 5 | 4 | 1 | 1,010 | 7 |
| Magadan | - | - | (1) | - | 129 |
| Capital construction | - | - | - | - | 33 |
| Unallocated | - | - | 3 | - | 14 |
| **Total** | **1,769** | **1,365** | **1,135** | **387** | **295** |

[2] Unaudited and not reviewed

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales during the three and nine months ended 30 September 2017 and 2016.

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Refined gold | 718 | 683 | 1,871 | 1,752 |
| Other gold-bearing products | 15 | 17 | 79 | 17 |
| **Total gold sales** | **733** | **700** | **1,950** | **1,769** |

Gold sales in the Irkutsk alluvial business unit are more heavily weighted towards the second half of the calendar year, with all annual sales usually occurring from May to October.

Adjusted EBITDA reconciles to the IFRS reported figures on a consolidated basis as follows:

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Profit for the period** | **371** | **390** | **974** | **889** |
| Income tax | 75 | 90 | 172 | 269 |
| Depreciation and amortisation (note 9) | 47 | 41 | 129 | 107 |
| Finance costs, net (note 7) | 43 | 32 | 151 | 105 |
| Equity-settled share-based payment plans | 6 | 4 | 13 | 10 |
| Foreign exchange gain, net | (43) | (34) | (112) | (291) |
| (Gain) / loss on investments and revaluation of derivative financial instruments (note 8) | (30) | (65) | (98) | 77 |
| Interest income | (6) | (12) | (23) | (30) |
| Special charitable contributions | 11 | - | 29 | - |
| Impairment / (reversal of impairment) | - | (1) | 6 | (2) |
| Other | 1 | (1) | (4) | 1 |
| **Adjusted EBITDA** | **475** | **444** | **1,237** | **1,135** |

The measurement of TCC per ounce of gold sold reconciles to the IFRS reported figures on a consolidated basis as follows:

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Cost of gold sales** | **264** | **253** | **719** | **632** |
| *Adjusted for:* | | | | |
| Depreciation and amortisation (note 9) | (49) | (41) | (134) | (103) |
| Depreciation, amortisation and accrual provisions in inventory change | 4 | 2 | 7 | 1 |
| **TCC**[3] | **219** | **214** | **592** | **530** |
| Ounces of gold sold, in thousand[3] | 578 | 527 | 1,561 | 1,365 |
| **TCC per ounce of gold sold, USD per ounce**[3] | **380** | **406** | **380** | **387** |

**Capital expenditures are primarily related to the following projects:**

- ***Natalka:*** The entire scope of the Mill's core process equipment was delivered and installed. The equipment piping was completed at the gravity separation, desorption, cyanidation circuits, and in the gold room. Commissioning was ongoing supervised by the engineers of the main equipment manufacturers to ensure staged delivery of the facilities.
- ***Olimpiada:*** preparation for the connection to the Razdolinskaya – Taiga power line, construction of new BIO capacities, procurement of mining fleet and capitalised mining within the 4th stage of the Vostochny pit.

[3] Unaudited and not reviewed

- ***Blagodatnoye:*** on-going optimisation and expansion of the Blagodatnoye Mill**.**
- ***Kuranakh:*** active works were on-going under the heap leaching project to ensure readiness of the facility for pilot tests. Pilot operation was launched in September, the pile was stacked and a cycle of irrigation was run, first pregnant solutions were obtained. As far as the Mill Expansion project is concerned, technical refurbishment of the Mill within the existing building is ongoing.
- ***Verninskoye:*** assembly and installation of the adsorption tanks were completed within the framework of the Verninskoye Mill Expansion project, preparation for the installation of the process equipment is on-going.

The Group's non-current assets are located in the Russian Federation.

## 5. COST OF GOLD SALES

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Labour | 81 | 62 | 206 | 158 |
| Consumables and spares | 61 | 71 | 163 | 183 |
| Depreciation and amortisation of operating assets (note 9) | 49 | 42 | 134 | 107 |
| Tax on mining | 40 | 39 | 106 | 99 |
| Fuel | 24 | 19 | 56 | 51 |
| Power | 4 | 3 | 21 | 15 |
| Outsourced mining services | 5 | 4 | 6 | 8 |
| Other | 17 | 19 | 42 | 35 |
| **Total cost of production** | **281** | **259** | **734** | **656** |
| Increase in stockpiles, gold-in-process and refined gold inventories | (17) | (6) | (15) | (24) |
| **Total** | **264** | **253** | **719** | **632** |

## 6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Salaries | 32 | 24 | 93 | 69 |
| Distribution expenses related to gold-bearing products | 1 | - | 7 | - |
| Taxes other than mining and income taxes | 3 | 3 | 9 | 8 |
| Professional services | 5 | 3 | 11 | 8 |
| Depreciation and amortisation (note 9) | 2 | - | 5 | 2 |
| Other | 5 | 5 | 15 | 11 |
| **Total** | **48** | **35** | **140** | **98** |

## 7. FINANCE COSTS, NET

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Interest on borrowings | 76 | 67 | 241 | 198 |
| Bank commissions and write-off of unamortised debt cost due to early extinguishment of the debt | 6 | - | 17 | - |
| Unwinding of discounts | 3 | 1 | 8 | 2 |
| Gain on exchange of interest payments under cross currency swaps (note 10) | (13) | (12) | (29) | (23) |
| Gain on exchange of interest payments under interest rate swaps (note 10) | - | - | (1) | (5) |
| Other | - | - | - | 1 |
| **Sub-total finance cost** | **72** | **56** | **236** | **173** |
| Interest included in the cost of qualifying assets (note 9 and 14) | (29) | (24) | (85) | (68) |
| **Total finance cost, net** | **43** | **32** | **151** | **105** |

## 8. GAIN / (LOSS) ON DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS, NET

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Revaluation (loss) / gain on ineffective part of the revenue stabiliser under Tranches 1 and 2 during cash flow hedge period (note 10) | - | 9 | (27) | (57) |
| Revaluation (loss) / gain on revenue stabiliser | (6) | 51 | (38) | (173) |
| Revaluation gain on cross currency swaps (note 10) | 36 | 11 | 73 | 132 |
| Revaluation (loss) / gain on interest rate swap (note 10) | - | (7) | (2) | 5 |
| Gain on disposal of joint venture (see below) | - | - | 92 | - |
| Gain on disposal of subsidiary | - | - | - | 16 |
| Other | - | 1 | - | - |
| **Total** | **30** | **65** | **98** | **(77)** |

In March 2017, the Group entered into an agreement to sell its 82.34% stake in a joint venture entity with Polymetal which holds the license for Nezhdaninskoe deposit.

The stake was sold for a total consideration of USD 158 million. The consideration consisted of two parts:

- cash consideration of USD 100 million payable upon completion of the transaction and which was received by the Group in March 2017;
- contingent cash consideration of USD 58 million which could be adjusted upon achievement by the project of certain operational and financial criteria payable on commissioning of the deposit and construction of the processing plant.

The difference between the cash consideration received and the carrying value of investment in the joint venture at the date of sale resulted in a gain of USD 92 million recognised in the condensed consolidated interim statement of profit or loss. The fair value of contingent consideration is linked to the achievement of certain operational and financial parameters, which cannot be yet properly assessed and evaluated given the project stage. The Group will assess the fair value once these operational and financial parameters can be reliably estimated.

## 9. PROPERTY, PLANT AND EQUIPMENT

| | Fixed assets | Mine under develop-ment | Stripping activity assets | Capital constru-ction in progress | Explora-tion and evaluation assets | Total |
|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | |
| **Balance at 31 December 2015** | **1,283** | **968** | **243** | **153** | **249** | **2,896** |
| Additions | - | 128 | 44 | 152 | 12 | **336** |
| Change in site restoration, decommissioning and environmental obligations | 4 | - | - | - | - | **4** |
| Disposals | (5) | (6) | - | (1) | - | **(12)** |
| Disposal of subsidiary | - | - | - | - | (105) | **(105)** |
| Transfers | 92 | (1) | - | (82) | - | **9** |
| Effect of translation to presentation currency | 204 | 160 | 41 | 33 | 13 | **451** |
| **Balance at 30 September 2016** | **1,578** | **1,249** | **328** | **255** | **169** | **3,579** |
| **Balance at 31 December 2016** | **1,703** | **1,370** | **353** | **301** | **306** | **4,033** |
| Additions | - | 305 | 111 | 212 | 286 | **914** |
| Change in site restoration, decommissioning and environmental obligations | 11 | - | - | - | - | **11** |
| Disposals | (18) | - | - | (1) | (15) | **(34)** |
| Reclassified as held for sale (note 14) | (55) | - | - | (97) | - | **(152)** |
| Transfers | 158 | (18) | - | (136) | - | **4** |
| Effect of translation to presentation currency | 76 | 65 | 17 | 12 | 19 | **189** |
| **Balance at 30 September 2017** | **1,875** | **1,722** | **481** | **291** | **596** | **4,965** |
| ***Accumulated amortisation, depreciation and impairment*** | | | | | | |
| **Balance at 31 December 2015** | **(663)** | **(9)** | **(45)** | **(7)** | **(149)** | **(873)** |
| Charge | (96) | - | (24) | - | - | **(120)** |
| Disposals | 5 | - | - | - | - | **5** |
| Disposal of subsidiary | - | - | - | - | 105 | **105** |
| Reversal of impairment | - | 1 | - | 1 | - | **2** |
| Transfers | (9) | - | - | - | - | **(9)** |
| Effect of translation to presentation currency | (109) | (1) | (9) | (3) | 3 | **(119)** |
| **Balance at 30 September 2016** | **(872)** | **(9)** | **(78)** | **(9)** | **(41)** | **(1,009)** |
| **Balance at 31 December 2016** | **(938)** | **(7)** | **(99)** | **(8)** | **(43)** | **(1,095)** |
| Charge | (117) | - | (39) | - | - | **(156)** |
| Disposals | 16 | - | - | - | 15 | **31** |
| Reclassified as held for sale (note 14) | 5 | - | - | - | - | **5** |
| Impairment | - | - | - | - | (2) | **(2)** |
| Transfers | - | - | - | 3 | - | **3** |
| Effect of translation to presentation currency | (42) | - | (5) | (1) | (2) | **(50)** |
| **Balance at 30 September 2017** | **(1,076)** | **(7)** | **(143)** | **(6)** | **(32)** | **(1,264)** |
| **Net book value at** | | | | | | |
| **Balance at 31 December 2015** | **620** | **959** | **198** | **146** | **100** | **2,023** |
| **Balance at 30 September 2016** | **706** | **1,240** | **250** | **246** | **128** | **2,570** |
| **Balance at 31 December 2016** | **765** | **1,363** | **254** | **293** | **263** | **2,938** |
| **Balance at 30 September 2017** | **799** | **1,715** | **338** | **285** | **564** | **3,701** |

