PJSC Polyus

Interim Management Report

30 June 2016

August 10, 2016

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Cautionary statement

30 June 2016 – PJSC Polyus (Polyus) issues this Interim Management Report (IMR) to summarise recent operational activities and to provide trading guidance in respect of the financial half year to 30 June 2016. The information contained herein has not been audited.

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

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

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

Responsibility statement

The responsibility statement below has been prepared in connection with the Group's full Annual Report for the year ended 31 December 2015. Certain parts thereof are not included within this announcement.

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting";

(b) the IMR includes a fair review of the information required (indication of important events during the first six months and their impact and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the IMR includes a fair review of the information required on related party transactions.

The IMR and condensed financial statements of the Group for the six months ended 30 June 2016 were approved on 9 August 2016 by the Board of Directors.

By order of the Board,

Chief Executive Officer and Director

Pavel Grachev

Management Discussion and Analysis

1H 2016

Highlights

$ mln (if not mentioned otherwise)	**1H 2016**	**1H 2015**	**y-o-y change**	**FY 2015**
Gold production (koz)	839	784	7%	1,763
Gold sold (koz)	837	799	5%	1,768
Average realised gold price (excl. effect of Strategic Price Protection Programme[1]) ($/oz)	1,223	1,202	2%	1,155
Average realised gold price (incl. effect of Strategic Price Protection Programme) ($/oz)	1,277	1,257	2%	1,221
Total revenue	1,082	1,019	6%	2,188
Operating profit	618	535	16%	1,164
Profit/(loss) for the period	499	594	(16%)	1,021
Earnings/(loss) per share – basic and diluted (US Dollar)	3.22	3.10	4%	5.18
Adjusted net profit[2]	405	433	(7%)	937
Adjusted net profit margin (%)	37	42	(5 ppts)	43
Cash and cash equivalents and bank deposits	1,382	1,375	1%	1,825
Net cash inflow from operations[3]	479	518	(8%)	1,103
Capital expenditure[4]	186	96	94%	268
Adjusted EBITDA[5]	691	593	17%	1,278
Adjusted EBITDA margin (%)	64	58	6 ppts	58
Net debt[6]	3,469	381	N.M.	364
Net debt/adjusted EBITDA (last 12 months) (x)	2.52	0.31	N.M.	0.28
Total cash cost (TCC) per ounce sold ($/oz)[7]	377	436	(14%)	424
All-in sustaining cash cost (AISC) per ounce sold ($/oz)[8]	555	611	(9%)	596

[1] The Strategic Price Protection Programme comprises a series of zero-cost Asian gold collars ("revenue stabiliser") and gold forward contracts covering 375 koz in 1H 2016.
[2] Adjusted Net Profit is defined by the Group as a net profit adjusted for reversal of impairment/impairment losses, impact from derivative financial instruments, foreign exchange gain/loss and associated income tax related to one-off items.
[3] Interest paid for the period has been reclassified in the cash flow from operating activities into financing activities. Amounts for the comparative period were also restated.
[4] Capital expenditure figures are presented on an accrual basis.
[5] Adjusted EBITDA is defined by the Group as profit before finance costs, income tax, income/(losses) from investments (including derivatives), depreciation, amortisation and interest paid, and adjusted for one-off items. The Group has made these adjustments in calculating Adjusted EBITDA to provide a clearer view of the performance of its underlying business operations and to generate a metric that it believes will give greater comparability over time with peers in its industry. The Group believes that Adjusted EBITDA is a meaningful indicator of its profitability and performance. This measure should not be considered as an alternative to profit for the period and operating cash flows based on IFRS, and should not necessarily be construed as a comprehensive indicator of the Group's measure of profitability or liquidity.
[6] Net debt is defined as short- and long-term debt, less cash and cash equivalents and short-term bank deposits. Short-term bank deposits with an original maturity of more than three months can be withdrawn on demand and therefore have the same liquidity as cash and cash equivalents. Net debt excludes derivative financial instrument assets/liabilities, site restoration and environmental obligations, deferred tax and other non-current liabilities. Net debt should not be considered as an alternative to current and non-current loans and borrowings, and should not necessarily be construed as a comprehensive indicator of the Group's overall of liquidity.
[7] For a definition and calculation of total cash costs per ounce sold, see the section Total cash costs.
[8] For a definition and calculation of all-in-sustaining costs per ounce sold, see the section All-in-sustaining costs.

1H 2016 – Key highlights

1. Gold sales improved 5% y-o-y to 837 koz driven by significant increase in dore gold production at Blagodatnoye, Verninskoye and Kuranakh reflecting steady growth in ore processing volumes and higher recoveries.
2. Revenue increased 6% y-o-y to $1,082 million owing to higher sales volumes and the positive effect of the Strategic Price Protection Programme.
3. Sizable cost reduction, with TCC down 14% y-o-y to $377/oz and AISC down 9% to $555/oz, reflecting operational improvements, rouble devaluation, and the full-scale rollout of the Total Operational Efficiency programme.
4. Adjusted EBITDA increased 17% y-o-y to $691 million, with adjusted EBITDA margin expanding 6 ppts y-o-y to 64%.
5. Profit for the period totalled $499 million (down 16% y-o-y) mostly reflecting an impact of one-off non-cash items, including FX gain and loss on derivatives, as well as higher current income tax expense. Adjusted net profit stood at $405 million.
6. Net cash inflow from operations of $479 million, down 8% y-o-y largely due to an increase in income tax paid.
7. Capex of $186 million (up 94% y-o-y) as Natalka and brownfield development projects entered an active phase of investment.
8. Cash and cash equivalents and bank deposits at the end of 1H 2016 declined 24% as compared to the end of 2015 and totalled $1,382 million, owing to cash outflow for the share buyback.
9. Net debt increased significantly to $3,469 million as a result of the share buyback in 1H 2016.
10. Net debt/adjusted EBITDA (last 12 months) as of the end of 1H 2016 stood at 2.5x.

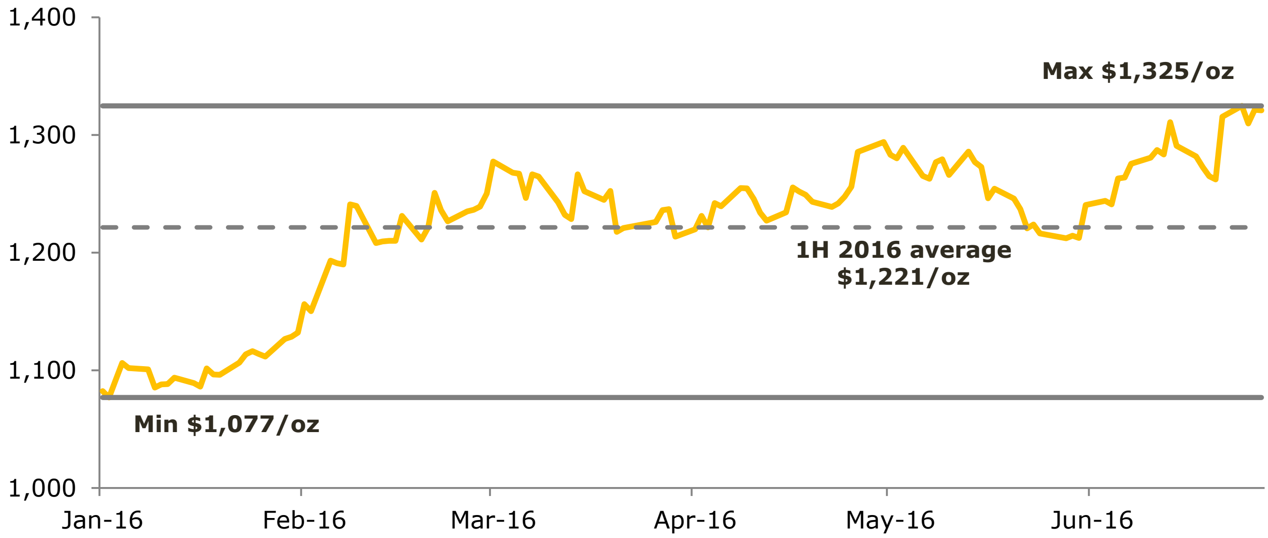
Review of external factors

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

Gold price dynamics

The market price of gold is a significant factor that influences the Group’s profitability and operating cash flow generation. In 1H 2016 the average London Bullion Market Association (LBMA) gold price was $1,221/oz, 1% above the 1H 2015 average of $1,206/oz.

LBMA gold price dynamics in 1H 2016, $/oz

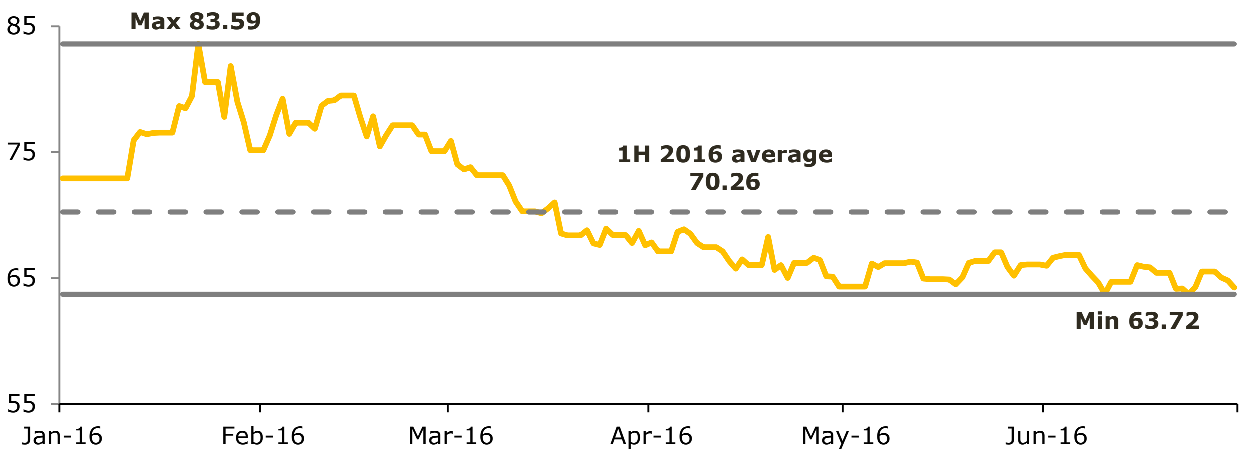


Source: London Bullion Market Association

Rouble exchange rate dynamics

The Group's revenue from gold sales is linked to the US dollar (USD), whereas most of the Group’s operating expenses are denominated in Russian roubles (RUB). The strengthening of the RUB against the USD can negatively impact the Group’s margins by increasing the USD value of its RUB-denominated costs, while a stronger USD positively affects its margins as it reduces the USD value of the Group’s RUB-denominated costs. In 1H 2016 the average RUB/USD exchange rate was 70.26, 18% devaluation y-o-y from 57.42 in 1H 2015. The main reason for the depreciation of the Russian currency was further oil price softening ($41/bbl Brent in 1H 2016, vs. $60/bbl Brent in 1H 2015). As shown in the following section, the RUB devaluation positively affected the Group’s operating margins in 1H 2016, due to the majority of its costs being RUB-denominated, and the USD being the presentational currency.

RUB/USD dynamics, 1H 2016



Source: Central Bank of Russia

Inflationary trends

All of the Group's operations are located in Russia. The Russian Consumer Price Index (CPI), calculated by the Central Bank of Russia, was at 7.5% in 1H 2016, compared to 15.3% in 1H 2015. Inflation increases production costs, thus negatively affecting mining operations.

