POLYUS GOLD
INTERNATIONAL

Polyus Gold International
Annual Report 2014

On the transformation path

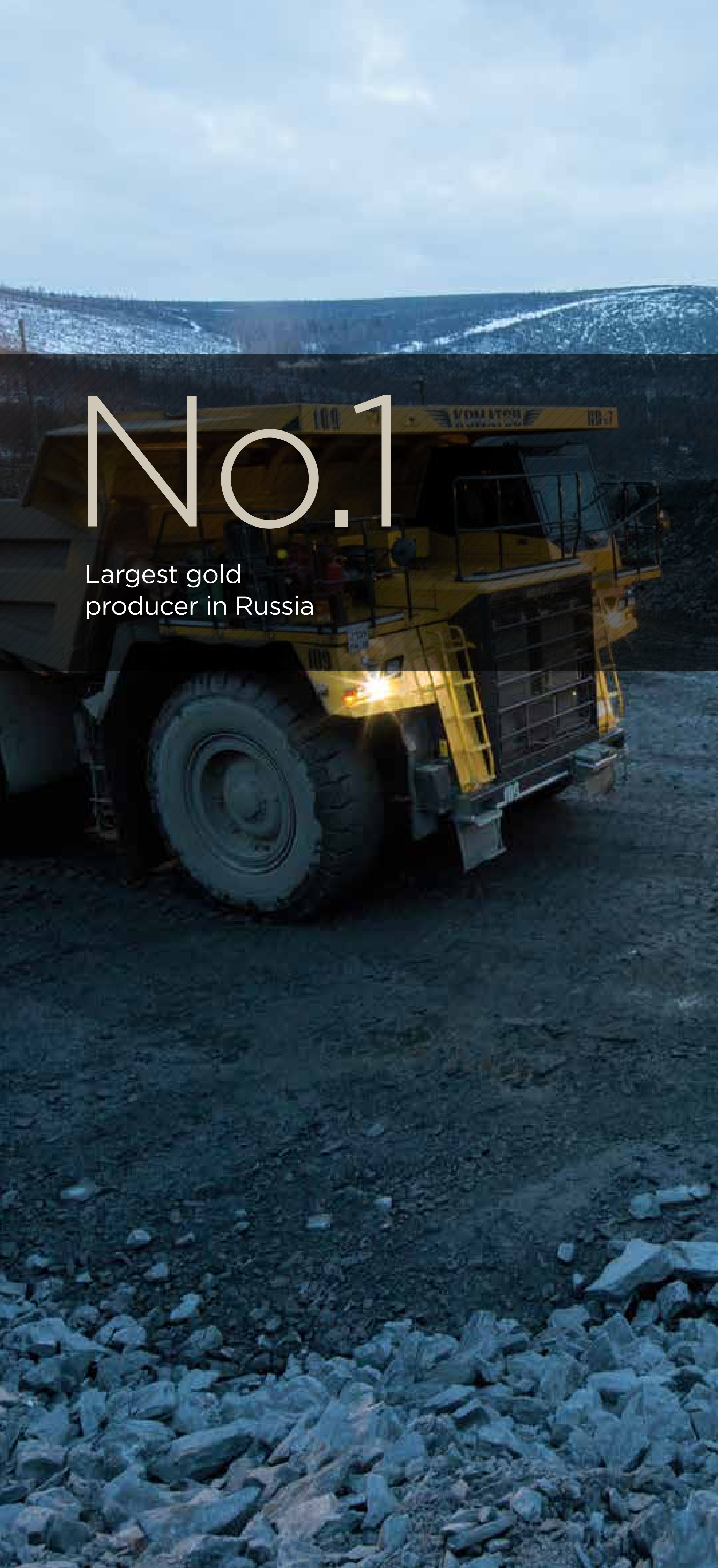
Strategic report