## Mineral rights

The carrying values of mineral rights included in fixed assets, mine under development and exploration and evaluation assets were as follows:

| | 30 Sep. 2017 | 31 Dec. 2016 |
|---|---|---|
| Mineral rights presented within fixed assets | 49 | 49 |
| Mineral rights presented within mine under development | 36 | 34 |
| Mineral rights presented within exploration and evaluation assets | 449 | 159 |
| **Total** | **534** | **242** |

## Exploration and evaluation assets

The carrying values of exploration and evaluation assets were as follows:

| | 30 Sep. 2017 | 31 Dec. 2016 |
|---|---|---|
| Sukhoi Log | 430 | 141 |
| Chertovo Koryto | 29 | 28 |
| Razdolinskoye | 30 | 24 |
| Bamsky | 18 | 18 |
| Panimba | 16 | 16 |
| Smezhny | 10 | 9 |
| Blagodatnoye | 9 | 7 |
| Olimpiada | 9 | 5 |
| Burgakhchan area | 7 | 7 |
| Medvezhy Zapadny | 2 | 2 |
| Other | 4 | 6 |
| **Total** | **564** | **263** |

Amounts related to Sukhoi Log exploration and evaluation asset were capitalised as follows:

| | |
|---|---|
| **Balance at 31 December 2016** | **141** |
| Value of the First set of options on initial recognition (note 20) | 121 |
| Value of the Second set of options on initial recognition (note 20) | 131 |
| Additional payment in auction for the license | 15 |
| Additions | 1 |
| Interest capitalised | 8 |
| Effect of translation to presentation currency | 13 |
| **Balance at 30 September 2017** | **430** |

Depreciation and amortisation charge is allocated as follows:

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Cost of gold sales | 45 | 41 | 123 | 103 |
| Depreciation in change in inventory | 4 | 1 | 11 | 4 |
| **Total depreciation and amortisation within cost of production (note 5)** | **49** | **42** | **134** | **107** |
| Capitalised within capital construction-in-progress | 3 | 2 | 19 | 12 |
| Selling, general and administrative expenses (note 6) | 2 | - | 5 | 2 |
| Cost of other sales | - | - | 1 | 2 |
| **Total depreciation and amortisation** | **54** | **44** | **159** | **123** |
| Less: amortisation of other non-current assets | (3) | (1) | (3) | (3) |
| **Total depreciation of property, plant and equipment** | **51** | **43** | **156** | **120** |

### Capitalised borrowing costs

Included in the cost of *qualifying assets* are capitalised borrowing costs consisted of the following:

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Interest expenses (note 7) | 27 | 24 | 83 | 68 |
| Foreign exchange gain | - | (3) | 1 | (2) |
| Interest income on bank deposits | (1) | (2) | (3) | (7) |
| **Total** | **26** | **19** | **81** | **59** |

## 10. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS

| | **30 Sep. 2017** | **31 Dec. 2016** |
|---|---|---|
| **Non-current derivative assets and investments** | | |
| Revenue stabiliser | - | 32 |
| Cross currency swaps | 23 | 10 |
| Interest rate swaps | 6 | 7 |
| Investment in joint venture | - | 7 |
| Loans issued | 1 | 1 |
| **Sub-total** | **30** | **57** |
| **Current derivative assets and investments** | | |
| Revenue stabiliser | - | 10 |
| **Sub-total** | - | **10** |
| **Total derivative assets and investments** | **30** | **67** |
| **Non-current derivative liabilities** | | |
| Cross currency swaps | 393 | 434 |
| Revenue stabiliser | 63 | 22 |
| **Total non-current derivative liabilities** | **456** | **456** |

### Strategic Price Protection Programme

In March 2014, the Group initiated a Strategic Price Protection Programme (the “Programme”).

Under the Programme, the Group has entered into a series of price protection arrangements comprised of two components:

- zero cost Asian gold collars (“revenue stabiliser”); and
- gold forward contracts.

### Revenue stabiliser

The revenue stabiliser component represents a series of zero cost Asian barrier collar agreements to purchase put options and sell call options with “knock-out” and “knock-in” barriers.

During the nine months ended 30 September 2017, there were no changes in the revenue stabiliser option agreements. Scheduled quarterly exercise of the options resulted in the following realised gains on derivatives included within gold sales for the respective reporting periods:

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Realised gains on derivatives | - | 4 | 22 | 41 |

The allocation of volumes between years under the revenue stabiliser agreements (thousand ounces) is presented below:

| | | **Year ended 31 December** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Total** | **2014** | **2015** | **2016** | **2017** | | **2018** | | **2019** | | **2020** |
| | | 1-3 years | 1-3 years | 1-3 years | 1-3 years | 4th year | 1-3 years | 4th year | 1-3 years | 4th year | 4th year |
| ***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 | **(1,110)** | (225) | (300) | (300) | (75) | (210) | - | - | - | - | - |
| **Outstanding as of 30 September 2017** | **210** | **-** | **-** | **-** | **-** | **105** | **-** | **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 | **(450)** | (60) | (120) | (120) | (60) | (90) | - | - | - | - | - |
| **Outstanding as of 30 September 2017** | **270** | **-** | **-** | **-** | **-** | **90** | **-** | **180** | **-** | **-** | **-** |
| ***Tranche 3 (covering the period 1 January 2016 – 31 December 2019)*** | | | | | | | | | | | |
| Total as per options agreements | **1,680** | - | - | 280 | 280 | - | 280 | - | - | 840 | - |
| Exercised | **(490)** | - | - | (280) | (210) | - | - | - | - | - | - |
| **Outstanding as of 30 September 2017** | **1,190** | **-** | **-** | **-** | **70** | **-** | **280** | **-** | **-** | **840** | **-** |
| ***Tranche 4 (covering the period 1 April 2016 – 31 December 2020)*** | | | | | | | | | | | |
| Total as per options agreements | **570** | - | - | 75 | 70 | - | 100 | - | 25 | 225 | 75 |
| Exercised | **(120)** | - | - | (75) | (45) | - | - | - | - | - | - |
| **Outstanding as of 30 September 2017** | **450** | **-** | **-** | **-** | **25** | **-** | **100** | **-** | **25** | **225** | **75** |
| **Total outstanding as of 30 September 2017** | **2,120** | **-** | **-** | **-** | **95** | **195** | **380** | **285** | **25** | **1,065** | **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) is presented below:

| | **Year ended 31 December** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | | **2018** | | **2019** | | **2020** |
| | 1-3 years | 1-3 years | 1-3 years | 1-3 years | 4th year | 1-3 years | 4th year | 1-3 years | 4th year | 4th year |
| **Put** | | | | | | | | | | |
| Strike | 1,378 | 1,377 | 1,314 | 1,242 | 1,104 | 1,242 | 1,103 | 1,271 | 977 | 1,000 |
| Knock-out barrier | 950 | 950 | 916 | 900 | 900 | 900 | 900 | 900 | 927 | 950 |
| **Call** | | | | | | | | | | |
| Strike | 1,498 | 1,491 | 1,422 | 1,350 | 1,528 | 1,350 | 1,519 | 1,350 | 1,192 | 1,420 |
| Knock-in barrier | 1,633 | 1,618 | 1,531 | 1,450 | 1,704 | 1,450 | 1,687 | 1,450 | 1,357 | 1,620 |

The allocation of strikes and barriers (USD per ounce) between years under the revenue stabiliser agreements is presented below:

| | Year ended 31 December | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | | **2018** | | **2019** | | **2020** |
| | 1-3 years | 1-3 years | 1-3 years | 1-3 years | 4th year | 1-3 years | 4th year | 1-3 years | 4th year | 4th year |
| ***Tranche 1 (covering the period 1 April 2014 - 30 March 2018)*** | | | | | | | | | | |
| **Put** | | | | | | | | | | |
| Strike | 1,383 | 1,383 | 1,383 | 1,383 | 1,107 | - | 1,107 | - | - | - |
| Knock-out barrier | 950 | 950 | 921 | 911 | 900 | - | 900 | - | - | - |
| **Call** | | | | | | | | | | |
| Strike | 1,518 | 1,518 | 1,518 | 1,518 | 1,551 | - | 1,551 | - | - | - |
| Knock-in barrier | 1,662 | 1,655 | 1,634 | 1,634 | 1,750 | - | 1,750 | - | - | - |
| ***Tranche 2 (covering the period 1 July 2014 – 29 June 2018)*** | | | | | | | | | | |
| **Put** | | | | | | | | | | |
| Strike | 1,359 | 1,359 | 1,359 | 1,359 | 1,100 | - | 1,100 | - | - | - |
| Knock-out barrier | 950 | 950 | 950 | 950 | 900 | - | 900 | - | - | - |
| **Call** | | | | | | | | | | |
| Strike | 1,425 | 1,425 | 1,425 | 1,425 | 1,500 | - | 1,500 | - | - | - |
| Knock-in barrier | 1,525 | 1,525 | 1,525 | 1,525 | 1,650 | - | 1,650 | - | - | - |
| ***Tranche 3 (covering the period 1 January 2016 – 31 December 2019)*** | | | | | | | | | | |
| **Put** | | | | | | | | | | |
| Strike | - | - | 1,232 | 1,232 | - | 1,232 | - | - | 971 | - |
| Knock-out barrier | - | - | 900 | 900 | - | 900 | - | - | 921 | - |
| **Call** | | | | | | | | | | |
| Strike | - | - | 1,350 | 1,350 | - | 1,350 | - | - | 1,391 | - |
| Knock-in barrier | - | - | 1,450 | 1,450 | - | 1,450 | - | - | 1,591 | - |
| ***Tranche 4 (covering the period 1 April 2016 – 31 December 2020)*** | | | | | | | | | | |
| **Put** | | | | | | | | | | |
| Strike | - | - | 1,271 | 1,271 | - | 1,271 | - | 1,271 | 1,000 | 1,000 |
| Knock-out barrier | - | - | 900 | 900 | - | 900 | - | 900 | 950 | 950 |
| **Call** | | | | | | | | | | |
| Strike | - | - | 1,300 | 1,300 | - | 1,350 | - | 1,350 | 1,350 | 1,420 |
| Knock-in barrier | - | - | 1,433 | 1,450 | - | 1,450 | - | 1,450 | 1,450 | 1,620 |

As a result of Tranche 1 of the revenue stabiliser, the Group ensures a minimum weighted average price of USD 1,383 per ounce for 300 thousand ounces of gold output annually during the first three years of the Programme, provided the gold price does not fall below USD 911 per ounce. During the first three years the Group benefits from price increases until the gold price reaches USD 1,634 per ounce, in which case the weighted average price is capped at USD 1,518 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted average price of USD 1,107 per ounce for the price-protected amount of 420 thousand ounces, provided the gold price does not fall below USD 900 per ounce. Additionally, in the fourth year of the Programme, the Group will have an obligation to sell 420 thousand ounces of gold at USD 1,551 per ounce should the gold price exceed USD 1,750 per ounce.