Financial review

Condensed consolidated income statement review

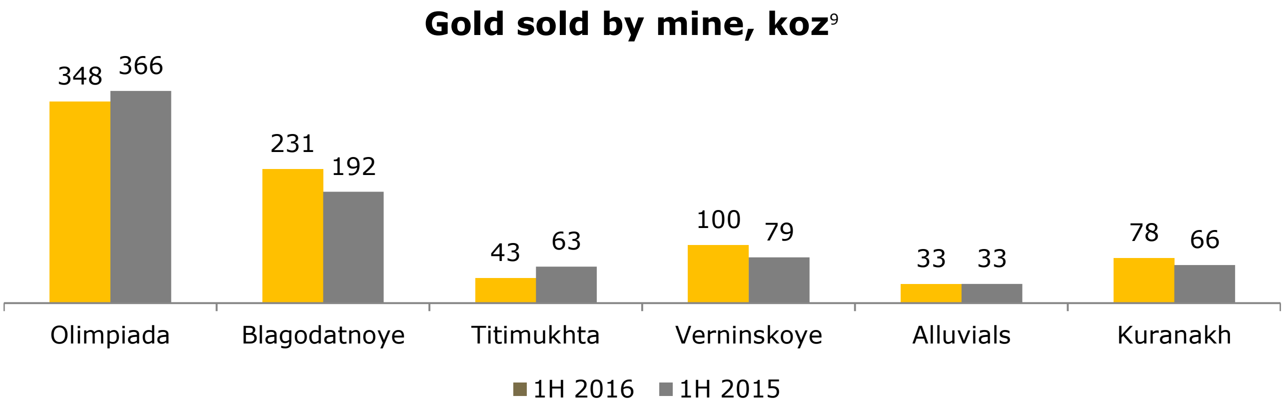
Revenue analysis

	1H 2016	1H 2015	y-o-y change	FY 2015
Gold sales (koz)	837	799	5%	1,768
Average realised gold price (excl. effect of Strategic Price Protection Programme, SPPP) ($/oz)	1,223	1,202	2%	1,155
Average realised gold price (incl. effect of SPPP) ($/oz)	1,277	1,257	2%	1,221
Average afternoon gold LBMA price fixing ($/oz)	1,221	1,206	1%	1,159
Premium/(discount) of av. selling price (incl. effect of SPPP) over/(under) av. LBMA price fixing ($/oz)	56	51	(37%)	61
Gold sales ($ mln)	1,069	1,005	6%	2,159
Other sales ($ mln)	13	14	(7%)	29
Total revenue ($ mln)	**1,082**	**1,019**	**6%**	**2,188**

The Group's revenue from gold sales in 1H 2016 increased 6% y-o-y to $1,069 million predominantly reflecting higher sales volumes accompanied by slightly higher average realised gold price. Specifically, gold sales increased 5% y-o-y to 837 koz in 1H 2016, while the average realised gold price during the respective period amounted to $1,277/oz, up 2% y-o-y. Despite marginal growth in gold prices with the average LBMA price increasing only 1% y-o-y to $1,221/oz, the Group's revenue was supported by the Strategic Price Protection Programme (SPPP). Specifically, the positive effect from the SPPP on the 1H 2016 average selling price amounted to $56/oz (as compared to a premium of $51/oz in 1H 2015).The programme covered 375 koz of gold sold during the respective period.

Revenue breakdown by mine, 1H 2016

$ mln	Olimpiada	Blagodatnoye	Titimukhta	Verninskoye	Alluvials	Kuranakh	Other
Gold sales	451	299	56	121	42	95	5
Other sales	1	-	-	1	2	2	7
Total sales	**452**	**299**	**56**	**122**	**44**	**97**	**12**



Cash costs analysis

Cost of sales breakdown

$ mln	1H 2016	1H 2015	y-o-y change	FY 2015
Cash operating costs	332	353	(6%)	765
Depreciation and amortisation (D&A) of operating assets	65	64	2%	126
Total cost of production	397	417	(5%)	891
Increase in gold-in-process and refined gold inventories	(18)	(11)	(64%)	(15)
Cost of gold sales	379	406	(7%)	876

During 1H 2016 the Group's cash operating costs fell 6% y-o-y, to $332 million, positively impacted by rouble devaluation, lower consumption norms, and reduced electricity costs.

The Total Operational Efficiency programme provided an additional positive effect on the cost side via various operational optimisation initiatives. Those initiatives offset the increase in variable costs (resulting from higher production and sales volumes) and mitigated negative impact of inflationary trends in 1H 2016.

Moreover, operational improvements, including higher mill capacity utilization and slightly improved recoveries provided the Company with additional positive impact on the cost base.

On 23 May, a pit wall failure occurred at the Company's Vostochny mine at Olimpiada, which resulted in a 9-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 due to the availability of previously stockpiled ore.

[9] Sales volumes exclude gold produced from the Poputninskoye deposit, where trial mining was launched in FY 2015 and continued in 1H 2016.

Cash operating costs – breakdown by item

$ mln	1H 2016	1H 2015	y-o-y change	FY 2015
Consumables and spares	112	94	19%	205
Labour	96	110	(13%)	239
Mineral Extraction Tax	60	70	(14%)	140
Fuel	32	32	-	74
Power	12	17	(30%)	35
Outsourced mining services	4	3	33%	12
Other	16	27	(41%)	60
Total	**332**	**353**	**(6%)**	**765**

Given the fact that all the Group's labour expenses are rouble denominated, the local currency devaluation was a key factor behind lower labour costs (down 13% y-o-y), despite annual salary indexation.

Consumables and spares expenses increased 19% y-o-y on the back of higher processing volumes and cost inflation. In the meantime, the ongoing implementation of The Total Operational Efficiency programme helped to partially mitigate growth in variable costs. Additionally, slightly higher spare parts expenses reflect management's efforts to improve the procurement mechanisms and maintenance works scheduling. In 2016 maintenance works and repairs are more evenly spread throughout the whole year vs. the back end loaded schedule in 2015. Hence, we would expect normalization of spare parts expenses on annualized basis in 2016.

Fuel costs remained flat y-o-y as an increase in transportation costs at the Krasnoyarsk Business Unit was fully offset by rouble devaluation.

Notwithstanding annual tariff indexation and higher production volumes, a substantial decline in the Group's electricity costs (down 30% y-o-y) reflects the local currency devaluation combined with a decline in average tariff at Kuranakh, with the latter entering the electricity wholesale market.

In addition, lower Mineral Extraction Tax ('MET') payments reflect combination of insignificant y-o-y increase in average realised gold price (excluding effect of SPPP) and currency translation effect with an elevated volatility in FX rate.

Other costs declined by 41% y-o-y, due to the rouble weakening and decreases in insurance, rent, repair, and maintenance expenses.

Cash operating costs – breakdown by business unit

$ mln	Krasnoyarsk 1H 2016	Krasnoyarsk 1H 2015	Verninskoye 1H 2016	Verninskoye 1H 2015	Alluvials 1H 2016	Alluvials 1H 2015	Kuranakh 1H 2016	Kuranakh 1H 2015
Consumables and spares	87	73	16	13	5	5	9	8
Labour	48	57	13	11	9	10	12	14
Mineral Extraction Tax	42	57	6	5	3	3	6	5
Fuel	15	22	5	4	4	5	5	4
Power	9	10	1	2	1	2	3	6
Outsourced mining services	-	-	-	-	2	1	-	1
Other	35	28	2	3	2	4	1	6
Total	**236**	**247**	**43**	**38**	**26**	**30**	**36**	**44**

Selling, general, and administrative expenses

The Group's selling, general, and administrative (SG&A) expenses decreased 10% y-o-y, to $63 million, largely due to weaker rouble and cost optimisation initiatives. Salaries remained the main component of SG&A despite a 12% y-o-y decline. In the meantime, expenses on professional services increased owing to the share buyback related costs.

SG&A breakdown by item

$ mln	1H 2016	1H 2015	y-o-y change	FY 2015
Labour	45	51	(12%)	100
Taxes other than mining and income taxes	5	6	(17%)	12
Professional services	5	4	25%	12
Amortisation and depreciation	2	2	-	3
Other	6	7	(14%)	16
Total	**63**	**70**	**(10%)**	**143**

Total cash costs (TCC)

TCC calculation

$ mln	1H 2016	1H 2015	y-o-y change	FY 2015
Cost of gold sales	379	406	(7%)	876
– property, plant and equipment depreciation	(65)	(64)	2%	(126)
– provision for annual vacation payment	-	1	N.M.	(1)
– employee benefit obligations cost	(1)	-	N.M.	(4)
– change in allowance for obsolescence of inventory	-	1	N.M.	-
+ non-monetary changes in inventories	3	5	(20%)	4
TCC	**316**	**349**	**(9%)**	**749**
Gold sold (koz)	837	799	5%	1,768
TCC per ounce sold ($/oz)	**377**	**436**	**(14%)**	**424**

The Group's TCC continued to demonstrate a decent performance in 1H 2016 declining 14% y-o-y to $377/oz. This was underpinned by the strong operational performance, a weaker local currency and efficiency improvement initiatives. Hence, all mines demonstrated y-o-y cost improvements, notwithstanding pressures from inflationary trends.

The most visible progress was achieved at Kuranakh with TCC declining 24% y-o-y to $487/oz owing to lower labour costs. This result was supported by operational improvements including increased ore processing volumes on the back of higher grinding circuit capacity, driving higher production volumes. Moreover, starting January 2016 Kuranakh entered the electricity wholesale market, which had a significant impact on electricity costs.

At the Group's largest mine, Olimpiada, TCC fell by 3% y-o-y to $416/oz. Due to processing of the previously stockpiled lower grade material, Olimpiada operations saw a temporary decline in average grade in ore processed. Nevertheless, the latter was largely offset by operational improvements, including elevated ore processing volumes via higher Titimukhta Mill capacity utilisation and increased recoveries.

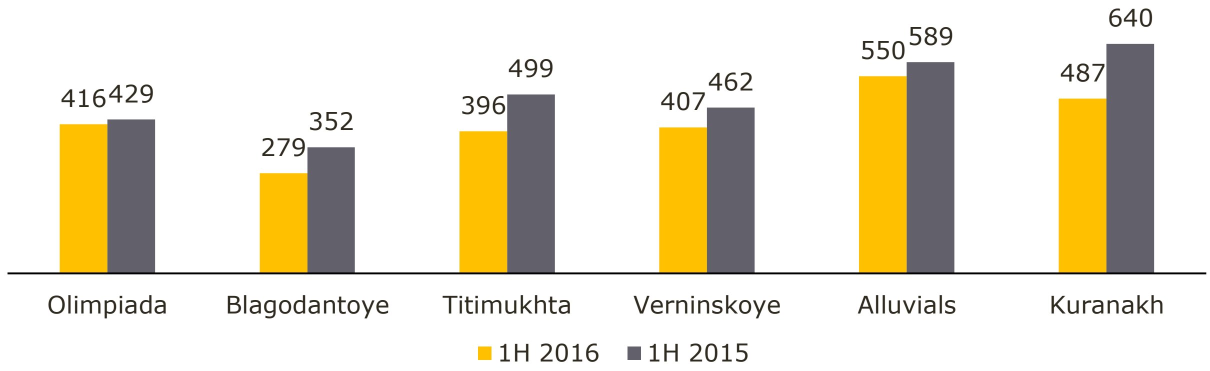
Blagodatnoye decreased its TCC 21% y-o-y to $279/oz, which was primarily driven by improvements on the production side including higher grades and increase in recoveries. An additional positive impact came on the back of the weaker rouble and higher grinding circuit capacity achieved during the respective period.

At Titimukhta, TCC decreased 21% to $396/oz owing to rouble devaluation and a decline in fixed costs as a result of limited mining activity. Operational improvements in processing activity provided additional support, with higher grades in ore processed due to a selective approach in stockpiled ore treatment.

Verninskoye decreased its TCC 12% y-o-y to $407/oz. The main positive contributing factor on the production side was an increase in recoveries, surpassing the design target parameter of 86%. Moreover, the rouble depreciation helped offset the negative impact of higher costs of reagents, explosives and repairs.

At Alluvials, TCC declined 7% y-o-y, to $550/oz. The rouble depreciation mitigated the negative impact of higher spares expenses and outsourced mining services costs.

TCC performance by mine, $/oz



All-in sustaining costs (AISC)

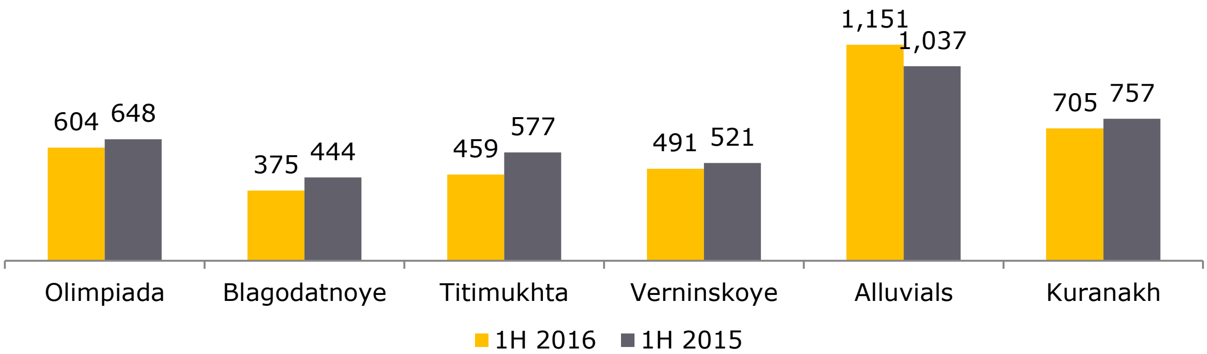
Similarly to the TCC/oz, the Group's AISC/oz demonstrated a 9% y-o-y decline to $555/oz in 1H 2016. Lower TCC, reduced stripping expenses and SG&A were the key drivers behind the positive performance. At the same time, sustaining capex was up 300% y-o-y mainly due to a sizable replacement of worn-out equipment and a low base effect in 1H15.