Sustainability report

Governance

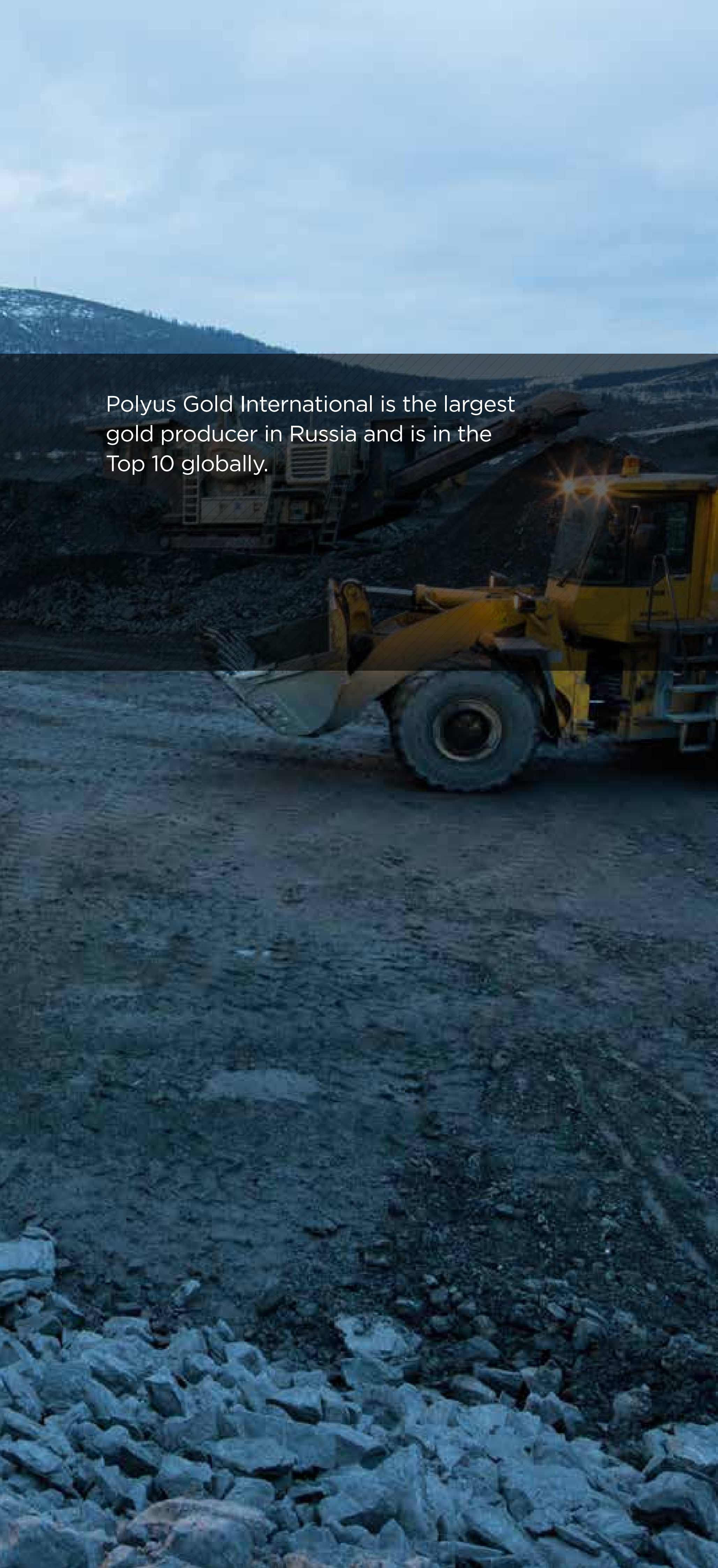
Financial statements

National Gold Mining Champion



No.1

Largest gold
producer in Russia