As a result of Tranche 2 of the revenue stabiliser, the Group ensures a minimum weighted average price of USD 1,359 per ounce for 120 thousand ounces of gold annually output during the first three years of the Programme, provided the gold price does not fall below USD 950 per ounce. During the first three years the Group benefits from price increases until the gold price reaches USD 1,525 per ounce, in which case the weighted average price is capped at USD 1,425 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted average price of USD 1,100 per ounce for the price-protected amount of 360 thousand ounces, provided the gold price does not fall below USD 900 per ounce. Additionally, in the fourth year of the Programme, the Group will have an obligation to sell 360 thousand ounces of gold at USD 1,500 per ounce should the gold price exceed USD 1,650 per ounce.

As a result of Tranche 3 of the revenue stabiliser, the Group ensures a minimum weighted average price of USD 1,232 per ounce for 280 thousand ounces of gold annually output during the first three years of the Programme, provided the gold price does not fall below USD 900 per ounce. During the first three years the Group benefits from price increases until the gold price reaches USD 1,450 per ounce, in which case the weighted average price is capped at USD 1,350 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted average price of USD 971 per ounce for the price-protected amount of 840 thousand ounces, provided the gold price does not fall below USD 921 per ounce. Additionally, in the fourth year of the Programme, the Group will have an obligation to sell 840 thousand ounces of gold at USD 1,391 per ounce should the gold price exceed USD 1,591 per ounce.

As a result of Tranche 4 of the revenue stabiliser, the Group ensures a minimum weighted average price of USD 1,271 per ounce for 270 thousand ounces of gold output during the first three years of the Programme, provided the gold price does not fall below USD 900 per ounce. During the first three years the Group benefits from price increases until the weighted average gold price reaches USD 1,450 per ounce for 175 thousand ounces, in which case the weighted average price is capped at USD 1,350 per ounce. Thereafter (period from 1 April 2019 to 31 December 2020 of the Programme), the Group ensures a minimum weighted average price of USD 1,000 per ounce for the price-protection amount of 300 thousand ounces, provided the gold price does not fall below USD 950 per ounce. Additionally, the Group will have an obligation to sell 375 thousand ounces of gold at the weighted average gold price USD 1,406 per ounce should the weighted average gold price exceed USD 1,586 per ounce.

The revenue stabiliser options are exercised quarterly.

On 30 June 2017, following the scheduled release of all amounts previously recognised in the condensed consolidated interim statement of comprehensive income into the condensed consolidated interim statement of profit or loss within Gold sales line, the hedges for Tranches 1 and 2 were de-designated and hedge accounting in terms of IAS 39 no longer applies on prospective basis, because strikes on remaining options are out of the forecasted gold price. Starting from 1 July 2017 remaining outstanding options of the Tranches 1 and 2 are accounted at fair value through profit or loss (note 8).

Because Tranches 1 and 2 of the revenue stabiliser arrangements were designated as a cash flow hedge until 30 June 2017 any change in the intrinsic value of the collars was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity, whilst the remaining change in the fair value was reflected in the consolidated statement of profit or loss (note 8). During the nine months ended 30 September 2017, under Tranches 1 and 2, a gain of USD 4 million was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity (the nine months ended 30 September 2016: a loss of USD 62 million) and following the sale of the hedged volume of gold and the exercise of certain options USD 19 million was subsequently reclassified to Gold sales within the consolidated statement of profit or loss (the nine months ended 30 September 2016: USD 33 million).

Tranches 3 and 4 continue to be accounted at fair value through profit or loss. The change in their fair value is presented within the note 8 of the consolidated statement of profit or loss and following the sale of the hedged volume of gold and the exercise of certain options USD 3 million was subsequently reclassified to *Gold sales* within the consolidated statement of profit or loss (the nine months ended 30 September 2016: USD 4 million).

Initially, the revenue stabiliser agreements are recognised at fair value using a Monte Carlo simulation model. Input data used in the valuation model (spot gold prices and volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13.

**Cross currency swaps**

***RUB denominated credit facilities with fixed interest rate***

During the year ended 31 December 2014, the Group entered into cross currency swaps with leading Russian banks to economically hedge interest payments and principal amounts nominated in RUB. According to the cross currency swap agreements dated to 2014 the Group quarterly paid to the banks LIBOR + Margin 2.47% in USD and received from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group has to exchange principal amounts paying USD 1,023 million and receiving RUB 35,999 million.

Following certain amendments to the previous cross currency contracts and new fixed rate swap, offsetting the floating swap, that took place in 2016, the following terms were in place as of 30 September 2017:

- the Group quarterly pays to the banks 3.94% in USD and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group exchanges principal amounts paying USD 808 million and receiving RUB 28,443 million (amended terms of cross currency swap agreements with the same banks dated to 2014);
- the Group quarterly pays to the banks 3.98% in USD and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group exchanges principal amounts paying USD 215 million and receiving RUB 7,557 million. These terms were achieved by keeping unchanged previous cross currency contracts and entering into new fixed rate swaps.

***Rusbonds***

In 2015, the Group entered into cross currency swaps with leading Russian banks for a total amount of RUB 15 billion to economically hedge interest payments and principal amounts for Rusbonds. According to the cross currency swap agreements the Group will semi-annually pay to the banks (6MLIBOR + Margin 4.45% for RUB 10 billion and + 5.9% for RUB 5 billion) in USD and receive from the banks 12.1% in RUB; and at maturity (July 2021) the Group will exchange principal amounts paying USD 255 million and receiving RUB 15 billion.

According to IAS 39, the swaps were not eligible to be designated as cash flow or fair value hedges. The Group accounted for these derivative financial instruments at fair value through profit or loss which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps are recognised in the consolidated statement of profit or loss (note 8). The gain or loss on the exchange of interest payments is recognised within the *Finance cost, net* (note 7).

The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

**Interest rate swaps**

In 2014, the Group entered into interest rate swap agreements with leading Russian banks, according to which the Group pays semi-annually and until 29 April 2020 LIBOR + 3.55% in USD and receives 5.625% in USD in respect of a USD 750 million nominal amount. The purpose of this swap was to decrease the effective interest rate for the USD 750 million Eurobonds.

In 2016, the Group signed new offsetting interest rate swap agreements, according to which the Group pays semi-annually and until 29 April 2020 5.342% in USD and receives LIBOR + 3.55% in USD in respect of a USD 750 million nominal amount, to effectively swap variable interest rate payments under 2014 interest rate swaps into fixed ones.

In 2016, certain of the new interest rate swap agreements were concluded with the same counterparties and will settle on a net basis. Those swaps are presented on a net basis.

According to IAS 39, the swaps were not eligible to be designated as either a cash flow or fair value hedge. The Group accounts for it at fair value through profit or loss which was determined using a discounted cash flow valuation technique.

Changes in the fair value of the interest rate swaps are recognised in the consolidated statement of profit or loss (note 8). The gain or loss on the exchange of interest payments is recognised within the *Finance cost* (note 7).

The fair value measurement is based on inputs (forward USD LIBOR rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

## 11. INVENTORIES

| | 30 Sep. 2017 | 31 Dec. 2016 |
|---|---|---|
| **Inventories expected to be recovered after 12 months** | | |
| Stockpiles | 287 | 253 |
| Gold-in-process | 13 | 11 |
| **Sub-total** | **300** | **264** |
| **Inventories expected to be recovered in the next 12 months** | | |
| Stockpiles | 50 | 51 |
| Gold-in-process | 66 | 54 |
| Refined gold | 19 | 23 |
| Stores and materials | 304 | 253 |
| Less: provision for obsolete and slow-moving stores and materials | (12) | (12) |
| **Sub-total** | **427** | **369** |
| **Total** | **727** | **633** |

## 12. CASH AND CASH EQUIVALENTS

| | 30 Sep. 2017 | 31 Dec. 2016 |
|---|---|---|
| Bank deposits | | |
| - USD | 798 | 1,443 |
| - RUB | 53 | 82 |
| Current bank accounts | | |
| - USD | 212 | 41 |
| - RUB | 17 | 82 |
| Cash in the Federal Treasury | 41 | 74 |
| Other cash and cash equivalents | - | 18 |
| **Total** | **1,121** | **1,740** |

Bank deposits within *Cash and cash equivalents* include deposits with original maturity less than three months or repayable on demand without loss on principal and accrued interest amounts denominated in RUB and USD and accrue interest at the following rates:

| | | |
|---|---|---|
| - USD | 0.8 – 3.2% | 1.1 - 4.4% |
| - RUB | 7.1 – 8.2% | 8.4 - 10.2% |

## 13. TAXES RECEIVABLE

| | 30 Sep. 2017 | 31 Dec. 2016 |
|---|---|---|
| Reimbursable value added tax | 93 | 73 |
| Income tax prepaid | 18 | 9 |
| Other prepaid taxes | 8 | 7 |
| **Total** | **119** | **89** |

## 14. ASSETS CLASSIFIED AS HELD FOR SALE

The Group reached preliminary agreements and expects within one year time to dispose of a part of the 110 kW Peleduy-Polyus grid from the Peleduy sub-station to pylon No.809, 220 kW Razdolinskaya Taiga grid and 220 kW sub-station Taiga from the Capital construction business segment. Accordingly, cost of those assets was reclassified from property, plant and equipment to assets held for sale. USD 98 million are expected to be repaid to the Group within a period of more than one year after the sale, while remaining USD 47 million within one year period.

Impairment loss of USD 4 million was recognised as the management of the Group have indicators that the fair value of these assets is lower than their carrying amount**.**

During the nine months ended 30 September 2017 USD 2 million of borrowings costs were capitalised into the cost of the assets classified as held for sale.

## 15. SHARE CAPITAL

Authorised, issued and fully paid share capital of the Company as of 30 September 2017 comprised 133,561,119 ordinary shares at par value of RUB 1.