In terms of individual mine performance, the Group's lowest cost asset, Blagodatnoye, demonstrated further substantial cost reduction, down 16% y-o-y, to $375/oz. At Alluvials, AISC were up 11% y-o-y, to $1,151/oz partially reflecting 6% y-o-y decline in gold in slime production. It is important to highlight the seasonality of the Alluvials business model, with washing season starting in 2Q of the year. To recap, AISC for 1H 2015 was $1,037/oz, averaging at $725/oz for 2015. The Group anticipates a similar trend to be observed in 2016.

All-in sustaining costs calculation

$ mln	1H 2016	1H 2015	y-o-y change	FY 2015
Total TCC	316	349	(10%)	749
+ selling, general and administrative expenses	63	70	(10%)	143
- amortisation and depreciation	(2)	(2)	-	(3)
+ research expenses and other sustaining expenses	-	-	-	1
+ stripping activity asset additions	30	57	(47%)	104
+ sustaining capital expenditure	56	14	300%	51
+ unwinding of discounts on decommissioning liabilities	1	2	(50%)	4
adding back expenses excluded from cost of gold sales				
+ provision for annual vacation payment	-	(1)	N.M.	1
+ employee benefit obligations cost	1	-	N.M.	4
+ change in allowance for obsolescence of inventory	-	(1)	N.M.	-
Total all-in sustaining costs	**465**	**488**	**(5%)**	**1,054**
Gold sold (koz)	837	799	5%	1,768
All-in-sustaining cost ($/oz)	**555**	**611**	**(9%)**	**596**

All-in sustaining costs by mine, $/oz



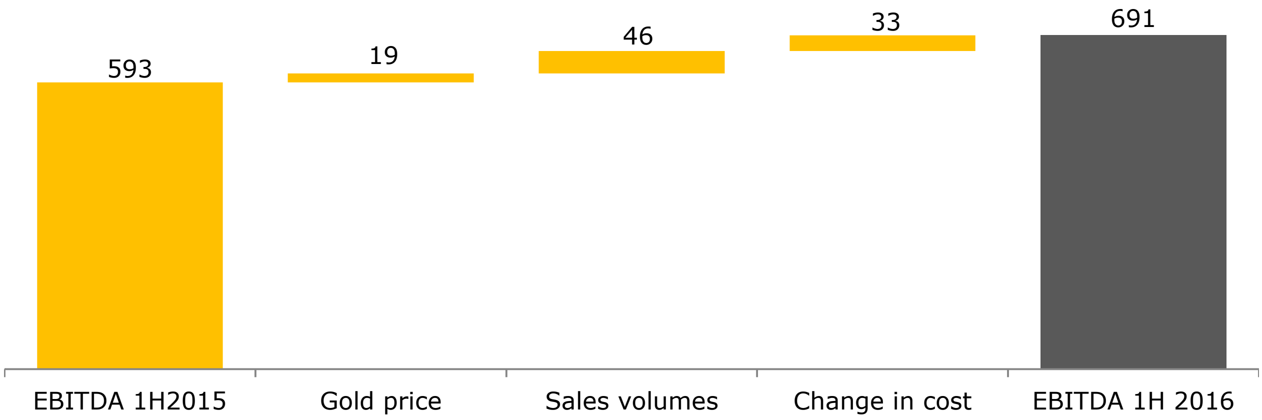
Adjusted EBITDA

The Group's adjusted EBITDA increased 17% y-o-y to $691 million in 1H 2016, with the adjusted EBITDA margin expanding another 6 ppts y-o-y to 64%. Operational achievements and the full-scale rollout of the Total Operational Efficiency programme coupled with further rouble devaluation fueled a robust cost performance offsetting inflationary trends. Moreover, higher sales volumes, and a $45 million positive effect from the SPPP also contributed to the y-o-y earnings growth.

Adjusted EBITDA calculation

$ mln	1H 2016	1H 2015	y-o-y change	FY 2015
Operating profit for the year	499	594	(16%)	1,021
Income tax	179	76	136%	191
Depreciation and amortisation	66	62	6%	128
Loss/(gain) on derivative financial instruments and investments	142	(145)	(198%)	125
Finance costs	73	40	83%	45
Long Term Incentive Plan	6	–	N.M.	7
Foreign exchange (gain)/loss, net	(257)	5	M.M.	(149)
Interest income on bank deposits and loan issued	(18)	(35)	(49%)	(69)
(Reversal of impairment)/impairment losses	(1)	(4)	(75%)	(22)
Other	2	–	N.M.	1
Adjusted EBITDA	**691**	**593**	**17%**	**1,278**
Adjusted EBITDA margin (%)	64	58	6 ppts	58

Adjusted EBITDA bridge, $ mln



Olimpiada and Blagodatnoye remained the main contributors to the Group's earnings. EBITDA at Olimpiada stayed virtually flat y-o-y, which mostly reflects modest TCC performance as an increase in ore treatment volumes offset temporarily lower grades. Nevertheless, Blagodatnoye made substantial progress in terms of EBITDA growth due to a sharp increase in production caused by both higher grades and improved recoveries. In the meantime, Titimukhta posted a substantial decline in EBITDA impacted by considerably lower gold sales volumes only partially offset by a decline on a cost side. All other Group's operations made contributed to the overall EBITDA growth.

1H 2016 adjusted EBITDA breakdown by mine, $ mln

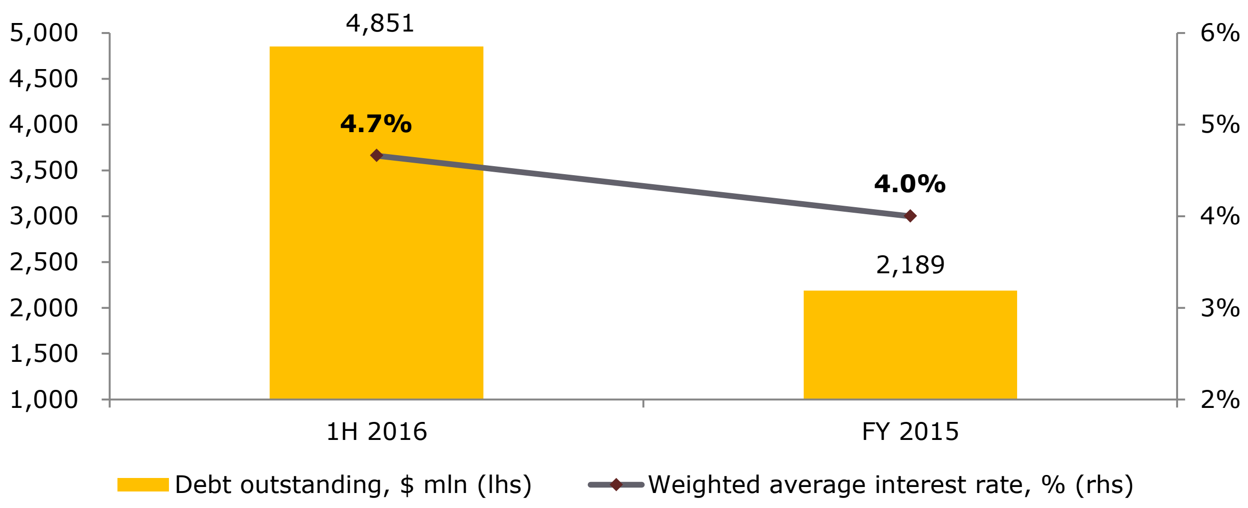
$ mln	**1H 2016**	**1H 2015**	**y-o-y change**	**FY 2015**
Olimpiada	286	287	(0%)	605
Blagodatnoye	222	162	37%	348
Titimukhta	36	43	(16%)	54
Verninskoye	74	58	28%	115
Alluvials	13	10	30%	76
Kuranakh	54	33	64%	70
Other	6	-	N.M.	10
Total	**691**	**593**	**17%**	**1,278**

Finance cost analysis

$ mln	1H 2016	1H 2015	y-o-y change	FY 2015
Interest on borrowings	116	62	87%	132
Gain on exchange of interest payments under cross currency swap	(11)	(18)	(39%)	(39)
Gain on exchange of interest payments under interest rate swaps	(5)	(6)	(17%)	(13)
Unwinding of discounts on decommissioning liabilities	1	2	(50%)	4
Bank one-off commissions	15	-	N.M.	-
Other	1	-	N.M.	2
Sub-total finance cost	**117**	**40**	**193%**	**86**
Interest capitalised in the cost of mine under development and capital construction-in-progress	(44)	-	N.M.	(41)
Total finance cost expensed	**73**	**40**	**83%**	**45**

The Group's total finance costs in 1H 2016 amounted to $73 million, as compared to $40 million in 1H 2015. The Company resumed interest capitalisation in regards to the Natalka development project, which entered an active stage with the construction works ramping up further. Hence, capitalised interest related to the Natalka project amounted to $44 million, while there had been no material capitalised interest in 1H 2015. Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps), totalled $100 million in 1H 2016, compared to $ 38 million in 1H 2015. Higher gross debt as well as an increase in the average interest rate to 4.7% were the reasons behind the pickup in interest payments.

Weighted average interest rate dynamics



Foreign exchange gain and derivatives

The Group's foreign exchange gain in 1H 2016 amounted to $257 million, as compared to $5 million loss in 1H 2015, which reflects the revaluation of USD-denominated bank deposits and USD-denominated liabilities as of the end of 1H 2016 on the back of FX rate fluctuation.

In February 2016, the Group launched Tranche 4 of the revenue stabiliser programme in addition to existing three Tranches. Thus, c. 48% of FY16 expected gold output is now protected. No changes were made to the gold forward programme, and there are no outstanding balances in regards to gold forward programme as of the end of 1H 2016

Valuation and hedge accounting of derivative financial instruments as at 30 June 2016

$ mln	Asset	Liability	Fair value recorded in balance sheet	Profit & loss (income) charge	Other comprehensive loss (income)
Revenue stabiliser	11	(196)	(185)	(253)	(95)
Gold forwards	-	-	-	8	(20)
Cross-currency collars	-	-	-	-	
Cross-currency swaps		(450)	(450)	132	
Interest rate swaps	28		28	17	
Total	**39**	**(646)**	**(607)**	**(96)**	**(115)**

Revenue stabiliser

During the year ended 31 December 2015 the Group partially restructured its revenue stabiliser programme, taking advantage of gold price movements during the year. The restructuring was done at zero cost – the Group neither paid nor received any cash consideration in any of the transactions. During 2H 2015 the Group completed the restructuring of Tranches 1 and 2 of the revenue stabiliser programme and began signing agreements under Tranche 3 and 4. The Group focused on deleveraging the revenue stabiliser structure, i.e. the restructuring of Tranches 1 and 2 resulted in the closing out of part of the fourth-year options and the lowering of barriers on the remaining options for the first three years. Tranche 4 of the revenue stabiliser programme has been launched in February 2016. Thus, about 48% of FY16 expected gold output is now protected.

Tranches 1 and 2 of the revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the cash flow hedge revaluation reserve within equity, while the remaining change in the fair value of the $66 million loss is reflected in the consolidated statement of profit or loss (note 9). During the six months ended 30 June 2016, under Tranches 1 and 2, $62 million of decrease was recognised in the cash flow hedge revaluation reserve within equity and following the sale of the hedged volume of gold and the exercise of certain options $33 million was subsequently reclassified to gold sales within the condensed consolidated interim income statement.

Tranches 3 and 4 are accounted at fair value through profit and loss. During the six months ended 30 June 2016, loss resulted from the change in its fair value totalled $224 million and is presented within the note 9 of the condensed consolidated interim statement of profit or loss.

In 1H 2016 the positive effect on revenue from the revenue stabiliser programme amounted to $37 million.

Forward contracts

During the six months ended 30 June 2016, $12 million of loss was recognised in the Cash flow hedge revaluation reserve within equity and following the sale of the hedged amount of gold $8 million was reclassified from the cash flow hedge revaluation reserve within equity into gold sales within the condensed consolidated interim statement of profit or loss. No further gold forward contracts remained outstanding as of 30 June 2016.

The positive effect on revenue from gold forward contracts in 1H 2016 amounted to $8 million, as gold traded below the fixed contract price of $1,321/oz.

The combined effect in 1H 2016 of gold-linked derivatives (revenue stabiliser and forward contracts) on revenue amounted to $45 million.

Cross-currency and interest rate swaps

In April 2014 the Group signed a five-year RUB 36 billion credit facility agreement with Sberbank. The interest rate for this credit facility is 10.35%. The revenue of the Group is linked to US dollars, as the gold price is quoted in this currency. The Group entered into a number of cross-currency swaps with leading Russian banks to economically hedge interest and principal payments. According to the cross-currency swap agreements the Group pays banks a quarterly LIBOR+Margin of 2.47% in USD and receives from banks 10.35% in RUB, and upon maturity (on 9 April 2019) the Group will exchange principal amounts, paying in USD and receiving RUB.