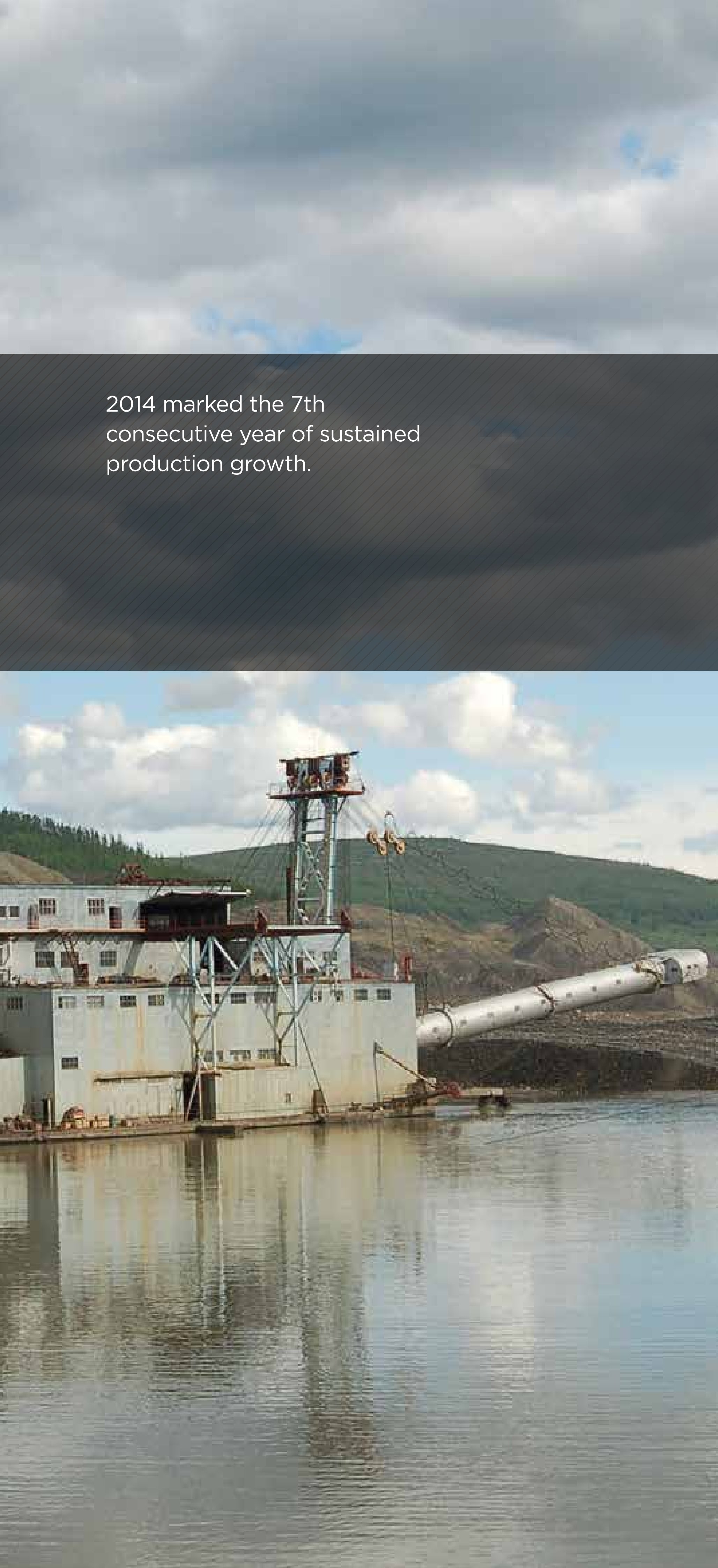


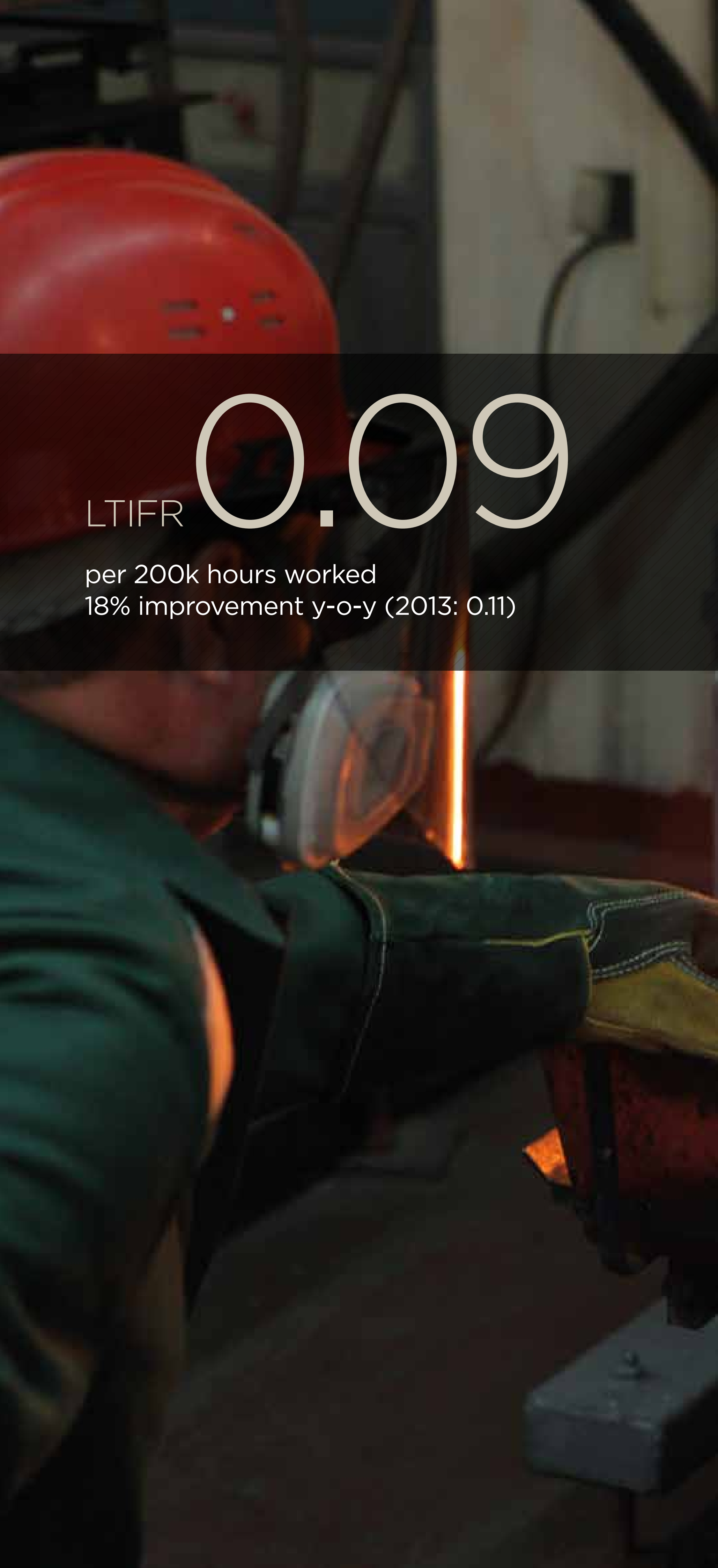
Polyus Gold International is the largest gold producer in Russia and is in the Top 10 globally.