**Purchase of the Company's shares**

On 22 December 2016, the majority of the Company's shareholders approved the merger of LLC Polyus-Invest, a then indirect 100% subsidiary of the Company, into the Company. At the same time certain shareholders who did not participate in the shareholders meeting or voted against the reorganisation demanded the Company to purchase their shares. On 3 March 2017, as a result of the completion of the above mentioned transactions, the Company purchased 13,556 ordinary shares (0.01% ownership) at 4,497 RUB per share.

**Treasury shares**

On 7 April 2017, LLC Polyus-Invest merged into PJSC Polyus, a then 100% direct subsidiary of the Company, as a result of which 63,082,318 of PJSC Polyus treasury shares were cancelled on 10 April 2017, and 1,926,756 remained as treasury shares. Following the Polyus shares transfer under the SL Gold options in July 2017, the number of treasury shares decreased by 290,049 and comprised 1,636,707 (note 20).

**Offering of shares and global depositary shares of the Company ("Offering")**

The Offering comprised an offering by the Company of newly issued shares of the Company ("New Shares") in the Russian Federation and offering of existing shares ("Shares") and global depositary shares ("GDSs") of the Company by PGIL and Polyus Gold plc both in the Russian Federation and outside of the Russian Federation as well as through the facilities of the LSE. The total size of the Offering amounted to USD 858 million, including New Shares issued by the Company for a total amount of USD 400 million, and Shares and GDSs sold by PGIL, including over-allotment Shares and GDSs, constituting USD 458 million.

On 30 June 2017, the Company announced price of the Offering, which was USD 66.50 per share and USD 33.25 per GDS (1 share = 2 GDS). The New Shares in the total amount of 6,015,690 were issued and paid in July 2017, which was presented as an increase in the Additional paid-in capital in the amount of USD 389 million, net of directly attributable accrued expenses of USD 14 million, before income tax effect of USD 3 million.

### Weighted average number of ordinary shares

The weighted average number of ordinary shares for the three and nine months ended 30 September 2017 and 2016 used in the calculation of basic and diluted earnings per share ("EPS") is presented below:

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Ordinary shares'000 in issue at the beginning of the reporting period** | **125,717** | **130,109** | **125,632** | **190,628** |
| Treasury shares | - | - | (14) | (60,519) |
| New Shares issued during the Offering | 5,917 | - | 6,016 | - |
| Purchase of additional ownership in SL Gold through issuance of treasury shares | 290 | - | 290 | - |
| **Weighted average number of ordinary shares'000 – basic EPS** | **131,218** | **130,109** | **127,516** | **145,846** |
| Deferred consideration for SL Gold ownership interest (note 20) | 1,027 | - | 348 | - |
| LTIP | 406 | - | 213 | - |
| **Weighted average number of ordinary shares'000 – diluted EPS** | **132,651** | **130,109** | **128,077** | **145,846** |
| Profit after tax attributable to the Shareholders of the Company (million USD) | 360 | 367 | 969 | 863 |
| Effect of potential dilution (million USD) | 2 | - | 4 | - |
| **Profit after tax attributable to the Shareholders of the Company for diluted EPS calculation (million USD)** | **362** | **367** | **973** | **863** |

### Dividends

On 30 June 2017 the Company declared 2016 dividends in the total amount of RUB 20,063 million (USD 340 million) or 152.41 RUB per share (USD 2.58), including USD 100 million of special dividends (at the exchange rate of 59.09 RUB/USD as of 30 June 2017). The dividends were paid in July-August 2017 and were not allocated on treasury shares. The USD 16 million related to the New Shares.

On 15 September 2017 the Company declared dividends for the six months ended 30 June 2017 in the total amount of RUB 13,760 million (USD 239 million) or 104.3 RUB per share (USD 1.81) (at the exchange rate of 57.77 RUB/USD as of 15 September 2017). The dividends were mostly paid in September 2017, with the remaining amount of approximately USD 10 million paid in October 2017, and were not allocated on treasury shares.

## 16. BORROWINGS

| | Nominal rate % | 30 Sep. 2017 | 31 Dec. 2016 |
|---|---|---|---|
| Credit facilities with financial institutions nominated in USD with variable interest rates | USD LIBOR + 4.50% | 1,240 | 2,513 |
| USD 750 million Eurobonds with fixed interest rate due in 2020 | 5.625% | 745 | - |
| USD 500 million Eurobonds with fixed interest rate due in 2022 | 4.699% | 494 | - |
| USD 800 million Eurobonds with fixed interest rate due in 2023 | 5.250% | 793 | - |
| PGIL USD-credit facilities with fixed interest rate | 4.799% - 5.725% | - | 1,237 |
| Credit facilities with financial institutions nominated in RUB with fixed interest rates | 10.35% | 571 | 541 |
| Credit facilities with financial institutions nominated in USD with fixed interest rates | 4.10% | 67 | 331 |
| Notes due in 2025 (Rusbonds) with noteholders' early repayment option in 2021 | 12.1% | 263 | 253 |
| Credit facilities with financial institutions nominated in RUB with variable interest rates | Central bank rate + 2.3% | 85 | 81 |
| Letters of credit with deferred payments terms with variable rates | Euribor +1.8%, USD LIBOR + 1.15% | - | 19 |
| Lease liabilities nominated with fixed interest rates in USD | 5.1% - 8.5% | 14 | 6 |
| **Sub-total** | | **4,272** | **4,981** |
| Less: short-term borrowings and current portion of long-term borrowings due within 12 months | | (10) | (283) |
| **Long-term borrowings** | | **4,262** | **4,698** |

The Company and subsidiaries of the Group from time to time obtain credit facilities from different financial institutions and issue notes to finance capital investment projects and for general corporate purposes.

### Eurobonds

On 7 February 2017, PGIL issued USD 800 million Notes due in 2023 that have a coupon of 5.25% per annum and are guaranteed by the Company. On 14 February 2017, the Company borrowed USD 800 million from PGIL, which were used for refinancing of other borrowings.

During April and May 2017, all rights and obligations under the USD 800 million Notes due in 2023, the USD 750 million Notes due in 2020 and the USD 500 million Notes 2022 were transferred from PGIL to Polyus Finance Plc, a 100% subsidiary of JSC Polyus Krasnoyarsk. Accordingly, all rights and obligations for the same amount under the loan from PGIL to JSC Polyus Krasnoyarsk were transferred from PGIL to Polyus Finance Plc.

### Repayment of debt

During the 9 months 2017 USD 1,563 million of credit facilities were repaid in advance of the payment schedule.

### Unused credit facilities

In 2014, one of the Group's subsidiaries entered into a five year RUB 40,000 million credit line with a bank to fund its general corporate purposes. As of 30 September 2017, the amount of unused credit facilities was RUB 40,000 million, which is equivalent to USD 689 million at 30 September 2017 exchange rate.

**Pledge**

As of 30 September 2017 and 31 December 2016, all shares of JSC TaigaEnergoStroy, belonging to the Group, were pledged to secure a credit line.

**Other matters**

There were a number of financial covenants under several loan agreements in effect as of 30 September 2017 according to which the respective subsidiaries of the Company and the Company itself are limited in its level of leverage and other financial and non-financial parameters.

The Group tests covenants quarterly and was in compliance with the covenants as of 30 September 2017.

***Rusbonds and its reclassifications***

On 22 December 2016, the Company's shareholders approved the merger of LLC Polyus-Invest into PJSC Polyus. Pursuant to Article 60 of the Russian Civil Code, immediately thereafter the holders of Rusbonds became entitled to an early redemption of the bonds. As a result, the full outstanding amount of Rusbonds was reclassified to short-term as of 31 December 2016.

The bondholders had to notify the issuer by 24 March 2017 to exercise their right, but such notifications from bondholders were not received and accordingly, the full outstanding amount of Rusbonds was reclassified back to long-term starting from 24 March 2017.

***Fair value measurements***

Except as detailed in the following table, the directors consider that the carrying amounts of financial liabilities recorded at amortised cost in the financial statements approximate to their fair values due to the short term nature of the liabilities.

| | 30 Sep. 2017 | | 31 Dec. 2016 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial liabilities** | | | | |
| Borrowings (Level 2) | 1,977 | 1,994 | 4,728 | 4,248 |
| Eurobonds (Level 1) | 2,032 | 2,142 | - | - |
| Rusbonds (Level 1) | 263 | 293 | 253 | 272 |
| **Total** | **4,272** | **4,429** | **4,981** | **4,520** |

Whilst measured at amortised cost, the fair value measurement of all of the Group's borrowings except for the Eurobonds and Rusbonds is within Level 2 of the fair value hierarchy in accordance with IFRS 13. The fair value of the Eurobonds and Rusbonds is within Level 1 of the fair value hierarchy, because the Eurobonds and Rusbonds are publicly traded in an active market.

The fair value measurement of other borrowings is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB interest rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value.

## 17. TRADE AND OTHER PAYABLES

| | 30 Sep. 2017 | 31 Dec. 2016 |
|---|---|---|
| Wages and salaries payable | 73 | 77 |
| Interest payable | 54 | 58 |
| Trade payables to third parties | 50 | 34 |
| Other accounts payable and accrued expenses | 81 | 32 |
| Accrued annual leave | 30 | 21 |
| Dividends payable to shareholders | 11 | - |
| **Total** | **299** | **222** |

## 18. TAXES PAYABLE

| | 30 Sep. 2017 | 31 Dec. 2016 |
|---|---|---|
| Income tax payable | 17 | 40 |
| Value added tax | 13 | 30 |
| Tax on mining | 14 | 11 |
| Social taxes | 7 | 6 |
| Property tax | 2 | 3 |
| Other taxes | 3 | 3 |
| **Total** | **56** | **93** |

## 19. DEFERRED REVENUE

On 13 September 2016, the Ministry for the Development of the Russian Far East (the "Minvostokrazvitiya") and JSC Matrosova Mine (the Matrosova Mine), a 100% subsidiary of the Group representing Magadan business unit, signed-off an agreement under which Minvostokrazvitiya has to provide to Matrosova Mine government grant in the following expected amounts:

| **During the year ended 31 December** | 30 Sep. 2017 |
|---|---|
| 2016 (fully received) | 79 |
| 2017 (expected to be received by the end of 2017) | 45 |
| 2018 | 27 |
| **Total** | **151** |

During the three months ended 30 September 2017, following the project documentation update, the overall amount of the grant was decreased to RUB 8,797 million (USD 151 million), (amount of the third tranche decreased to RUB 1,570 million (USD 27 million).

| | |
|---|---|
| **Carrying value as of 31 December 2016** | 76 |
| Effect of translation to presentation currency | 3 |
| **Carrying value as of 30 September 2017** | **79** |

Under the agreement Matrosova Mine receives the government grant, cash from which should be used for the construction of: (i) electricity transmission line 220 kW "Ust'-Omchug – Omchak New", (ii) 220 kW distribution point and (iii) electric power substation for 220 kW "Omchak New". The construction is expected to be completed during the second quarter of the year ending 31 December 2019. Unutilised balance of the government grant will have to be returned to Minvostokrazvitiya. JSC Polyus Krasnoyarsk is a guarantor under the agreement.