In July 2015 the Group placed RUB 15 billion in bonds. To economically hedge interest and principal payments for these RUB bonds the Group entered into cross currency swaps with leading Russian banks, for a total amount of RUB 10 billion. According to the cross currency swap agreements, the Group will semi-annually pay to the banks a 6MLIBOR + Margin of 4.45% in USD and receive from the banks 12.1% in RUB; and upon maturity (on 16 July 2021) the Group will exchange principal amounts, paying USD 173 million and receiving RUB10 billion.

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

The overall positive effect in 1H 2016 on finance costs from cross-currency and interest rate swaps amounted to $16 million. This was recorded in Finance Costs as a realised gain on the exchange of interest payments under interest rate and cross currency swaps.

Income taxes

The Group's overall income tax amounted to $179 million in 1H 2016, which is more than a two-fold increase y-o-y. Meanwhile, the current income tax expense increased 91% y-o-y, despite steady profit before taxes. That was due to the fact that the 1H 2016 profit before tax was negatively impacted by losses on derivative financial instruments and investments, which are not subject to tax, while positively affected by FX gain.

Net profit

The Group's 1H 2016 net profit totalled $499 million, as compared to $594 million in 1H 2015. The result mainly reflects an impact of one-off non-cash items on both profit before tax and current income tax expense as per described above. Adjusting for those items (see the reconciliation below), the Group's net profit for 1H 2016 stood at $405 million.

Adjusted net profit calculation

$ mln	1H 2016	1H 2015	y-o-y change	FY 2015
Net profit	**499**	**594**	**(16%)**	**1,021**
+ reversal of impairment losses	(1)	(4)	(75%)	(22)
+ Loss/(gain) on derivative financial instruments and investments	142	(145)	N.M.	125
+ impact from forex	(257)	5	N.M.	(149)
+ income tax related to one-off items	22	(7)	N.M.	(38)
Adjusted net profit	**405**	**443**	**(9%)**	**937**

Statement of financial position review

Debt

As of 30 June 2016 the Group's gross debt amounted to $4,851 million, more than two times higher comparing to $2,189 million at the end of 2015. 97% of gross debt remains long term, with only $138 million due in 2H 2016-1H 2017.

Due to a sharp increase in bank loans (up 209% since the end of 2015) following the credit facility from Sberbank obtained in January 2016, the share of the $750 million Eurobond 2020 in gross debt decreased to 15% as of the end of 1H 2016. Moreover, the overall share of public debt decreased to 19% as of the end of respective period.

Debt breakdown by type

$ mln	1H 2016	FY 2015	1H 2015
Eurobonds	750	750	750
RUB bonds	155	137	-
Deferred payments under letters of credit	29	38	47
Lease liabilities	5	-	-
Bank loans	3,912	1,264	959
Total	**4,851**	**2,189**	**1,756**

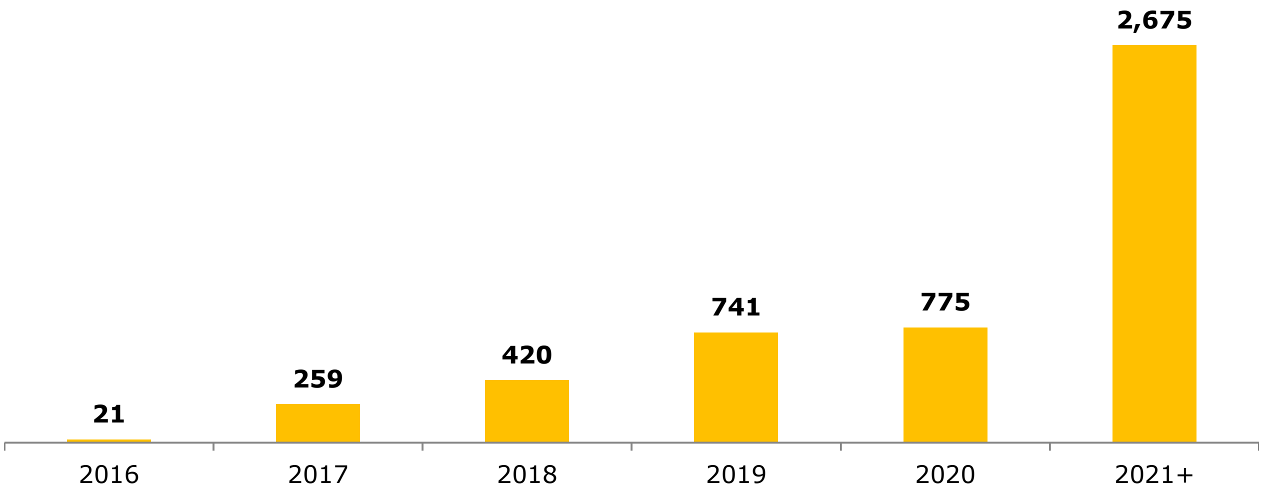
Currency-wise, the Group's debt portfolio remains dominated by US dollar denominated instruments. Their share increased further to 85% as of the end of 1H 2016 (13% growth as compared to the structure as of the end of 2015) as the Company entered into a 7-year credit facility with Sberbank in January 2016. USD Eurobond due 2020 represents only a portion of the USD-denominated debt. As previously mentioned in the cross-currency swaps section, the RUB 36 billion credit facility from Sberbank obtained in April 2014 and the RUB 15 billion bonds placed in July 2015 were both economically hedged via cross-currency swaps.

Debt breakdown by currency

	1H 2016		FY 2015		1H 2015	
	$ mln	***% of total***	**$ mln**	***% of total***	**$ mln**	***% of total***
EUR	-	-	13	*1%*	16	*1%*
RUB	716	*15%*	616	*28%*	604	*34%*
USD	4,125	*85%*	1,560	*71%*	1,136	*65%*
Total	**4,851**		**2,189**		**1,756**	

The majority of the maturities due after or during the 2021 comprises of the 7-year $2.5 billion credit facility from Sberbank and the six-year RUB bonds. The RUB 36 billion credit facility from Sberbank is due in 2019 and the Eurobond issue is due in 2020. Existing cash balances combined with $678 million of unused committed credit lines cover a substantial portion of debt repayments up to 2020, totaling ca. $2.2 billion. Meanwhile, short-term debt is only $138 million.

Debt maturity schedule[10], $ mln



Cash and cash equivalents and bank deposits

The Group's cash and cash equivalents and bank deposits were $1,382 million, down 24% from the end of 2015, largely reflecting the buyback in respect of ordinary shares of PJSC Polyus and its ADRs through the Company's subsidiary Polyus-Invest in 2Q 2016. The

[10] The breakdown is based on actual maturities and excludes $37 million of bank commissions included in borrowings, in accordance with IFRS.

Group's cash position is primarily denominated in USD, as revenue is fully linked to the USD-quoted gold price, while the RUB exchange rate is subject to significant volatility.

Cash, cash equivalents, and bank deposits breakdown by currency as at 30 June 2016

$ mln	1H 2016	FY 2015	1H 2015
RUB	92	104	164
USD	1,290	1,721	1,211
EUR	-	-	-
Total	**1,382**	**1,825**	**1,375**

Net debt

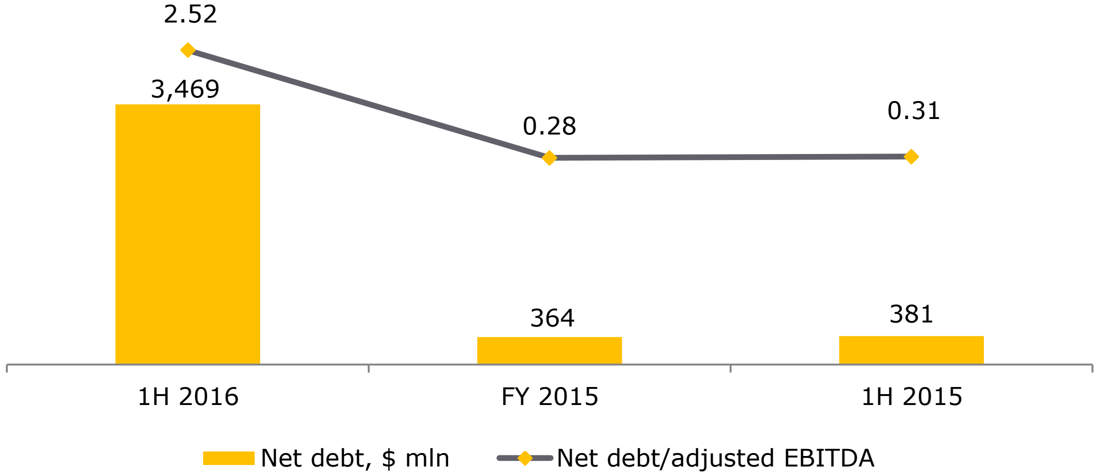
By the end of 1H 2016 the Group's net debt amounted to $3,469 million, as opposed to $364 million as of the end of 2015, despite a robust cash flow generation during the period and reflecting the conducted share buyback.

Net debt evolution

$ mln	1H 2016	FY 2015	1H 2015
Non-current borrowings	**4,713**	**2,151**	**1,718**
+ Current borrowings	138	38	38
– Cash and cash equivalents	1,382	1,825	1,375
– Bank deposits	-	-	-
Net debt	**3,469**	**364**	**381**

The net debt/adjusted EBITDA ratio as of the end of 1H 2016 increased to 2.5x, as compared to 0.3x as of the end of 2015, predominantly due to a sharp increase in net debt position.

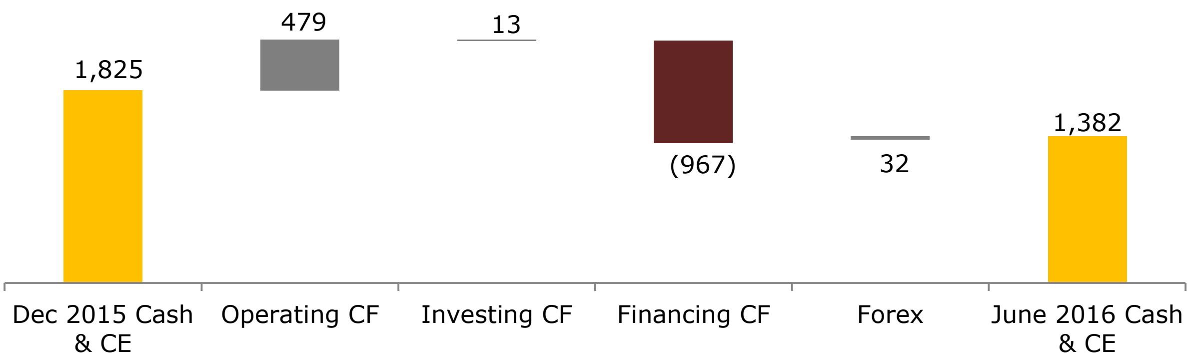
Net debt and net debt/LTM adjusted EBITDA ratio



Cash flow review

The Group's net operating cash flow[11] in 1H 2016 was only 8% lower y-o-y and amounted to $479 million. Despite substantially higher capex spending in 1H 2016 as compared to 1H 2015, the Company posted cash inflow on investing activities at $13 million as it was positively impacted by $123 million of loans repaid. Cash outflow from financing activities amounted to $967 million mostly as a result of share buyback in 2Q 2016. All the above resulted in a 24% decrease in cash and cash equivalents of $443 million since the end of 2015, to $1,382 million by the end of 1H 2016.

1H 2016 cash flow bridge, $ mln



Operating cash flow

The Group generated operational cash flow of $479 million in 1H 2016, driven by strong EBITDA generation on the back of lower costs, higher sales volumes, benefits from the SPPP and a weaker rouble. This result was achieved despite the $85 million of working capital build up due to the increase in spare parts procurement prior to scheduled repair works, consumables and fuel inventories restoration to normal levels and flotation concentrate storage build up to be sold during 2016. In the meantime, strict working capital control continues to remain a priority for the Group. Operational cash flow was down only 8% y-o-y reflecting an increase in income tax paid.

Investing cash flow

The Group's 1H 2016 capex rose by 94%, to $186 million, from $96 million in 1H 2015 reflecting higher maintenance capex as well as the Natalka and brownfield development projects entering an active phase during the last twelve months.

The Group's main development project, Natalka saw a 116% growth in capex in 1H 2016, to $82 million, due to a further ramp up in construction works, including the crushing circuit and tailings thickener as well as the circulating pump and slurry pump stations.