1,696koz

of gold produced in 2014
(2013: 1,652 koz)

2014 marked the 7th consecutive year of sustained production growth.





LTIFR 0.09

per 200k hours worked
18% improvement y-o-y (2013: 0.11)

This followed the implementation by Polyus of a full-scale safety culture improvement programme.

$585/oz

Total cash cost[1] down 17% y-o-y
(2013: $707/oz)

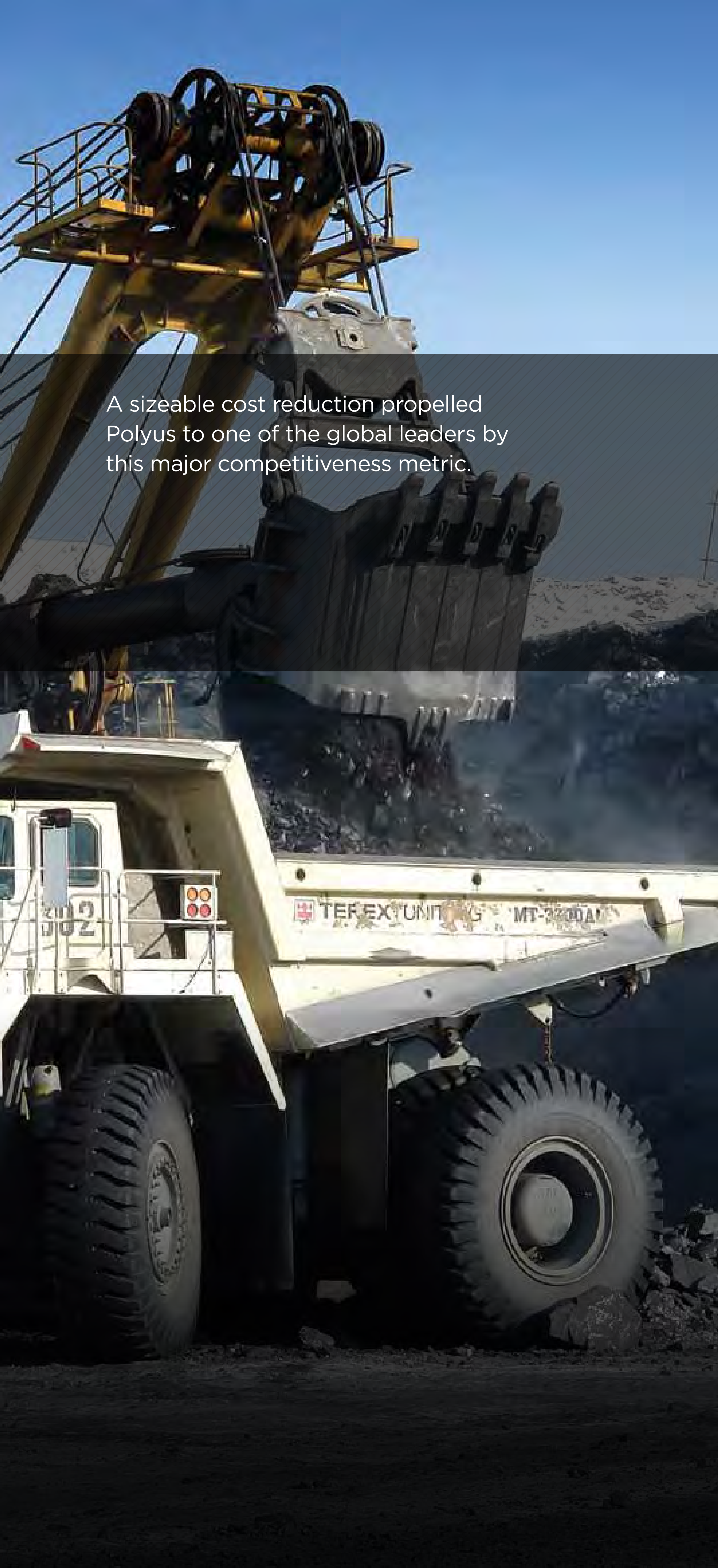
1. Hereinafter TCC/oz and AISC/oz imply costs per ounce sold, not produced.