## 20. DEFERRED CONSIDERATION

On 16 December 2016, JSC Polyus Krasnoyarsk entered into the First set of options with RT, a wholly owned subsidiary of Rostec. Under these option agreements the Group was expected to increase its ownership interest in SL Gold, then a 51% subsidiary of the Group[4], by 23.9% within following five years (with a right to accelerate the exercise of the Group's call options) for an undiscounted consideration of USD 139 million (note 3).

On 26 January 2017, the date when the Group became committed to the First set of option agreements, it recognised a liability for the gross amount payable under the respective put options at USD 121 million (note 9), being the discounted amount of contractual cash flows measured by applying the appropriate discount factors based on observable market data on that date and varying from 3.0% to 4.9% p.a.

In May 2017, the Group exercised certain part of the First set of options paying USD 21 million in cash increasing its ownership in the share capital of SL Gold by 3.6% to 54.6%.

On 11 July 2017, JSC Polyus Krasnoyarsk entered into the Second set of options with RT. Under these option agreements, the Group is expected to increase its ownership interest in SL Gold by an additional 25.1% taking its total interest to 100% within the following five years (with a right to accelerate the Group's call options) for an undiscounted consideration of USD 146 million (note 3). The consideration shall be payable by a variable number of the Company's shares with a fair value at the exercise date equal to a fixed US Dollar amount. The Group recognised a liability for the gross amount payable under the respective put options in the Second set of options at USD 131 million (Note 9), being the discounted amount of contractual cash flows measured by applying the appropriate discount factors based on observable market data and varying from 2.7% to 4.5% p.a.

In July 2017, the Group increased effective ownership in SL Gold (note 23) from 54.6% to 58.4% paying in kind by Polyus treasury shares valued at USD 22 million respectively.

The movement in the carrying value of share option liabilities was as follows:

| | |
|---|---|
| **Balance at 31 December 2016** | **-** |
| Value of the First set of options on initial recognition (note 9) | 121 |
| Value of the Second set of options on initial recognition (note 9) | 131 |
| Unwinding of interest on deferred consideration | 4 |
| Settled in cash | (21) |
| Settlement of obligation in the form of treasury shares | (22) |
| Foreign exchange gain, net | (8) |
| Effect of translation to presentation currency | 9 |
| **Balance at 30 September 2017** | **214** |

The fair value measurement on the date of initial recognition is based on inputs (spot currency exchange rates and discount rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value. As of 30 September 2017, the fair value of the *Deferred consideration* approximately equals to USD 217 million.

[4] In May and July 2017, the Group increased effective ownership in SL Gold (note 20) from 51.0% to 58.4% for a cash consideration of USD 21 million and Polyus shares transfer valued at USD 22 million.

## 21. RELATED PARTIES

Related parties include substantial shareholders, entities under common ownership and control within the Group and members of key management. The Company and its subsidiaries, in the ordinary course of business, generally obtain and issue loans from / (to) related parties and make appropriate accruals and cash receipts of interest income and expense.

### Immediate shareholder

The Group recognised the following amounts in respect of transactions with its parent entity:

| | 30 Sep. 2017 | 31 Dec. 2016 |
|---|---|---|
| Trade and other receivables | - | - |
| Borrowings (note 16) | - | 1,237 |
| Trade and other payables | - | 12 |

The Group entered into the following transactions with parent entity:

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Interest income | - | 2 | - | 6 |
| Interest received | - | 7 | - | 7 |
| Interest expense | - | - | 19 | 1 |
| Interest capitalised | - | 11 | 16 | 33 |
| Transfer of PGIL Notes (note 16) | - | - | 2,050 | - |
| Proceeds from borrowings | - | - | 800 | - |
| Repayment of borrowing and interest accrued | - | - | 46 | 23 |
| Proceeds from loans given | - | - | - | 123 |
| Buy-back of treasure shares | - | - | - | 3,423 |
| Settlement of issued loans by own shares (note 15) | - | 269 | - | 269 |

### Key management personnel

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Short-term compensation paid to key management personnel accrued | 4 | 3 | 13 | 18 |
| Equity-settled share-based payments plans (LTIP) | 7 | 4 | 15 | 10 |
| **Total** | **11** | **7** | **28** | **28** |

## 22. COMMITMENTS AND CONTINGENCIES

### Capital commitments

The Group's contracted capital expenditure commitments are as follows:

| | 30 Sept. 2017 | 31 Dec. 2016 |
|---|---|---|
| Project Natalka | 157 | 190 |
| Other capital commitments | 141 | 67 |
| **Total** | **298** | **257** |

### Contingencies

#### *Litigations*

In the ordinary course of business, the Group is subject to litigation, the outcome of which is uncertain and could give rise to adverse outcomes. At the date of issuance of these condensed consolidated interim financial statements there were no material claims or litigation applicable to the Group.

### *Taxation contingencies in the Russian Federation*

Laws and regulation affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant. With regards to matters where practice concerning payment of taxes is unclear, management estimates that there were no tax exposures as of 30 September 2017.

In August 2016 JSC Polyus Verninskoye, a wholly owned subsidiary of the Group, commenced applying Regional Investment Program preferential tax regime to Irkutsk Ore business unit. In June 2017, the tax authorities completed a tax audit and challenged certain aspects of the application of reduced income tax rates (regional part) from the standard 17% to 0% from 1 January 2017 onwards. Management believes that the assumptions made regarding the Group's compliance with the Regional Investment Program requirements as of 31 December 2016 and 30 September 2017 are appropriate and intends to defend its position with the tax authorities. Had the Group applied the standard regional tax rate, income tax expense for the nine months ended 30 September 2017 would be higher by USD 16 million (three months ended 30 September 2017: USD 6 million). However, to avoid late payment interest (should the case be resolved against Polyus Verninskoye) the tax has been prepaid to the budget. This prepayment is recognised as an asset in the Group's consolidated statement of financial position.

### *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 changes 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.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

## 23. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

| Subsidiaries | Nature of business | Effective % held[5] at 30 Sept. 2017 | Effective % held[5] at 31 Dec. 2016 |
|---|---|---|---|
| **Incorporated in Russian Federation** | | | |
| JSC Polyus Krasnoyarsk (renamed, previously JSC "Gold Mining Company Polyus") | Mining (open pit) | 100 | 100 |
| JSC Aldanzoloto GRK | Mining (open pit) | 100 | 100 |
| JSC Polyus Verninskoye (renamed, previously 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[6] | Exploration and evaluation of Sukhoi Log deposit | 58 | 51 |

## 24. EVENTS AFTER THE REPORTING DATE

There were no events subsequent to the reporting date that should be disclosed in these condensed consolidated interim financial statements.

[5] Effective % held by the Company, including holdings by other subsidiaries of the Group.
[6] In May and July 2017, the Group increased effective ownership in SL Gold (note 20) from 51.0% to 58.4% for a cash consideration of USD 21 million and Polyus shares transfer valued at USD 22 million.

**ANNEX A: PJSC POLYUS TRADING UPDATE FOR THE FOURTH QUARTER AND THE TWELVE MONTHS ENDED 31 DECEMBER 2017**

# PJSC POLYUS

TRADING UPDATE FOR 4Q and 2017

POLYUS

## RELEASE TIME IMMEDIATE

16 January, 2018

*PJSC Polyus ("Polyus" or the "Company"), the largest gold producer in Russia, today releases its 4Q 2017 and FY 2017 operating results for the period ending 31st December 2017.*

### 4Q 2017 Highlights

- Total gold output decreased 10% q-o-q to 580 koz mainly due to a seasonal slowdown in production at Alluvials.
- Volumes of ore mined increased 2% to 10,065 kt.
- Volumes of ore processed increased 7% q-o-q to 7,809 kt driven by the start of hot commissioning at the Natalka mill and the completion of maintenance works at Blagodatnoye and Verninskoye.
- Estimated gold sales amounted to $734 million (flat q-o-q) with the estimated weighted-average gold selling price of $1,273/oz.
- As of 31 December 2017, the estimated net debt stood at $3,077 million, compared to $3,151 million as of the end of 3Q 2017 and $3,241 million as of the end of 2016.

### 2017 Highlights

- Total gold output increased 10% y-o-y to 2,160 koz.
- Volumes of ore mined rose 27% y-o-y to 37,810 kt.
- Volumes of ore processed increased 8% y-o-y to 28,663 kt, with higher volumes of ore treated at the Company's core assets as a result of the ongoing execution of expansion projects.
- Estimated gold sales amounted to $2,684 million with the average selling price (incl. the impact from the Company's strategic price protection program ("SPPP")) of $1,270/oz, broadly in line with the LBMA spot price.

### 2018 Guidance

- The Company has updated its production guidance for 2018 and now expects its total gold production in 2018 to be in the range of 2.375-2.425 million ounces vs. 2.35-2.40 million ounces previously.
- Natalka is operating at ca. 50% of capacity currently and is expected to reach full production in 2H 2018 vs. by the end of 2018 as guided previously.

**Pavel Grachev, Chief Executive Officer of PJSC Polyus, commented:**

*Polyus' gold output surpassed the official production guidance of 2.075-2.125 million ounces by 3%, with 2.160 million ounces of gold produced in 2017. It was the fourth consecutive year for the Company to beat its production estimate, which reflects our consistent drive for operational excellence.*

*With our rigorous promotion of a zero injury approach, I'm proud to report that no fatalities have been recorded across our operations in 2017. Safety is undoubtedly a top priority for Polyus.*

*2017 was a transformational year for the Company. We have successfully carried out most of the projects within our pipe-line under our development strategy. Significant progress has been made with respect to debottlenecking at all of the core operations, while at Kuranakh we have launched our first heap-leaching facility. In December 2017, the first gold has been poured at Natalka during the hot commissioning stage. The asset is currently already operating at 50% of the design capacity and once this long awaited project fully ramps up, Natalka will become a significant source of earnings and cash flow for the Company.*

*In early 2017, we were excited to win the auction for Sukhoi Log, one of the world's largest undeveloped gold deposits, which is set to become the cornerstone for Polyus' next-generation growth opportunities.*

*We anticipate Polyus' gold output to expand further in 2018 and we are raising our total gold production guidance for 2018 from 2.35-2.40 million ounces to 2.375-2.425 moz."*

## HEALTH AND SAFETY UPDATE

The LTIFR rate for 2017 stood at 0.10, down 23% from 0.13 registered in 2016.