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

The Group substantially increased capex at Olimpiada to $33 million, as the construction works to reconfigure the Titimukhta Mill were mainly scheduled for the first half of the year. Stage 1 of the Mill-1 upgrade was successfully launched in April, while the rest of the complex will be launched in August.

At Blagodatnoye, capex rose by 125% y-o-y to $9 million, primarily as a result of the implementation of projects to upgrade and expand the Mill to 8.0 mtpa of ore processing volumes, including the launch of an additional crushing circuit at the pre-cyanidation flotation stage as well as installation of several screening units at the gravitation circuit. Moreover, the Company continued design works related to the heap leach project.

Capex at Kuranakh increased significantly y-o-y, to $12 million, largely due to the launching of projects to increase equipment productivity and preparation works related to heap leach installation. Due to the increased mining activity, the Company initiated a mining fleet renovation.

At Alluvials, capex increased to $11 million on the back of higher exploration activity as well as the ongoing worn-out equipment replacement programme.

1H 2016/1H 2015 capex breakdown[12]

$ mln	1H 2016	1H 2015	y-o-y change	FY 2015
Natalka	82	38	116%	111
Olimpiada	33	10	230%	39
Blagodatnoye	9	4	125%	13
Verninskoye	6	8	(25%)	21
Alluvials	11	3	267%	5
Titimukhta	-	-	-	1
Kuranakh	12	2	N.M.	10
Exploration	3	1	200%	7
Other (incl. power projects)	30	30	-	61
Total	**186**	**96**	**94%**	**268**

Other areas of investing activities included interest received, bank deposits movements and loans settlement between the Company and Polyus Gold International, which all together led to a $153 million inflow in 1H 2016, as compared to a $153 million outflow in 1H 2015.

Financing cash flow

On 11 March 2016, Polyus announced the decision to buyback ordinary shares of PJSC Polyus and its ADRs. This had a major impact on financing cash flow in the reporting period. In order to finance the buyback, the Group entered into a $2.5 billion 7-year credit facility with PJSC Sberbank. However, buyback cash outflow was $3.4 billion and hence the financing cash outflow amounted to $967 million, as compared to $110 million outflow in 1H 2015.

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

As for dividends, the Board of Directors recommended not to pay any dividends for FY 2015. The shareholders at the Annual General Meeting held on April 5, 2016 approved this proposal.

Related-party transactions

Related-party transactions are disclosed in note 17 on page 53 to the condensed consolidated interim financial statements. The Group had transactions with its shareholders during 1H 2016 connected with the buyback.

Going concern

The financial position of the Group, its cash flows, liquidity position, and borrowing facilities are set out in this MD&A on pages 21 to 23. As at 30 June 2016 the Group held $1,382 million in cash and cash equivalents and bank deposits and had a net debt of $3,469 million, with $678 million of undrawn but committed facilities available, subject to covenant compliance. Details on borrowings and credit facilities are disclosed in note 16 to the financial statements. In assessing its going-concern status, the directors have considered the uncertainties affecting future cash flows and have taken into account its financial position, anticipated future trading performance, borrowings, and other available credit facilities, as well as its forecast compliance with the covenants on those borrowings and its capital expenditure commitments and plans. In the event of certain reasonably possible adverse pricing and forex scenarios and the risks and uncertainties below, management has within its control the option of deferring uncommitted capital expenditure, or managing the dividend payment profile to maintain the Group's funding position.

Having examined all the scenarios, the Directors concluded that no covenants will be breached in any of these adverse pricing scenarios. Accordingly, the Board is satisfied that the Group's forecasts and projections, having taken into account reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of signing the condensed consolidated financial statements and that it is appropriate to adopt the going-concern basis in preparing the condensed consolidated financial statements for the six months ended 30 June 2016.

Risks and uncertainties

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

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

Starting from March 2014, a number of sanction packages have been imposed by the US and the EU on certain Russian officials, businessmen and companies. Over the 2015 the EU and the US announced the extension of sanctions by one year and six months correspondingly. In March 2016 the US decided not to lift sanctions and extended them by one year. In early July 2016 the EU announced the extension of sanctions by six months

The Directors do not believe that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 December 2015, other than the aforementioned sanctions against Russia. Additional information on sanctions, surfaced during the 1H 2016, does not constitute an additional risk for the Group. Detailed explanation of the risks summarized below, together with the Group's risk mitigation plans, can be found on pages 40 to 51 of the 2015 Annual Report which is available at http://polyus.com/en/?from=ru

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

Commodity price risk

The Group's earnings are exposed to price movements in gold, which is the Group's main source of revenue. The Group sells most of its gold output at prevailing market prices. However, to protect its earnings and balance sheet from a potential significant fall in gold prices the Group initiated Strategic Price Protection Programme, which includes gold collars and gold forward contracts. A detailed discussion on SPPP is provided on pages 19 to 20.

Foreign exchange risk

As stated on page 8, the Group's revenue is linked to the USD, as the gold price is quoted in this currency. Thus the Group's strategy is to have mostly USD-denominated debt and to keep its cash and deposits in USD. As of the end of 1H 2016, 93% of the cash and cash equivalents and bank deposits of the Group were in USD – see page 23 of this MD&A for a detailed description. As part of this strategy, the Group entered into a number of cross-currency swaps with leading Russian banks economically to hedge interest payments and the exchange of the principal amounts – see page 20. In order to reduce the adverse effects associated with the changes in the exchange rates of RUB against USD the Group entered into currency collar contracts, which had all matured by 31 December 2015, thus, had no impact on the Group's financials in 1H 2106.

Interest rate risk

The Group is exposed to interest rate risk, as a significant part of the Group's debt portfolio is made up of US Dollar floating rate borrowings. Fluctuations in interest rates may affect the Group's financial results. The Group's current policy considering the relatively low LIBOR rates is to borrow funds in USD with floating interest rates.

Inflation risk

As stated on page 9, the Group's earnings are exposed to inflationary trends in Russia, and inflation negatively impacts the Group's earnings, increasing future operating costs. To mitigate rouble inflation risk, the Group estimates possible inflation levels and incorporates them into its cost planning; it has implemented cost reduction initiatives at its operations, and its treasury team is responsible for ensuring that the majority of cash and cash equivalents are held in USD.

Outlook

In 1H 2016, the Group's gold production was ahead of expectations. We made another solid step towards cementing Polyus' position as one of the most efficient gold producers globally and expect to continue to benefit from the low-cost position, supported by continuous improvements in operational performance and cost discipline.

Report on Review of Interim Financial Information

Introduction

We have reviewed the condensed consolidated financial information in the Interim Management Report for the six months ended 30 June 2016 which comprises condensed consolidated interim statement of financial position of PJSC "Polyus" and subsidiaries (collectively – the "Group") as of June 30, 2016 and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed consolidated interim financial information 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 information 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Deloitte & Touche

Moscow, Russian Federation

9 August, 2016

PJSC “Polyus”

Condensed consolidated interim financial statements for the six months ended 30 June 2016 (unaudited)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

(in millions of US Dollars, except for earnings per share data)

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
Gold sales	4	1,069	1,005	2,159
Other sales		13	14	29
Total revenue		**1,082**	**1,019**	**2,188**
Cost of gold sales	5	(379)	(406)	(876)
Cost of other sales		(12)	(12)	(25)
Gross profit		**691**	**601**	**1,287**
Selling, general and administrative expenses	6	(63)	(70)	(143)
Reversal of impairment	7	1	4	22
Other expenses, net		(11)	–	(2)
Operating profit		**618**	**535**	**1,164**
Finance costs	8	(73)	(40)	(45)
Interest income on bank deposits and loans issued		18	35	69
(Loss) / gain on derivative financial instruments and investments, net	9	(142)	145	(125)
Foreign exchange gain / (loss), net		257	(5)	149
Profit before income tax		**678**	**670**	**1,212**
Current income tax expense		(151)	(79)	(198)
Deferred income tax (expenses)/benefit		(28)	3	7
Profit for the period		**499**	**594**	**1,021**
Attributable to:				
Shareholders of the Company		496	591	987
Non-controlling interests		3	3	34
		499	**594**	**1,021**
Weighted average number of ordinary shares	15	153,800,213	190,627,747	190,627,747
Earnings per share (US Dollar), basic and diluted[1]		3.22	3.10	5.18

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

POLYUS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

(in millions of US Dollars)

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
Profit for the period		**499**	**594**	**1,021**
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	11	(62)	30	126
(Decrease) / increase in revaluation of cash flow hedge reserve on gold forward	11	(12)	1	18
Deferred tax relating to decrease / (increase) in revaluation of cash flow hedge reserve		15	–	(35)
		(59)	**31**	**109**
Items that will not be reclassified through profit or loss:				
Effect of translation to presentation currency		(51)	42	(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	11	(33)	(35)	(91)
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward	11	(8)	(9)	(25)
Deferred tax relating to cash flow hedge reserve reclassified to consolidated statement of profit or loss		8	19	22
		(33)	**(25)**	**(94)**
Other comprehensive (loss) / income		**(143)**	**48**	**(539)**
Total comprehensive income		**356**	**642**	**482**
Attributable to:				
Shareholders of the Company		344	637	469
Non-controlling interests		12	5	13
		356	**642**	**482**

POLYUS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2016 (UNAUDITED)
(in millions of US Dollars)

	Notes	30 June 2016	30 June 2015	31 December 2015
Assets				
Non-current assets				
Property, plant and equipment	10	2,442	2,448	2,023
Derivative financial instruments and investments	11	32	148	411
Inventories	12	216	236	184
Deferred tax assets		62	62	46
Other non-current assets		22	5	8
		2,774	**2,899**	**2,672**
Current assets				
Derivative financial instruments and investments	11	270	378	205
Inventories	12	374	428	296
Deferred expenditures		25	26	13
Other receivables		29	18	23
Advances paid to suppliers and prepaid expenses		14	16	17
Taxes receivable		67	53	59
Bank deposits	13	-	49	–
Cash and cash equivalents	14	1,382	1,326	1,825
		2,161	**2,294**	**2,438**
Total assets		**4,935**	**5,193**	**5,110**
Equity and liabilities				
Capital and reserves				
Share capital	15	7	7	7
Additional paid-in capital	15	2,279	2,266	2,273
Treasury shares	15	(3,442)	–	–
Cash flow hedge revaluation reserve	11	31	114	123
Translation reserve		(2,686)	(2,050)	(2,623)
Retained earnings		2,693	2,016	2,196
Equity attributable to shareholders of the Company		**(1,118)**	**2,353**	**1,976**
Non-controlling interests		75	82	71
		(1,043)	**2,435**	**2,047**
Non-current liabilities				
Site restoration, decommissioning and environmental obligations		41	46	32
Borrowings	16	4,713	1,718	2,151
Derivative financial instruments	11	646	382	509
Deferred tax liabilities		165	144	133
Other non-current liabilities		25	23	20
		5,590	**2,313**	**2,845**
Current liabilities				
Borrowings	16	138	38	38
Derivative financial instruments	11	-	214	–
Trade, other payables and accrued expenses		194	148	151
Taxes payable		56	45	29
		388	**445**	**218**
Total liabilities		**5,978**	**2,758**	**3,063**
Total equity and liabilities		**4,935**	**5,193**	**5,110**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

(in millions of US Dollars)

		Equity attributable to shareholders of the Company									
	Notes	Number of outstanding shares, million	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 2014		**190,627,747**	**7**	**2,266**	**–**	**108**	**(2,090)**	**1,425**	**1,716**	**83**	**1,799**
Profit for the period		–	–	–	–	–	–	591	**591**	3	**594**
Increase in cash flow hedge revaluation reserve	11	–	–	–	–	6	–	–	**6**	–	**6**
Effect of translation to presentation currency		–	–	–	–	–	40	–	**40**	2	**42**
Total comprehensive income		**–**	**–**	**–**	**–**	**6**	**40**	**591**	**637**	**5**	**642**
Dividends declared to shareholders of non-controlling interests		–	–	–	–	–	–	–	**–**	(6)	**(6)**
Balance at 30 June 2015		**190,627,747**	**7**	**2,266**	**–**	**114**	**(2,050)**	**2,016**	**2,353**	**82**	**2,435**
Profit for the period		–	–	–	–	–	–	396	**396**	31	**427**
Increase in cash flow hedge revaluation reserve		–	–	–	–	9	–	–	**9**	–	**9**
Effect of translation to presentation currency		–	–	–	–	–	(573)	–	**(573)**	(23)	**(596)**
Total comprehensive income / (loss)		**–**	**–**	**–**	**–**	**9**	**(573)**	**396**	**(168)**	**8**	**(160)**
Equity-settled share-based payment plans (LTIP)	15	–	–	7	–	–	–	–	**7**	–	**7**
Increase of ownership in subsidiaries		–	–	–	–	–	–	(216)	**(216)**	(14)	**(230)**
Dividends declared to shareholders of non-controlling interests		–	–	–	–	–	–	–	**–**	(5)	**(5)**
Balance at 31 December 2015		**190,627,747**	**7**	**2,273**	**–**	**123**	**(2,623)**	**2,196**	**1,976**	**71**	**2,047**
Profit for the period		–	–	–	–	–	–	496	**496**	3	**499**
Decrease in cash flow hedge revaluation reserve	11	–	–	–	–	(92)	–	–	**(92)**	–	**(92)**
Effect of translation to presentation currency		–	–	–	–	–	(60)	–	**(60)**	9	**(51)**
Total comprehensive income		**–**	**–**	**–**	**–**	**(92)**	**(60)**	**496**	**344**	**12**	**356**
Equity-settled share-based payment plans (LTIP)	15	–	–	6	–	–	–	–	**6**	–	**6**
Purchase interest from non-controlling shareholder		–	–	–	–	–	–	(2)	**(2)**	(1)	**(3)**
Buy-back of treasury shares	15	–	–	–	(3,442)	–	–	–	**(3,442)**	–	**(3,442)**
Release of translation reserve due to disposal of subsidiary		–	–	–	–	–	(3)	3	**–**	–	**–**
Dividends declared to shareholders of non-controlling interests		–	–	–	–	–	–	–	**–**	(7)	**(7)**
Balance at 30 June 2016		**190,627,747**	**7**	**2,279**	**(3,442)**	**31**	**(2,686)**	**2,693**	**(1,118)**	**75**	**(1,043)**