A material decrease in production costs improved the Group's competitiveness in a volatile market.

$825/oz

All-in sustaining costs[1] down 18% y-o-y (2013: $1,002/oz)

1. Hereinafter TCC/oz and AISC/oz imply costs per ounce sold, not produced.



A sizeable cost reduction propelled Polyus to one of the global leaders by this major competitiveness metric.

$1,011 million[2]

Adjusted EBITDA up 11% y-o-y
(2013: $910 million)

2. For a definition and calculation of Adjusted EBITDA see pages 37 and 43.

Efficiency programmes and a weaker rouble, supported by a positive Revenue Stabiliser effect, shored up Polyus earnings.

$284 million

Free cash flow[3]
(2013: ($608) million)

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

Rigorous cost controls, a weaker RUB combined with a prudent Capex approach, resulted in a positive free cash flow.

Strategic report

Financial highlights

» Revenue fell to $2,239 million, 4% lower than in 2013

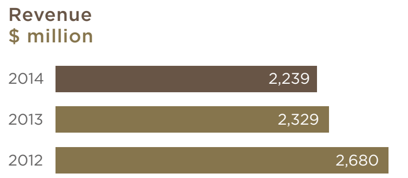
» TCC and AISC fell 17% and 18%, to $585/oz and $825/oz, respectively

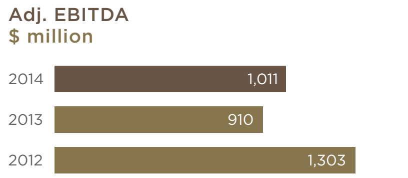
» Adjusted (adj.) EBITDA grew 11% y-o-y, to $1,011 million

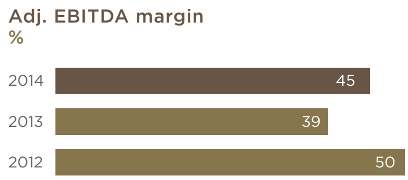
» The adj. EBITDA margin advanced to 45%, vs. 39% in 2013

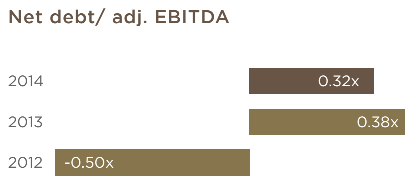
» Net debt[4]/adj. EBITDA was 0.32x, against 0.38x in 2013

» Net loss of $182 million, compared to a profit of $143 million in FY 2013 following losses on derivative financial instruments and investments of $934 million (2013: $5 million)









Operational highlights

» LTIFR in 2014 was 0.09, a 18% improvement on 2013 (0.11)

» Ore processed amounted to 23.7 mt, 6% above the previous year's level

» Average grade in ore processed remained flat y-o-y, at 2.5 g/t

» Average recovery rate climbed to 82.2%, 1.0 ppts above the 2013 level

» Total gold production grew 3% vs. 2013, to 1,696 koz

» Results of the block model revision at Natalka indicated a 49% reduction in reserves