During the reporting period, the Company continued to further enhance its on-site health and safety system. In 2017, no fatalities have been recorded across all of Polyus' operations (versus 2 fatalities in 2016).

In 2017, Polyus initiated several programs aimed at improving safety and reducing workplace injuries. Since the launching the hand injury prevention program at Krasnoyarsk Business Unit, no incidents have been registered in 2017 (versus 4 hand injuries in 2016). At Verninskoye in February 2017, a pilot program focused on the prevention of falling incidents was introduced. Following the initiation of the program no falling incidents occurred. In addition, Polyus started the installation of lock out/tag out systems at the crushing and power facilities at Verninskoye, Natalka, Alluvials and Power Group. These initiatives will be introduced across all Polyus' business units during 2018.

Over the course of the year, the Company's HSE and Sustainable Development Department carried out inspections to ensure workplace safety. Furthermore, Polyus started a program of training employees on the development of safety and injury prevention culture.

Polyus aims to achieve zero accidents and is committed to continuous improvement across all aspects of its health and safety management system, exercising rigorous monitoring and control of safety matters to prevent accidents and improve LTIFR.

| Lost Time Injury Frequency Rate (LTIFR) [1] | | | |
|---|---|---|---|
| **2017** | **2016** | **2015** | **2014** |
| 0.10 | 0.13 | 0.08 | 0.09 |

[1] LTIFR is calculated based on a 200,000 work hours factor.

## CONSOLIDATED OPERATING RESULTS

| | 4Q'17 | 3Q'17 | Q-o-Q | 2Q'17 | 1Q'17 | 4Q'16 | Y-o-Y | 2017 | 2016 | Y-o-Y |
|---|---|---|---|---|---|---|---|---|---|---|
| Olimpiada[2] | 297.9 | 264.1 | 13% | 226.2 | 219.1 | 272.3 | 10% | 1,007.3 | 816.9 | 23% |
| Blagodatnoye | 126.7 | 116.0 | 9% | 105.8 | 108.2 | 119.7 | 6% | 456.7 | 456.5 | 0% |
| Titimukhta[2] | - | - | N.A. | - | - | - | N.A. | - | 40.2 | -100% |
| Poputninskoye | - | - | N.A. | - | - | - | N.A. | - | 7.4 | -100% |
| Verninskoye | 45.6 | 53.1 | -14% | 53.3 | 53.7 | 43.6 | 5% | 205.7 | 186.5 | 10% |
| Alluvials | 29.8 | 85.0 | -65% | 30.9 | - | 39.5 | -25% | 145.7 | 168.5 | -14% |
| Kuranakh | 48.4 | 43.4 | 11% | 38.7 | 41.0 | 42.0 | 15% | 171.5 | 159.7 | 7% |
| Natalka | 3.3 | - | N.A. | - | - | 1.3 | 2.5x | 3.3 | 5.7 | -43% |
| **Refined gold, koz** | **551.7** | **561.6** | **-2%** | **454.9** | **422.0** | **518.3** | **7%** | **1,990.2** | **1,841.4** | **8%** |
| Gold in flotation concentrate, koz | 28.1 | 80.7 | -65% | 33.0 | 28.2 | 55.0 | -49% | 170.0 | 126.4 | 34% |
| Gold payable in concentrate, koz | 19.7 | 56.5 | -65% | 23.1 | 19.7 | 35.8 | -45% | 119.0 | 82.2 | 45% |
| **Total gold output, koz** | **579.8** | **642.3** | **-10%** | **487.9** | **450.2** | **573.4** | **1%** | **2,160.2** | **1,967.8** | **10%** |
| Rock moved, kt | 63,256 | 61,898 | 2% | 52,197 | 47,072 | 36,978 | 71% | 224,423 | 144,360 | 55% |
| Stripping ratio, t/t | 5.3 | 5.2 | 2% | 4.7 | 4.5 | 3.1 | 74% | 4.9 | 3.9 | 28% |
| Ore mined, kt | 10,065 | 9,915 | 2% | 9,210 | 8,620 | 9,085 | 11% | 37,810 | 29,682 | 27% |
| Ore processed, kt | 7,809 | 7,299 | 7% | 6,925 | 6,630 | 6,993 | 12% | 28,663 | 26,445 | 8% |
| Recovery rate, % | 82.7% | 83.8% | -1.1 ppts | 83.9% | 83.3% | 83.1% | -0.4 ppts | 83.4% | 83.9% | -0.5 ppts |
| Total doré & slime gold output, koz | 554.7 | 635.8 | -13% | 531.5 | 439.9 | 535.5 | 4% | 2,161.9 | 1,966.4 | 10% |

In 4Q 2017, the Company produced 580 koz of gold (including 28 koz of gold contained in concentrate from Olimpiada), which represents a 10% decrease on 3Q 2017. This decline was mainly driven by a seasonal slowdown in production at Alluvials. Average recoveries went 1.1 ppts lower q-o-q to 82.7% as a result of a decrease in recoveries at Olimpiada, driven by temporary variations in the feed mineralogy, as well as the start of the hot commisioning at Natalka. Recoveries at the Group level, adjusted for the Natalka operations, amounted to 83.3% in 4Q 2017. Volumes of ore processed rose 7% q-o-q reflecting the start of hot commissioning at the Natalka mill and the completion of maintenance works at Blagodatnoye and Verninskoye.

In 2017, the Company produced 2,160 koz of gold (including 170 koz of gold contained in concentrate from Olimpiada), 10% higher y-o-y as a result of increased throughput capacity at the Company's core assets and higher grades in ore processed. Average recoveries declined 0.5 ppts y-o-y to 83.4% due to lower rates at Olimpiada, Blagodatnoye and Natalka, which is currently operational in a ramp-up mode. Adjusted for Natalka, recoveries at the Group level amounted to 83.6% in 2017. An 8% y-o-y increase in volumes of ore processed was due to higher volumes of ore treatment at Olimpiada, Blagodatnoye, Kuranakh and Verninskoye.

[2] Including refined gold produced from ore purchased from the 3rd party-owned Veduga mine under an off-take agreement.

# OPERATING RESULTS BY MINE

## Olimpiada

In 4Q 2017, doré gold output decreased 12% q-o-q, to 307 koz, mainly due to lower processing volumes. In addition, accumulation of in-progress inventory, which was required to ensure continuous operation of BIO during maintenance at Mill 3, impacted on doré gold production. Total gold output (refined and concentrate) was 326 koz, down 5% q-o-q.

Volumes of rock moved rose 16% q-o-q to 24,108 kt mainly due to the commissioning of new WK excavators produced by the Chinese company "TYHI". Stripping ratio increased 17% q-o-q to 6.9 t/t, as the Company reduced volumes of ore mined in order to manage stockpiled ore.

Volumes of ore mined increased 4% q-o-q to 3,149 kt, while average grade declined 7% q-o-q to 3.90 g/t, reflecting reduced mining works at high-grade areas in line with the mining plan.

The decline in volumes of ore processed was attributable to the rescheduled maintenance of Mill-1 from September to October as well as to the maintenance works at Mill-3, which were completed in December. Meanwhile, average grade in ore processed was flat q-o-q at 3.94 g/t.

The recovery rate declined to 80.2% (compared to 81.4% in 3Q 2017) following a decrease in recovery at the flotation tailings sorption circuit.

In 2017, doré gold output increased 23% y-o-y to 1,177 koz primarily due to higher processing volumes, resulted from Mill-1 reconfiguration, and increased hourly throughput capacity at Mill-2 and Mill-3, which fully offset a minor decline in recoveries. Also, mining operations at higher-grade areas in line with the mining plan contributed to a strong performance in the reporting period.

## Mining works and ore processing

| | 4Q'17 | 3Q'17 | Q-o-Q | 2Q'17 | 1Q'17 | 4Q'16 | Y-o-Y | 2017 | 2016 | Y-o-Y |
|---|---|---|---|---|---|---|---|---|---|---|
| Rock moved, kt | 24,108 | 20,812 | 16% | 16,349 | 14,798 | 14,819 | 63% | 76,067 | 51,917 | 47% |
| *incl. stripping, kt* | 20,960 | 17,777 | 18% | 13,323 | 11,823 | 10,578 | 98% | 63,883 | 42,134 | 52% |
| Stripping ratio, t/t | 6.7 | 5.9 | 14% | 4.4 | 4.0 | 2.5 | 2.7x | 5.2 | 4.3 | 22% |
| **Ore mined, kt** | **3,149** | **3,035** | **4%** | **3,026** | **2,974** | **4,240** | **-26%** | **12,184** | **9,782** | **25%** |
| Average grade in ore mined, g/t | 3.90 | 4.19 | -7% | 4.18 | 4.07 | 3.42 | 14% | 4.08 | 3.37 | 21% |
| **Ore processed [3], kt** | **3,140** | **3,490** | **-10%** | **2,882** | **2,930** | **3,356** | **-6%** | **12,442** | **11,336** | **10%** |
| *incl. purchased ore from Veduga mine, kt* | - | - | N.A. | - | - | 105 | -100% | - | 551 | -100% |
| Average grade in ore processed, g/t | 3.94 | 3.93 | 0% | 3.84 | 3.45 | 3.76 | 5% | 3.80 | 3.31 | 15% |
| Recovery, % | 80.2% | 81.4% | -1.2 ppts | 81.3% | 79.9% | 80.6% | -0.4 ppts | 80.7% | 81.0% | -0.3 ppts |
| **Doré gold (incl. gold in concentrate), koz** | **307.1** | **347.4** | **-12%** | **278.3** | **243.8** | **313.9** | **-2%** | **1,176.6** | **956.3** | **23%** |
| **Refined gold output, koz** | **297.9** | **264.1** | **13%** | **226.2** | **219.1** | **272.3** | **10%** | **1,007.3** | **816.9** | **23%** |
| Gold contained in concentrate, koz | 28.1 | 80.7 | -65% | 33.0 | 28.2 | 55.0 | -49% | 170.0 | 126.4 | 34% |
| **Total gold output, koz** | **326.0** | **344.8** | **-5%** | **259.2** | **247.3** | **327.3** | **0%** | **1,177.3** | **943.4** | **25%** |

[3] Including refined gold produced from ore purchased from the 3rd party-owned Veduga mine under an off-take agreement.