POLYUS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

(in millions of US Dollars)

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
Operating activities				
Profit before income tax		**678**	**670**	**1,212**
Adjustments for:				
(Reversal of impairment)/ impairment loss	7	(1)	(4)	(22)
Finance costs	8	73	40	45
Interest income on bank deposits		(18)	(35)	(69)
Loss / (gain) on derivative financial instruments and investments	9	142	(145)	125
Amortisation and depreciation	10	66	62	128
Foreign exchange (gain)/ loss, net		(257)	5	(149)
Other		8	(2)	5
		691	**591**	**1,275**
Movements in working capital				
Inventories		(40)	15	42
Deferred expenditures		(13)	(12)	(3)
Other receivables		(5)	(2)	(6)
Advances paid to suppliers and prepaid expenses		(3)	(2)	(11)
Taxes receivable		(8)	2	(8)
Trade and other payables and accrued expenses		(12)	7	27
Other non-current liabilities		-	–	5
Taxes payable		(4)	3	(1)
Cash flows from operations		**606**	**602**	**1,320**
Income tax paid		(127)	(84)	(217)
Net cash generated from operating activities		**479**	**518**	**1,103**
Investing activities				
Purchase of property, plant and equipment		(140)	(154)	(326)
Increase in bank deposits		-	(71)	(74)
Proceeds from redemption bank deposits		-	291	340
Interest received		20	30	62
Proceeds from derivatives		-	–	–
Payment for the currency collars	11	-	(217)	(494)
Proceeds from disposal of subsidiary, net of cash disposed of		10	–	–
Loans issued		–	(186)	(190)
Loans repaid		123	–	–
Other		-	3	6
Net cash (utilised in) / generated from investing activities		**13**	**(304)**	**(676)**
Financing activities				
Interest paid		(114)	(66)	(124)
Proceeds from leaseback transactions		2	–	–
Repayments under lease		-	–	–
Net proceeds on exchange of interest payments under interest and cross currency rate swaps	11	16	24	52
Payment for buy-back of shares		(3,442)	–	–
Dividends paid to shareholders of the Company	15	-	–	–
Dividends paid to non-controlling interests		-	–	(10)
Proceeds from borrowings	16	2,591	–	621
Repayment of borrowings	16	(17)	(68)	(89)
Cash used to increase of ownership is subsidiaries		(3)	–	(230)
Net cash (utilised in) / generated from financing activities		**(967)**	**(110)**	**220**
Net (decrease) / increase in cash and cash equivalents		**(475)**	**104**	**647**
Cash and cash equivalents at beginning of the year	14	**1,825**	**1,213**	**1,213**
Effect of foreign exchange rate changes on cash and cash equivalents		32	9	(35)
Cash and cash equivalents at end of the period	14	**1,382**	**1,326**	**1,825**

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 20.

The Company is a subsidiary of Polyus Gold International Limited ("PGIL"), previously a public company which published its consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). As of 30 June 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 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 consolidated financial statements.

Compliance with International Financial Reporting Standards

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*. 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 2015.

Except for, as disclosed in sections *Significant accounting policies* and *Critical accounting judgements, estimates and assumptions and key sources of estimation uncertainty* as presented below, 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 2015.

Basis of presentation

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered. The accounting principles and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under International Financial Reporting Standards (IFRS). 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:

- *Financial instruments*, which are accounted for at amortised cost or at fair value.

(in millions of US Dollars)

IFRS standards update

The following is a list of standards (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 six months ended 30 June 2016:

Title	Subject	Effective for annual periods beginning on or after	Effect on the condensed consolidated interim financial statements
IFRS 14	Regulatory deferral accounts	1 January 2016	No effect
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception	1 January 2016	No effect
Amendments to IAS 1	Disclosure initiative	1 January 2016	No effect
Annual Improvements to IFRSs 2012–2014 Cycle	Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	1 January 2016	No effect
Amendments to IAS 27	Equity method in separate financial statements	1 January 2016	No effect
Amendments to IAS 16 and IAS 41	Agriculture: bearer plants	1 January 2016	No effect
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation	1 January 2016	No effect
Amendments to IFRS 11	Accounting for acquisition of interests in joint operations	1 January 2016	No effect

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	IASB effective for annual periods beginning on or after	Effect on the condensed consolidated interim financial statements
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	No effect
IFRS 9	Financial instruments	1 January 2018	No effect
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 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	Date will be determined later	No effect

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.

Exchange rates

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

Russian Rouble/US Dollar	30 June 2016	30 June 2015	31 December 2015
Period end rate	64.26	55.52	72.88

Starting form 1 January 2016, all income or expenses and respective cash flows are translated at the monthly average exchange rates. At the same time comparative financial information for the six months ended 30 June 2015 and year ended 31 December 2015 are presented at the average quarterly exchange rates.

3. SIGNIFICANT ACCOUNTING POLICIES

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 six months ended 30 June 2016 are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2015.

In the preparation of these condensed consolidated interim financial statements, the management of the Group has implemented a new accounting policy for *Sales and leaseback transactions*.

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"), identified as the Management Board (previously, Executive Committee). The following is a description of operations of the Group's seven identified reportable segments and those that do not meet the quantitative reporting threshold for reporting:

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

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

- gold sales;
- ounces of gold sold, in thousands;
- 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 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[2]	Adjusted EBITDA[2]	Total cash cost per ounce of gold sold (USD per ounce)[2]	Capital expenditures
For the six months ended 30 June 2016					
Business units					
Krasnoyarsk	806	622	544	363	49
Irkutsk alluvial	42	33	13	550	11
Irkutsk ore	121	100	74	407	6
Yakutia Kuranakh	95	78	54	487	12
Exploration	5	4	1	1,010	3
Magadan	–	–	–	–	82
Capital construction	–	–	–	–	18
Unallocated	–	–	5	–	5
Total	**1,069**	**837**	**691**	**377**	**186**
For the six months ended 30 June 2015					
Business units					
Krasnoyarsk	792	621	492	413	15
Irkutsk alluvial	39	33	10	589	3
Irkutsk ore	96	79	58	462	8
Yakutia Kuranakh	78	66	33	640	2
Exploration	–	–	(1)	–	1
Magadan	–	–	–	–	38
Capital construction	–	–	1	–	28
Unallocated	–	–	–	–	1
Total	**1,005**	**799**	**593**	**436**	**96**
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 19). There were no inter-segment gold sales during the six months ended 30 June 2016 and 2015. Included within gold sales in the six months ended 30 June 2016 are realised gains on derivatives of USD 45 million (note 11) (the six months ended 30 June 2015: USD 44 million; the year ended 31 December 2015: USD 116 million).

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 until October.

[2] unaudited and not reviewed

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

	Six months ended 30 June		Year ended 31 December
	2016	**2015**	**2015**
Profit for the period	**499**	**594**	**1,021**
Income tax	179	76	191
Depreciation and amortisation (note 10)	66	62	128
Loss / (gain) on derivative financial instruments and investments (note 9)	142	(145)	125
Finance costs (note 8)	73	40	45
Long Term Incentive Plan (note 15)	6	–	7
Foreign exchange (gain) / loss, net	(257)	5	(149)
Interest income on bank deposits and loan issued	(18)	(35)	(69)
(Reversal of impairment) / impairment losses (note 7)	(1)	(4)	(22)
Other	2	–	1
Adjusted EBITDA[3]	**691**	**593**	**1,278**

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

	Six months ended 30 June		Year ended 31 December
	2016	**2015**	**2015**
Cost of gold sales	**379**	**406**	**876**
Adjusted for:			
Depreciation and amortisation (note 10)	(62)	(64)	(126)
Other non-cash items in cost of gold sales	(1)	7	(1)
TCC	**316**	**349**	**749**
Ounces of gold sold, in thousands	837	799	1,768
TCC per ounce of gold sold, USD per ounce[3]	**377**	**436**	**424**

Capital expenditures primarily related to the following projects:

- at the Magadan business unit: ongoing construction in all major areas of the Natalka mill. The tendering process is finished and the external contractors have been selected for the main process equipment in the gravity separation area as well as for the infrastructure construction.
- at the Krasnoyarsk business unit: launching works to reconfigure the Titimukhta mill and preparations for connecting to the new Razdolinskaya-Taiga grid, upgrading and expanding the Blagodatnoye mill.
- at the Yakutia Kuranakh business unit: projects to increase equipment productivity and preparation works related to heap leach installation, including tender procedures for main production circuit equipment and contractor mobilization
- at the Construction business unit: the construction of the Razdolinskaya-Taiga electricity grid.
- at the Irkutsk ore business unit: launching works for debottlenecking and increase of mill current capacity to 2.5 million tones ore per year, consulting company AMC contracted to perform strategic development plan for the Irkutsk hub.

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

[3] unaudited and not reviewed

(in millions of US Dollars)

5. COST OF GOLD SALES

	Six months ended 30 June		Year ended 31 December
	2016	**2015**	**2015**
Labour	96	110	239
Consumables and spares	112	94	205
Tax on mining	60	70	140
Fuel	32	32	74
Power	12	17	35
Outsourced mining services	4	3	12
Refining costs	-	2	3
Other	16	25	57
Total cash operating costs	**332**	**353**	**765**
Amortisation and depreciation of operating assets (note 10)	65	64	126
Total cost of production	**397**	**417**	**891**
Increase in stockpiles, gold-in-process and refined gold inventories	(18)	(11)	(15)
Total	**379**	**406**	**876**

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June		Year ended 31 December
	2016	**2015**	**2015**
Salaries	45	51	100
Professional services	5	4	12
Taxes other than mining and income taxes	5	6	12
Amortisation and depreciation (note 10)	2	2	3
Other	6	7	16
Total	**63**	**70**	**143**

7. REVERSAL OF IMPAIRMENT / (IMPAIRMENT LOSSES)

	Six months ended 30 June		Year ended 31 December
	2016	**2015**	**2015**
Mine under development (note 10)	1	4	19
Exploration and evaluation assets (note 10)	-	–	5
Long-term stockpiles	–	–	(2)
Total	**1**	**4**	**22**

(in millions of US Dollars)

8. FINANCE COSTS

	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
Interest on borrowings	116	62	132
Bank one-off commissions	15	-	-
Unwinding of discounts on site restoration, decommissioning and environmental liabilities	1	2	4
(Gain) / loss on exchange of interest payments under cross currency swap (note 11)	(11)	(18)	(39)
(Gain) / loss on exchange of interest payments under interest rate swaps (note 11)	(5)	(6)	(13)
Other	1	–	2
Sub-total finance cost	**117**	**40**	**86**
Interest capitalised in the cost of Mine under development and capital construction in progress	(44)	–	(41)
Total finance cost expensed	**73**	**40**	**45**

Following temporary cessation of the active construction at Natalka during the year ended 31 December 2014 borrowing costs capitalisation was suspended until 30 June 2015.

Natalka mine construction restarted in the second half of the 2015 year, and, respectively, the Group commenced capitalising the related borrowing costs starting from 1 July 2015.

9. (LOSS) / GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS, NET

	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
Gain on currency collars (note 11)	-	116	2
Revaluation (loss) / gain on cross currency swaps (note 11)	121	21	(198)
Revaluation (loss) / gain on ineffective part of the revenue stabiliser under Tranches 1 and 2 (note 11)	(66)	7	19
Revaluation (loss) / gain on ineffective part of the revenue stabiliser under Tranche 3 and 4 (note 11)	(224)	–	49
Revaluation gain on interest rate swap (note 11)	12	2	4
Gain on disposal of subsidiary	16	–	–
Other	(1)	(1)	(1)
Total	**(142)**	**145**	**(125)**

(in millions of US Dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	Mineral rights	Fixed assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
Cost							
Balance at 31 December 2014 – as previously reported	**–**	**1,538**	**1,134**	**203**	**199**	**307**	**3,381**
Reclassifications of mineral rights	258	(114)	(37)	–	–	(107)	**–**
Balance at 1 January 2015 – after reclassifications	**258**	**1,424**	**1,097**	**203**	**199**	**200**	**3,381**
Additions	–	–	38	57	55	3	**153**
Transfers from capital construction-in-progress	–	43	–	–	(43)	–	**–**
Change in site restoration, decommissioning and environmental obligations	–	(5)	–	–	–	–	**(5)**
Disposals	–	(12)	(1)	–	–	–	**(13)**
Effect of translation to presentation currency	4	20	16	5	–	2	**47**
Balance at 30 June 2015	**262**	**1,470**	**1,150**	**265**	**211**	**205**	**3,563**
Additions	–	–	73	47	91	8	**219**
Transfers from capital construction-in-progress	–	91	–	–	(91)	–	**–**
Change in site restoration, decommissioning and environmental obligations	–	(1)	–	–	–	–	**(1)**
Disposals	–	(26)	(2)	–	(1)	–	**(29)**
Reclassifications	15	–	–	–	(3)	3	**15**
Effect of translation to presentation currency	(63)	(354)	(281)	(69)	(54)	(50)	**(871)**
Balance at 31 December 2015	**214**	**1,180**	**940**	**243**	**153**	**166**	**2,896**
Reclassification	-	12	(3)	-	(2)	-	**7**
Additions	-	-	82	30	94	6	**212**
Transfers from capital construction-in-progress	-	48	-	-	(48)	-	**-**
Change in site restoration, decommissioning and environmental obligations	-	3	-	-	-	-	**3**
Disposals	–	(4)	(5)	–	–	–	**(9)**
Disposed on disposal of subsidiary	(65)	-	-	-	-	(40)	**(105)**
Effect of translation to presentation currency	17	162	133	36	28	12	**388**
Balance at 30 June 2016	**166**	**1,401**	**1,147**	**309**	**225**	**144**	**3,392**

(in millions of US Dollars)

	Mineral rights	Mining assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
Accumulated amortisation, depreciation and impairment							
Balance at 31 December 2014 – as previously reported	**–**	**(753)**	**(32)**	**(38)**	**(10)**	**(197)**	**(1,030)**
Reclassifications of mineral rights	(157)	69	–	–	–	88	**–**
Balance at 1 January 2015 – after reclassifications	**(157)**	**(684)**	**(32)**	**(38)**	**(10)**	**(109)**	**(1,030)**
Charge	(2)	(69)	–	(11)	–	–	**(82)**
Disposals	–	9	–	–	–	–	**9**
Reversal of impairment (note 7)	–	–	4	–	–	–	**4**
Effect of translation to presentation currency	(3)	(10)	(1)	–	(1)	(1)	**(16)**
Balance at 30 June 2015	**(162)**	**(754)**	**(29)**	**(49)**	**(11)**	**(110)**	**(1,115)**
Charge	(2)	(61)	–	(10)	–	–	**(73)**
Disposals	–	27	–	–	–	–	**27**
Reversal of impairment (note 7)	–	–	15	–	–	5	**20**
Effect of translation to presentation currency	39	182	5	14	4	24	**268**
Balance at 31 December 2015	**(125)**	**(606)**	**(9)**	**(45)**	**(7)**	**(81)**	**(873)**
Reclassification depreciation	-	(9)	-	-	-	-	(9)
Charge	(2)	(60)	-	(15)	-	-	(77)
Disposals	-	4	-	-	-	-	4
Disposed on disposal of subsidiary	65	-	-	-	-	40	105
Reversal of impairment (note 7)	-	-	1	-	-	-	1
Effect of translation to presentation currency	(5)	(86)	-	(8)	(2)	-	(101)
Balance at 30 June 2016	**(67)**	**(757)**	**(8)**	**(68)**	**(9)**	**(41)**	**(950)**
Net book value at							
Balance at 31 December 2014 – as previously reported	**–**	**785**	**1,102**	**165**	**189**	**110**	**2,351**
Balance at 1 January 2015 – after reclassifications	**101**	**740**	**1,065**	**165**	**189**	**91**	**2,351**
Balance at 30 June 2015	**100**	**716**	**1,121**	**216**	**200**	**95**	**2,448**
Balance at 31 December 2015	**89**	**574**	**931**	**198**	**146**	**85**	**2,023**
Balance at 30 June 2016	**99**	**644**	**1,139**	**241**	**216**	**103**	**2,442**

(in millions of US Dollars)

Mineral rights

The carrying values of mineral rights were allocated to the following business units:

	30 June 2016	30 June 2015	31 December 2015
Magadan	32	37	28
Exploration	17	20	15
Yakutia Kuranakh	30	18	27
Irkutsk ore	12	15	11
Krasnoyarsk	8	10	8
Total	**99**	**100**	**89**

Amortisation and depreciation charge

Amortisation and depreciation charge is allocated as follows:

	Six months ended 30 June		Year ended 31 December
	2016	2015	2015
Cost of gold sales	62	59	122
Depreciation in change in inventory	3	5	4
Sub-total: Cost of production (note 5)	**65**	**64**	**126**
Selling, general and administrative expenses (note 6)	2	2	3
Cost of other sales	2	1	3
Capitalised within capital construction-in-progress	8	15	23
Total	**77**	**82**	**155**

Mine under development and Capital construction in progress

Mine under development includes only the Natalka mine (Magadan business unit refer to note 8).

Included within *Mine under development* and *Capital construction in progress* are capitalised borrowing costs consisted of the following:

	Six months ended 30 June		Year ended 31 December
	2016	2015	2015
Interest expenses	44	–	41
Foreign exchange losses	1	–	1
Interest income on bank deposits	(5)	–	(5)
Total	**40**	**–**	**37**

Exploration and evaluation assets

The carrying values of exploration and evaluation assets were as follows:

	30 June 2016	30 June 2015	31 December 2015
Razdolinskoye	20	20	16
Olympiada	17	16	14
Panimba	15	16	13
Bamsky	14	13	11
Chertovo Koryto	9	10	8
Smezhny	8	9	7
Blagodatnoye	7	7	6
Burgakhchan area	6	–	5
Medvezhy Zapadny	2	3	2
Other	5	1	3
Total	**103**	**95**	**85**

(in millions of US Dollars)

11. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS

	30 June 2016	30 June 2015	31 December 2015
Non-current assets			
Revenue stabiliser	–	113	200
Loans issued to related parties	-	-	198
Interest rate swaps	28	11	11
Gold forward	–	22	–
Investment in joint venture	4	–	–
Loans receivables	-	2	2
Sub-total	**32**	**148**	**411**
Current assets			
Loans issued to related parties	259	378	185
Revenue stabiliser	11	–	–
Gold forward	–	–	20
Sub-total	**270**	**378**	**205**
Total assets	**302**	**526**	**616**
Non-current liabilities			
Cross currency swaps	450	382	509
Revenue stabiliser	196	–	–
Gold forward	–	–	–
Sub-total	**646**	**382**	**509**
Current liabilities			
Currency collars	–	214	–
Total liabilities	**646**	**596**	**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 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.

During the year ended 31 December 2015, the Group successfully completed the restructuring of Tranches 1 and 2 of the revenue stabiliser programme and started to sign agreements under Tranche 3 and 4. Restructuring of Tranches 1 and 2 resulted in the close out of a part of the fourth year options and lowering barriers on the remaining options for the first three years.

Tranche 1 and 2 of the revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the *Cash flow hedge revaluation reserve* within the condensed consolidated interim statement of changes in equity, whilst the remaining change in the fair value of USD 66 million loss is reflected in the condensed consolidated interim statement of profit or loss (note 9) (the six months ended 30 June 2015: gain of USD 7 million; the year ended 31 December 2015: gain of USD 19 million).

During the six months ended 30 June 2016, under Tranches 1 and 2, USD 62 million of decrease was recognised in the *Cash flow hedge revaluation reserve* within the condensed consolidated interim statement of changes in equity (the six months ended 30 June 2015: increase of USD 30 million; the year ended 31 December 2015: increase of USD 126 million) and following the sale of the hedged volume of gold and the exercise of certain options USD 33 million was subsequently reclassified to *Gold sales* within the condensed consolidated interim statement of profit or loss (the six months ended 30 June 2015: USD 35 million; the year ended 31 December 2015: USD 91 million).

Tranche 3 and 4 are accounted at fair value through profit or loss. During the six months ended 30 June 2016, the loss resulted from the change in its fair value totalled USD 224 million and is presented within the note 9 of the condensed consolidated interim statement of profit or loss (the year ended 31 December 2015: USD 49 million). During the six months ended 30 June 2016, a gain was realised on expiration of the Tranche 3 and 4 collars in amount of USD 4 million (the six months ended 30 June 2015: nil; the year ended 31 December 2015: nil) is recognised within Gold sales line of the condensed consolidated interim statement of profit or loss.

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 30 June 2016.

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 the condensed consolidated interim statement of changes in equity. During the six months ended 30 June 2016, USD 12 million of loss was recognised in the *Cash flow hedge revaluation reserve* within the condensed consolidated interim statement of changes in equity (the six months ended 30 June 2015: USD 1 million; the year ended 31 December 2015: 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 condensed consolidated interim statement of changes in equity into *Gold sales* within the condensed consolidated interim statement of profit or loss (the six months ended 30 June 2015: USD 9 million; the year ended 31 December 2015: USD 25 million).

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. During the year ended 31 December 2015, all remaining options matured and resulted in a gain of USD 2 million (the six months ended 30 June 2015: realised loss of USD 217 million).

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.

Loans issued to related parties

As of 30 June 2016, the Group has outstanding a loan to PGIL in the amount of USD 185 million (30 June 2015: USD 185 million; 31 December 2015: USD 185 million) for the twelve-month period and interest rate 2.4% p.a. Repayment date is 3 November 2016.

As of 30 June 2016, the Group has another outstanding loan to PGIL in the amount of USD 74 million (30 June 2015: USD 194 million; 31 December 2015: USD 198 million). 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 until 1 April 2017.

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 and principal payments nominated in RUB.

According to the cross currency swap agreements the Group quarterly pays to the banks LIBOR + Margin 2.47% 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 and principal payments. 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 six months ended 30 June 2016 resulted in a revaluation gain of USD 121 million (the six months ended 30 June 2015: gain USD 21 million; the year ended 31 December 2015: loss USD 198 million) which was recognised in the condensed consolidated interim statement of profit or loss (note 9). During the six months ended 30 June 2016, gain on the exchange of interest payments in amount of USD 11 million (the six months ended 30 June 2015: gain USD 18 million; the year ended 31 December 2015: loss USD 39 million) is recognised within the *Finance cost* (note 8).

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

Interest rate swaps

During the year ended 31 December 2014, the Group entered into an interest rate swap agreements with leading Russian banks, according to which the Group pays semi-annually and until 29 April 2020 LIBOR+3.55% in USD and receives 5.625% in USD in respect of a USD 750 million nominal amount. The purpose of this swap is to decrease the effective interest rate for the USD 750 million Eurobonds (issued by PGIL). According to IAS 39 the swaps were not eligible to be designated as either a cash flow or fair value hedge. The Group accounts for it at fair value which was determined using a discounted cash flow valuation technique.

During the six months ended 30 June 2016, the gain on changes in the fair value of the interest rate swaps in the amount of USD 12 million is recognised in the condensed consolidated interim statement of profit or loss (note 9) (the six months ended 30 June 2015: gain USD 2 million; the year ended 31 December 2015: gain USD 4 million). The gain on the exchange of interest payments in amount of USD 5 million is recognised within the *Finance cost* (note 8) (the six months ended 30 June 2015: gain USD 6 million; the year ended 31 December 2015: gain 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.

(in millions of US Dollars)

12. INVENTORIES

	30 June 2016	30 June 2015	31 December 2015
Inventories expected to be recovered after 12 months			
Stockpiles	206	229	174
Gold-in-process	10	7	10
Sub-total	**216**	**236**	**184**
Inventories expected to be recovered in the next 12 months			
Stockpiles	63	76	44
Gold-in-process	84	79	59
Refined gold	7	9	13
Stores and materials	228	273	188
Less: provision for obsolete and slow-moving stores and materials	(8)	(9)	(8)
Sub-total	**374**	**428**	**296**
Total	**590**	**664**	**480**

13. BANK DEPOSITS

During the year ended 31 December 2015, the Group modified certain bank deposit agreements, so that as of 30 June 2016 and 31 December 2015 all of the deposits were available on demand and respectively were presented under the cash and cash equivalents caption (note 14).