## OPERATING RESULTS BY MINE

### Blagodatnoye

In 4Q 2017, doré gold output increased 21% q-o-q to 126 koz due to to higher processing volumes and grades. Refined gold output amounted to 127 koz, up 9% q-o-q.

Volumes of ore mined rose 3% q-o-q to 3,569 kt, while rock moved volumes amounted to 20,392 kt, broadly in line with the previous quarter. Hence, stripping ratio declined 4% q-o-q to 4.7 t/t.

Volumes of ore processed rose 17% q-o-q to 2,199 kt, reflecting the completion of maintenance works at Mill-4 in September as well as improved throughput of the Mill, which was supported by processing the material, mined under the Mine-to-Mill program. This technology, designed to optimise mining and processing operations and minimise energy consumption via more suitable mill feed size, was trial tested in April 2017 and demonstrated its effectiveness, with ore size reduction positively impacting the Mill performance. Currently, Polyus is working on a full roll-out of the Mine-to-Mill project at Blagodatnoye from 2018.

A 0.3 ppts temporary decline in recovery resulted from the higher losses in the flotation circuit reflecting variations in mineral composition of the flotation feed.

In 2017, doré gold output remained flat y-o-y at 458 koz, as higher processing volumes fully mitigated the negative impact from the decline in grades and recoveries.

### Mining works and ore processing

| | 4Q'17 | 3Q'17 | Q-o-Q | 2Q'17 | 1Q'17 | 4Q'16 | Y-o-Y | 2017 | 2016 | Y-o-Y |
|---|---|---|---|---|---|---|---|---|---|---|
| Total rock moved, kt | 20,392 | 20,495 | -1% | 17,780 | 17,192 | 12,050 | 69% | 75,859 | 49,021 | 55% |
| *including stripping, kt* | 16,823 | 17,018 | -1% | 14,938 | 14,247 | 9,228 | 82% | 63,026 | 37,506 | 68% |
| Stripping ratio, t/t | 4.7 | 4.9 | -4% | 5.3 | 4.8 | 3.3 | 44% | 4.9 | 3.3 | 51% |
| **Ore mined, kt** | **3,569** | **3,477** | **3%** | **2,842** | **2,945** | **2,822** | **26%** | **12,833** | **11,515** | **11%** |
| Average grade in ore mined, g/t | 1.90 | 1.90 | 0% | 1.95 | 2.00 | 2.01 | -5% | 1.94 | 2.01 | -4% |
| **Ore processed, kt** | **2,199** | **1,880** | **17%** | **2,105** | **1,977** | **1,852** | **19%** | **8,161** | **7,753** | **5%** |
| Average grade in ore processed, g/t | 2.06 | 1.93 | 7% | 1.96 | 2.01 | 2.07 | 0% | 1.99 | 2.07 | -4% |
| Recovery, % | 87.7% | 88.0% | -0.3 ppts | 87.3% | 88.4% | 87.9% | -0.2 ppts | 87.8% | 88.0% | -0.2 ppts |
| **Doré gold, koz** | **125.7** | **103.4** | **21%** | **117.3** | **111.2** | **108.8** | **15%** | **457.6** | **455.0** | **1%** |
| **Refined gold output, koz** | **126.7** | **116.0** | **9%** | **105.8** | **108.2** | **119.7** | **6%** | **456.7** | **456.5** | **0%** |

POLYUS

## OPERATING RESULTS BY MINE

### Titimukhta

Following the completion of the Mill-1 reconfiguration project in September 2016 to process mainly sulphide ore from Olimpiada, mining activities at Titimukhta have been downscaled to the minimum level.

### Mining works and ore processing

| | 4Q'17 | 3Q'17 | Q-o-Q | 2Q'17 | 1Q'17 | 4Q'16 | Y-o-Y | 2017 | 2016 | Y-o-Y |
|---|---|---|---|---|---|---|---|---|---|---|
| Total rock moved, kt | - | 354 | N.A. | 17 | 48 | 14 | -100% | 419 | 1,054 | -60% |
| *including stripping, kt* | - | 249 | N.A. | - | 40 | 14 | -100% | 289 | 642 | -55% |
| Stripping ratio, t/t | - | 2.4 | N.A. | - | 5.0 | - | N.A. | 2.2 | 1.6 | 42% |
| **Ore mined, kt** | **-** | **105** | **N.A.** | **17** | **8** | **-** | **N.A.** | **131** | **412** | **-68%** |
| Average grade in ore mined, g/t | - | 1.64 | N.A. | 1.57 | 1.51 | - | N.A. | 1.62 | 1.61 | 1% |
| **Ore processed' kt** | **-** | **-** | **N.A.** | **-** | **-** | **-** | **N.A.** | **-** | **500** | **-100%** |
| Average grade in ore processed, g/t | - | - | N.A. | - | - | - | N.A. | | 2.26 | - |
| Recovery, % | - | - | N.A. | - | - | - | N.A. | | 85.2% | - |
| Doré gold , koz | - | - | N.A. | - | - | - | N.A. | - | 32.5 | -100% |
| **Refined gold output, koz** | **-** | **-** | **N.A.** | **-** | **-** | **-** | **N.A.** | **-** | **40.2** | **-100%** |

## OPERATING RESULTS BY MINE

### Verninskoye

In 4Q 2017, doré gold output rose 9% q-o-q, to 56 koz, due to growth in ore treatment volumes. Refined gold output amounted to 46 koz, down 14% q-o-q.

Volumes of ore mined rose 16% to 982 kt q-o-q due to intensified mining activities at low-grade areas that were conducted in line with the mining plan. This, in turn, led to a 13% q-o-q decline in average grade in ore mined.

A 10% q-o-q increase in volumes of ore processed was mainly attributable to the completion of maintenance works at Verninskoye Mill in September 2017. Meanwhile, operational initiatives, undertaken over the past quarters, continued to contribute to the Mill's performance. This was also supported by enhanced hourly throughput of grinding equipment, resulted from reduced downtime during the maintenance period. Grades in ore processed and recovery rate remained stable on a q-o-q basis.

In 2017, doré gold output rose 11% y-o-y, to 207 koz, due to higher ore treatment volumes and improved recovery rates, this followed the implementation of the capacity expansion project at Verninskoye Mill.

### Mining works and ore processing

| | 4Q'17 | 3Q'17 | Q-o-Q | 2Q'17 | 1Q'17 | 4Q'16 | Y-o-Y | 2017 | 2016 | Y-o-Y |
|---|---|---|---|---|---|---|---|---|---|---|
| Total rock moved, kt | 4,504 | 4,629 | -3% | 4,698 | 4,547 | 3,658 | 23% | 18,378 | 16,300 | 13% |
| *including stripping, kt* | 3,522 | 3,783 | -7% | 3,594 | 3,732 | 2,733 | 29% | 14,631 | 12,945 | 13% |
| Stripping ratio, t/t | 3.6 | 4.5 | -20% | 3.3 | 4.6 | 3.0 | 21% | 3.9 | 3.9 | 1% |
| **Ore mined, kt** | **982** | **846** | **16%** | **1,104** | **815** | **924** | **6%** | **3,747** | **3,355** | **12%** |
| Average grade in ore mined, g/t | 2.06 | 2.36 | -13% | 2.16 | 2.16 | 2.28 | -10% | 2.18 | 2.20 | -1% |
| **Ore processed, kt** | **760** | **693** | **10%** | **745** | **591** | **694** | **10%** | **2,789** | **2,501** | **11%** |
| Average grade in ore processed, g/t | 2.57 | 2.61 | -1% | 2.62 | 2.63 | 2.63 | -2% | 2.60 | 2.65 | -2% |
| Recovery, % | 88.8% | 88.7% | 0.1 ppts | 88.6% | 87.8% | 87.5% | 1.3 ppts | 88.5% | 87.3% | 1.2 ppts |
| **Doré gold , koz** | **55.8** | **51.5** | **9%** | **55.5** | **43.8** | **51.5** | **9%** | **206.6** | **185.9** | **11%** |
| **Refined gold output, koz** | **45.6** | **53.1** | **-14%** | **53.3** | **53.7** | **43.6** | **5%** | **205.7** | **186.5** | **10%** |

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## OPERATING RESULTS BY MINE

### Alluvials

In 4Q 2017, due to the seasonality of placer operations, gold in slime production declined 79% q-o-q to 18 koz. Refined gold output totalled 30koz (down 65% q-o-q).

In 2017, alluvial deposits produced 146 koz of gold in slime, a 14% decrease on 2015. Refined gold output amounted to 146 koz (down 14% y-o-y).

The y-o-y decrease was primarily the result of a lower average grade, due to the planned reduction of the average sand grade.

### Sands washing

| | 4Q'17 | 3Q'17 | Q-o-Q | 2Q'17 | 1Q'17 | 4Q'16 | Y-o-Y | 2017 | 2016 | Y-o-Y |
|---|---|---|---|---|---|---|---|---|---|---|
| Sands washed, 000 m³ | 1,092 | 4,999 | -78% | 2,251 | - | 1,246 | -12% | 8,342 | 8,611 | -3% |
| Average grade, g/m³ | 0.53 | 0.55 | -5% | 0.53 | - | 0.54 | -2% | 0.54 | 0.61 | -11% |
| Gold in slime, koz | 18.4 | 88.9 | -79% | 38.2 | 0.0 | 21.5 | -14% | 145.5 | 168.3 | -14% |
| **Refined gold output, koz** | **29.8** | **85.0** | **-65%** | **30.9** | **-** | **39.5** | **-25%** | **145.7** | **168.5** | **-14%** |

# OPERATING RESULTS BY MINE

## Kuranakh

In 4Q 2017, doré gold output was largely unchanged q-o-q at 46 koz. Refined gold output amounted to 48 koz, an 11% increase on 3Q 2017.

Volumes of ore mined decreased 16% q-o-q, to 1,424 kt, in line with the plan, while grade rose 8% q-o-q, to 1.25 g/t, due to intensified mining activities at high-grade areas.

The heap leaching project at Kuranakh was successfully launched, with the first doré gold produced in 4Q 2017. Due to the seasonality of heap leaching operations, leaching activities were temporarily suspended until the end of the 1Q 2018.

Volumes of ore processed at the Mill were largely flat, as compared to the previous quarter. Grades in ore processed and recovery rate also remained stable on a q-o-q basis.

In 2017, total doré gold output at Kuranakh rose 9% y-o-y to 172 koz on the back of the higher volumes of ore processed and increased recovery rate, reflecting ongoing initiatives to further expand throughput capacity and operational improvements targeting recovery.

## Mining works and ore processing

| | 4Q'17 | 3Q'17 | Q-o-Q | 2Q'17 | 1Q'17 | 4Q'16 | Y-o-Y | 2017 | 2016 | Y-o-Y |
|---|---|---|---|---|---|---|---|---|---|---|
| Total rock moved, kt | 7,795 | 8,836 | -12% | 8,104 | 7,216 | 6,438 | 21% | 31,951 | 25,530 | 25% |
| *including stripping, kt* | 6,371 | 7,138 | -11% | 6,549 | 5,916 | 5,340 | 19% | 25,974 | 21,273 | 22% |
| Stripping ratio, t/t | 4.5 | 4.2 | 6% | 4.2 | 4.5 | 4.9 | -8% | 4.3 | 5.0 | -13% |
| **Ore mined, kt** | **1,424** | **1,698** | **-16%** | **1,555** | **1,300** | **1,098** | **30%** | **5,977** | **4,257** | **40%** |
| Average grade in ore mined, g/t | 1.25 | 1.16 | 8% | 1.12 | 1.22 | 1.28 | -2% | 1.18 | 1.29 | -8% |
| **Total ore processed, kt** | **1,176** | **1,234** | **-5%** | **1,177** | **1,114** | **1,076** | **9%** | **4,701** | **4,223** | **11%** |
| **Mill** | | | | | | | | | | |
| Ore processed, kt | 1,176 | 1,180 | 0% | 1,177 | 1,114 | 1,076 | 9% | 4,647 | 4,223 | 10% |
| *Average grade in ore processed, g/t* | 1.32 | 1.32 | 0% | 1.27 | 1.28 | 1.28 | 3% | 1.30 | 1.30 | -1% |
| Recovery, % | 88.6% | 88.5% | 0.2 ppts | 88.3% | 88.4% | 87.5% | 1.1 ppts | 88.5% | 88.2% | 0.3 ppts |
| Doré gold, koz | 45.4 | 44.3 | 3% | 41.5 | 40.6 | 39.0 | 17% | 171.8 | 157.9 | 9% |
| **Heap-leach** | | | | | | | | | | |
| Ore processed, kt | - | 54 | N.A. | - | - | - | N.A. | 54 | - | N.A. |
| *Average grade in ore processed, g/t* | - | 0.75 | N.A. | - | - | - | N.A. | 0.75 | - | N.A. |
| Recovery, % | - | - | N.A. | - | - | - | N.A. | - | - | N.A. |
| Doré gold, koz | 0.6 | - | 0% | - | - | - | N.A. | 0.6 | - | N.A. |
| **Total doré gold, koz** | **46.0** | **44.3** | **4%** | **41.5** | **40.6** | **39.0** | **18%** | **172.4** | **157.9** | **9%** |
| **Refined gold output, koz** | **48.4** | **43.4** | **11%** | **38.7** | **41.0** | **42.0** | **15%** | **171.5** | **159.7** | **7%** |

## OPERATING RESULTS BY MINE

### Natalka

Full-scale mining operations were relaunched in January 2017. In 4Q 2017, volumes of rock moved totalled 6,458 kt, while the volumes of ore mined amounted to 942 kt. Average grades in ore mined were 0.96 g/t, as mining works were concentrated on lower grade zones of the ore body according to the mine plan.

In 4Q 2017, ore treatment volumes reached 536 kt and the first doré gold has been poured at the Natalka Mill. As the Company plans to process lower grade stockpiles during the ramp up period, ores grading from 0.5 to 0.6 g/t have been treated during the 4Q 2017.

In December 2017, the Company received a positive resolution from Federal Industrial Supervision Service of Russia (“Rostechnadzor”), which conducted an industrial audit at Natalka. While technical works and tests are ongoing at the cake filtration and desorption circuits, the entire processing flow sheet now is fully operational. This includes primary crushing, SAG and ball milling circuits, three stages of gravity separation, intensive cyanidation, CIL circuit, electrowinning and smelting facilities.

Currently, Natalka operates in a ramp-up mode at ca. 50% of design capacity, processing 14-15 kt of ore on a daily basis.

In April-May 2018, Polyus plans to carry out scheduled maintenance at Natalka. Following that, the Mill will be gradually ramped up to its design parameters over the course of 2H 2018 versus the previously anticipated timeline to ramp up the Natalka operations by the end of 2018.

In addition, Polyus will proceed with the construction of power and auxiliary facilities as well as tailings facility expansion in 2018.

### Mining works and ore processing

| | 4Q'17 | 3Q'17 | Q-o-Q | 2Q'17 | 1Q'17 | 4Q'16 | Y-o-Y | 2017 | 2016 | Y-o-Y |
|---|---|---|---|---|---|---|---|---|---|---|
| Total rock moved, kt | 6,458 | 6,772 | -5% | 5,260 | 3,276 | - | N.A. | 21,766 | 421 | 51.8x |
| *including stripping, kt* | 5,517 | 6,020 | -8% | 4,594 | 2,697 | - | N.A. | 18,828 | 158 | 118.9x |
| Stripping ratio, t/t | 5.9 | 8.0 | -27% | 6.9 | 4.7 | - | N.A. | 6.4 | 0.6 | 10.3x |
| **Ore mined, kt** | **942** | **752** | **26%** | **666** | **578** | **-** | **N.A.** | **2,938** | **255** | **11.5x** |
| Average grade in ore mined, g/t | 0.96 | 1.01 | -6% | 0.95 | 0.88 | - | N.A. | 0.96 | 1.20 | -20% |
| **Ore processed, kt** | **536** | **2** | **N.A.** | **15** | **17** | **16** | **N.A.** | **570** | **45** | **N.A.** |
| Average grade in ore processed, g/t | 0.56 | 0.56 | 0% | 1.74 | 1.02 | 1.85 | -70% | 0.61 | 1.81 | -67% |
| Recovery, % | 37.9% | 37.0% | 0.9 ppts | 74.8% | 76.1% | 77.7% | -39.8 ppts | 42.7% | 72.3% | -29.6 ppts |
| **Doré gold, koz** | **1.7** | **0.3** | **N.A.** | **0.7** | **0.5** | **0.8** | **110%** | **3.2** | **5.0** | **-36%** |
| **Refined gold output, koz** | **3.3** | **-** | **N.A.** | **-** | **-** | **1.3** | **154%** | **3.3** | **5.7** | **-43%** |

## FINANCIAL UPDATE

In 4Q 2017, the Company sold a total of 596 koz of gold, a 3% increase on 3Q 2017. Total gold sales include 82 koz of gold contained in the concentrate from Olimpiada.

Estimated 4Q 2017 gold sales remained largely unchanged q-o-q at approximately $734 million.

Over the course of 2017, the Company continued to pro-actively manage its loan portfolio. Polyus' liquidity position, combined with the proceeds from the Eurobond placement ($800 million) and the inflow from the Secondary Public Offering ($400 million), enabled Polyus to make an early prepayment of several bank credit facilities.

The Company's gross debt decreased to $4,281 million, compared to $4,981 million as of the end of 4Q 2016. In addition, Polyus continued to shift from floating to fixed interest rate, bringing the overall share of fixed-rate liabilities to 67% (as compared to 46% as of the end of 4Q 2016).

Currency-wise, Polyus' debt portfolio remains dominated by US dollar denominated instruments. The Company's debt profile remains smooth with limited debt maturities outstanding till the end of 2018.

As of 31 December 2017, the Company's estimated cash position was $1,204 million (30 September 2017: $1,121 million) and its estimated net debt position amounted to $3,077 million (30 September 2017: $3,151 million).

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Debt maturities [4], $ mln | 13 | 595 | 772 | 350 | 521 | 2,064 |

| Local rouble bonds | Bank loans | Eurobonds | $1.25 bln Sberbank loan |
|---|---|---|---|
| 6% | 17% | 48% | 29% |

| | 4Q'17 | 3Q'17 | Q-o-Q | 2Q'17 | 1Q'17 | 4Q'16 | Y-o-Y | 2017 | 2016 | Y-o-Y |
|---|---|---|---|---|---|---|---|---|---|---|
| Refined gold sold, koz | 515 | 561 | -8% | 455 | 457 | 484 | 7% | 1,988 | 1,830 | 9% |
| *Gold contained in concentrate, koz* | *82* | *16* | *5x* | *42* | *30* | *66* | *25%* | *170* | *85* | *100%* |
| *Gold payable in concentrate, koz* | *58* | *12* | *5x* | *29* | *20* | *48* | *20%* | *119* | *61* | *94%* |
| Total gold sales, koz | 596 | 578 | 3% | 497 | 487 | 550 | 9% | 2,158 | 1,915 | 13% |
| Gold sales (incl. an SPPP effect), $ mln | 734 | 733 | 0% | 617 | 600 | 660 | 11% | 2,684 | 2,429 | 11% |
| Weighted-average refined gold selling price (excl. SPPP), $/oz | 1,273 | 1,279 | 0% | 1,261 | 1,217 | 1,206 | 6% | 1,259 | 1,250 | 1% |
| Weighted-average refined gold selling price (incl. SPPP), $/oz | 1,273 | 1,279 | 0% | 1,268 | 1,258 | 1,244 | 2% | 1,270 | 1,287 | -1% |
| SPPP effect, $ mln | 0 | 0 | N.A. | 3 | 19 | 18 | -100% | 22 | 67 | -67% |
| Average LBMA price, $/oz | 1,275 | 1,278 | 0% | 1,257 | 1,219 | 1,222 | 4% | 1,257 | 1,251 | 0% |
| Net debt, $ mln | 3,077 | 3,151 | -2% | 3,084 | 3,128 | 3,241 | -4% | 3,077 | 3,241 | -5% |

[4] Net of non-cash IFRS adjustments.

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## CONFERENCE CALL INFORMATION

Polyus will host an analyst conference call on 16th January 2018 at 12 pm London time (3 pm Moscow time) to present and discuss the 4Q and FY 2017 operating results.

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## Forward looking statements

This announcement may contain "forward-looking statements" concerning Polyus and/or Polyus Group. Generally, the words "will", "may", "should", "could", "would", "can", "continue", "opportunity", "believes", "expects", "intends", "anticipates", "estimates" or similar expressions identify forward-looking statements. The forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Forward-looking statements include statements relating to future capital expenditures and business and management strategies and the expansion and growth of Polyus' and/or Polyus Group's operations. Many of these risks and uncertainties relate to factors that are beyond Polyus' and/or Polyus Group's ability to control or estimate precisely and therefore undue reliance should not be placed on such statements which speak only as of the date of this announcement. Polyus and/or any Polyus Company assumes no obligation in respect of, and does not intend to update, these forward-looking statements, except as required pursuant to applicable law.

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