As of 30 June 2015, all of the Group's deposits were denominated in USD and had an interest rate of 4.3% per annum.

14. CASH AND CASH EQUIVALENTS

	30 June 2016	30 June 2015	31 December 2015
Bank deposits			
- USD	1,078	1,074	1,630
- RUB	52	128	71
Current bank accounts			
- USD	200	68	59
- RUB	40	36	33
Other cash and cash equivalents	12	20	32
Total	**1,382**	**1,326**	**1,825**

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	0.2-6.0%	1.3 - 6.0%	1.0 – 6.0%
- RUB	8.0-11.0%	8.6 - 12.6%	8.0 – 11.1%

15. 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.

(in millions of US Dollars)

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/ADRs for buy-back	Ordinary shares	Number of shares	Ownership, as %	Price per 1 share, RUB	Consideration, USD million
PGIL, parent of the Company	Ordinary shares	60,211,461	31.59%	4,041	3,423
Minority shareholders	of PJSC "Polyus"	307,204	0.16%	4,041	19
Total		**60,518,665**	**31.75%**		**3,442**

There were no dividends declared and paid for the six months ended 30 June 2016 and 2015 and the year ended 31 December 2015.

The weighted average number of ordinary shares for the six months ended 30 June 2016 and 2015 and the year ended 31 December 2015 including dilutive effect of potentially issuable shares is presented below:

	30 June 2016	30 June 2015	31 December 2015
Ordinary shares in issue at the beginning of the reporting period	**190,627,747**	**190,627,747**	**190,627,747**
Buy back of treasure shares (60,518,665 during period from 10 March 2016 to 31 May 2016)	(60,518,665)	–	–
Weighted average number of ordinary shares	**153,800,213**	**190,627,747**	**190,627,747**

Equity-settled share-based payment plans (Long Term Incentive Plan)

During the year ended 31 December 2015, Group approved a Long Term Incentive Plan (LTIP) according to which the members of top management of the Group are entitled to a conditional award in the form of the PGIL's ordinary shares in result of achievements in a combination of financial and non-financial performance indicators.

The LTIP stipulates three 3-year rolling performance periods, starting from 2015, 2016 and 2017. The total number of shares that may be distributed under the LTIP is up to 1% of the total share capital of the Company which can be granted from newly issued ordinary shares or from treasury shares, if any.

Total expense for the reporting period arising from LTIP was immediately recognised in the condensed consolidated interim statement of profit or loss within the line *Salaries* included within *Selling, general and administrative expenses* in the amount of USD 6 million (the six months ended 30 June 2015: USD nil; the year ended 31 December 2015: USD 7 million).

(in millions of US Dollars)

16. BORROWINGS

	Nominal rate %	30 June 2016	30 June 2015	31 December 2015
Credit facilities with financial institutions nominated in USD with variable interest rates	USD LIBOR + margins ranging from 0.55% to 4.95%	3,351	355	785
USD-credit facilities with fixed interest rate	6.1%	750	750	750
Credit facilities with financial institutions nominated in RUR with fixed interest rates	10.35%	523	604	461
Notes due in 2025 (Rusbonds) with noteholders' early repayment option in 2021	12.1%	155	–	137
Letters of credit with deferred payments terms with variable rates	Cost of fund (COF) + 2.7%, Euribor +1.8%, USD LIBOR + 2.35%	29	47	38
Credit facilities with financial institutions nominated in RUR with variable interest rates	Central bank rate + 2.3%	38	–	18
Lease liabilities nominated in USD with fixed interest rate	5%	5	–	–
Sub-total		**4,851**	**1,756**	**2,189**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(138)	(38)	(38)
Long-term borrowings		**4,713**	**1,718**	**2,151**

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 and repurchase shares.

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 June 2016, the amount of unused credit facilities was RUB 40,000 million equivalent to USD 622 million.

In 2015, one of the Group's subsidiaries entered into an eleven year RUB 6,054 million credit line with a bank to fund Razdolinskaya-Taiga power grid construction. As of 30 June 2016, USD 56 million (RUB 3,612 million) of the credit line was unused.

Other matters

JSC "Gold Mining Company Polyus" guaranteed liabilities of all the companies in the Group for all borrowings.

There were a number of financial covenants under several loan agreements in effect as of 30 June 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; and
- in the transfer of non-core assets between certain subsidiaries of the Group.

(in millions of US Dollars)

The Group was in compliance with all these covenants as of and for the six months ended 30 June 2016.

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 of all of the borrowings, except for the Notes, are within Level 2 of the fair value hierarchy in accordance with IFRS 13. The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB interest rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value. The fair value of the borrowings as of 30 June 2016 was equal to USD 4,391 million (30 June 2015: USD 1,456 million; 31 December 2015: USD 2,013 million).

17. 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, enter into purchase and service transactions with related parties.

Ultimate shareholders

The Group had the following outstanding balances and investments with ultimate shareholders:

	30 June 2016	30 June 2015	31 December 2015
Loans given (note 11)	259	378	383
Loans received (note 16)	750	750	750
Interest receivable	9	4	10
Interest payable	9	9	9

The Group entered into the following transactions with ultimate shareholders:

	Six months ended 30 June		Year ended 31 December
	2016	2015	2015
Interest income	4	4	11
Interest expense	1	23	21
Interest capitalised	22	–	25
Repayment of borrowing and interest accrued	23	25	47
Cash used for acquisition of non-controlling interest in subsidiaries	–	–	230
Loans given	–	186	190
Proceeds from loans given	123	–	–
Buy-back of treasure shares	3,423	–	–

Key management personnel

	Six months ended 30 June		Year ended 31 December
	2016	2015	2015
Short-term compensation of key management personnel	15	8	14
Long-term compensation of key management personnel (LTIP)	6	-	7

(in millions of US Dollars)

18. COMMITMENTS AND CONTINGENCIES

Capital commitments

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

	30 June 2016	30 June 2015	31 December 2015
Contracted capital expenditure commitments	40	52	30
including contracted capital expenditure commitments related to the Natalka project	12	9	9

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 2062.

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

	30 June 2016	30 June 2015	31 December 2015
Due within one year	3	3	4
From one to five years	9	9	18
Thereafter	19	21	17
Total	**31**	**33**	**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 condensed consolidated interim financial statements there were no material claims and litigation applicable to the Group.

Insurance

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

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

Taxation contingencies in the Russian Federation

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. 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 June 2016.

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.

During 2015 and first half of 2016, the economic situation has become more stable, although the above mentioned events have led to reduced access of Russian businesses to international capital markets, increased inflation, reduced economic growth 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.

19. 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 16) less banks deposits (note 13) and cash and cash equivalents (note 14), and equity of the Group.

(in millions of US Dollars)

Major categories of financial instruments

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

	30 June 2016	30 June 2015	31 December 2015
Financial assets			
Cash and cash equivalents	1,382	1,326	1,825
Loans receivable	259	380	385
Derivative financial instruments	39	146	231
Investment in joint venture	4	-	-
Trade and other receivables	29	18	23
Bank deposits	-	49	–
Total financial assets	**1,713**	**1,919**	**2,464**
Financial liabilities			
Borrowings	4,851	1,756	2,189
Derivative financial instruments	646	596	509
Trade and other payables	176	148	135
Total financial liabilities	**5,673**	**2,500**	**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. 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 previously in note 11). 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 six months ended 30 June 2016 gold sales for the year would have increased / decreased by USD 46 million / USD 39 million, respectively (the six months ended 30 June 2015: USD 62 million / USD 61 million; the year ended 31 December 2015: USD 134 million / USD 138 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.

(in millions of US Dollars)

During 2014, the Group, in order to align its borrowings with the policy, entered into a number of derivative transactions (refer to note 11):

- to swap cash flows under a 36 billion Rouble denominated credit facility from Sberbank with a fixed interest rate of 10.35% into USD dollar denominated cash flows with a floating interest rate of LIBOR+2.47%. 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 16); and
- to swap interest payments under the 750 million Eurobond from a fixed rate of 5.625% into a floating rate of LIBOR+3.55%.

If the interest rate was 0.5% higher / lower during the six months ended 30 June 2016 interest expense (as well as equity and retained earnings) excluding effect of change in fair value of interest rate and cross currency swaps for the six months ended 30 June 2016 would have increased / decreased by USD 8 million (the six months ended 30 June 2015: USD 4 million; the year ended 31 December 2015: USD 8 million).

If interest rates used in calculations of fair values of interest rate and cross currency swaps as of 30 June 2015 would be 0.5% higher / lower, the gain on revaluation would be USD 35 million lower / higher respectively (the six months ended 30 June 2015: USD 39 million; the year ended 31 December 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.

During 2014, the Group entered into a number of derivative agreements, in the form of currency collars (refer to note 11) in order to economically hedge its Russian rouble denominated expenses. The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than the functional currencies of the individual Group entities were as follows:

	30 June 2016	**30 June 2015**	**31 December 2015**
Assets			
USD	1,321	1,717	2,134
EURO (presented in USD at closing exchange rate)	2	1	1
Total	**1,323**	**1,718**	**2,135**
Liabilities			
USD	1,670	1,744	2,084
EURO (presented in USD at closing exchange rate)	2	9	14
Total	**1,672**	**1,753**	**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.

(in millions of US Dollars)

If the USD or EURO exchange rate had increased by 25% for the six months ended 30 June 2016 and 2015; and the year ended 31 December 2015 compared to RUB as of the end of respective reporting periods, the Group would have incurred the following profits or losses:

	Six months ended 30 June		Year ended 31 December
	2016	**2015**	**2015**
Loss / (profit) (USD exchange rate increased compared to RUB)	87	(7)	(13)
Loss / (profit) (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 granted, advances paid, trade and other receivables.

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

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

Credit risk inherent to the contract was incorporated in the fair value of derivative financial instruments at the reporting date. The credit risk incorporated into valuations is based on the quoted counterparty CDS for the counterparty risk. The Group's credit risk profile is regularly monitored by management in order to avoid undesirable increases in risk, to limit concentration of credit and to ensure compliance with the above mentioned policies and procedures.

Deposits, current bank accounts and derivative financial instruments are held with major Russian and international banks, 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 30 June 2016, 2015 and 31 December 2015.

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

	Six months ended 30 June		Year ended 31 December
	2016	**2015**	**2015**
Otkritie Bank	160	338	668
Sberbank	329	250	651
VTB Bank	416	198	493
MDM Bank	72	141	166
Bank of Moscow	-	–	–
Other	92	78	181
Total gold sales	**1,069**	**1,005**	**2,159**

(in millions of US Dollars)

Liquidity risk

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

For assessing own credit risk, a proxy CDS for the industry is used since Polyus does not have quoted CDS. Historically, the Group has not relied extensively on external financing. Following the development of new capital projects during 2013, the Group issued notes in 2013 and arranged certain external finance facilities with banks during year ended 31 December 2015 and six months ended 30 June 2016 (note 16). 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 (except for derivative financial instruments) as at 30 June 2016 based on undiscounted contractual payments, including interest payments:

	Borrowings		Trade	
	Principal	Interest	and other payables	Total
Due in the first year	138	277	176	**591**
Due in the second year	302	280	-	**582**
Due in the third year	957	257	-	**1,214**
Due in the fourth year	810	191	-	**1,001**
Due in the fifth year	134	143	-	**277**
Thereafter	2,550	111	-	**2,661**
Total	**4,891**	**1,259**	**176**	**6,326**

20. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

		Effective % held[4] at		
Subsidiaries[5]	**Nature of business**	**30 June 2016**	**30 June 2015**	**31 December 2015**
Incorporated in Russian Federation				
JSC “Gold Mining Company Polyus”	Mining (open pit)	100	100	100
JSC “Aldanzoloto GRK”	Mining (open pit)	100	100	100
JSC “Pervenets”	Mining (open pit)	100	100	100
PJSC “Lenzoloto”	Market agent	64	64	64
JSC “ZDK Lenzoloto”	Mining (alluvial)	66	66	66
JSC “Svetliy”	Mining (alluvial)	56	56	56
JSC “Matrosova Mine”	Mining (development stage)	100	100	100
LLC “Polyus Stroy”	Construction	100	100	100
JSC “TaigaEnergoStroy”	Construction	100	100	100
Incorporated in British Virgin Islands				
Polyus Exploration Limited	Geological research	100	100	100

21. 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.

[4] Effective % held by the Company, including holdings by other subsidiaries of the Group.
[5] 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).