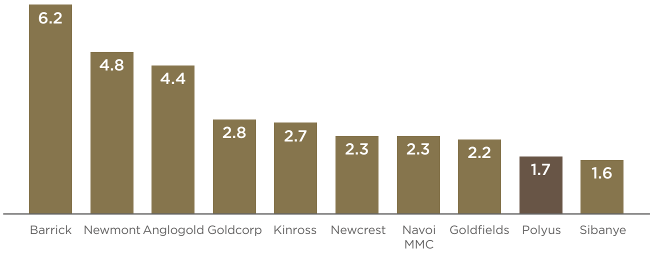
» GHG emissions totalled 3.1 million tonnes, 6% lower than a year ago

4. For a definition and calculation of net debt see page 48.

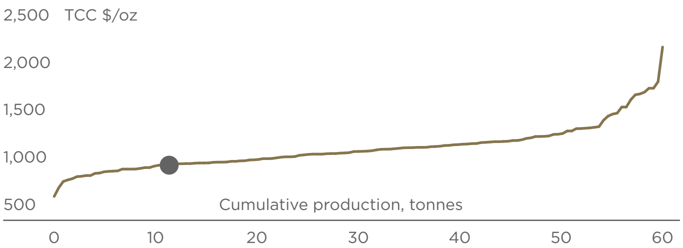
Who *we* are

A national gold champion.
A Top-10 global player.

Top-10 global gold producers
in 2014 by output, moz



2014 Global TCC curve[5], $/oz



Operating mines

Olimpiada

- Located in the Krasnoyarsk region
- 43% of the Group's output
- 49% of the Group's adj. EBITDA
- TCC of $541/oz in 2014
- 3,077 employees
- Processing capacity of 8.0 mtpa

See page 26

Blagodatnoye

- Located in the Krasnoyarsk region
- 23% of the Group's output
- 30% of the Group's adj. EBITDA
- TCC of $442/oz in 2014
- 1,800 employees
- Processing capacity of 6.0 mtpa

See page 27

Titimukhta

- Located in the Krasnoyarsk region
- 6% of the Group's output
- 3% of the Group's adj. EBITDA
- TCC of $956/oz in 2014
- 736 employees
- Processing capacity of 2.4 mtpa

See page 28

5. 2014 GFMS forecast data vs. actual Polyus 2014 TCC.

Verninskoye

- Located in the Irkutsk region
- 9% of the Group's output
- 9% of the Group's adj. EBITDA
- TCC of $594/oz in 2014
- 1,601 employees
- Processing capacity of 2.2 mtpa

See page 29

Alluvials

- Located in the Irkutsk region
- 11% of the Group's output
- 7% of the Group's adj. EBITDA
- TCC of $735/oz in 2014
- 2,368 employees
- Processing approx. 10 million m^3

See page 30

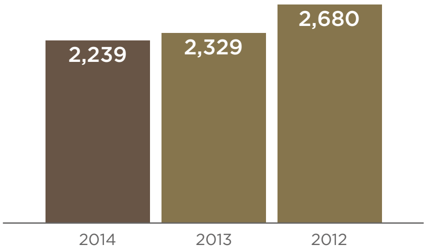
Kuranakh

- Located in the Republic of Yakutia
- 8% of the Group's output
- 5% of the Group's adj. EBITDA
- TCC of $868 in 2014
- 1,773 employees
- Processing capacity of 3.8 mtpa

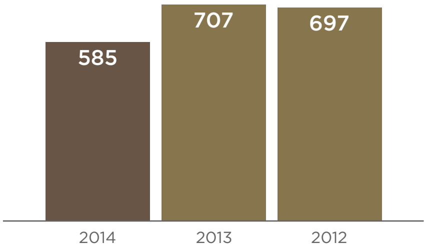
See page 31

1.1 Track record

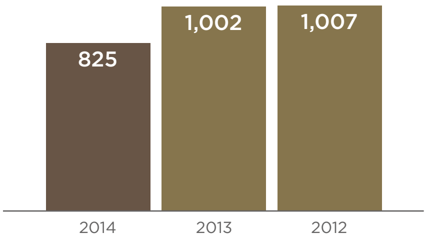
Revenue,
$ million



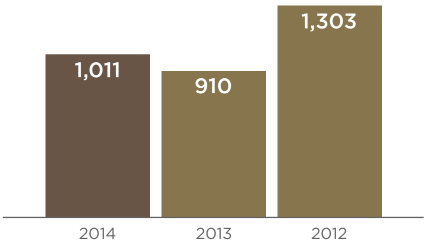
Total cash cost (TCC),
$/oz



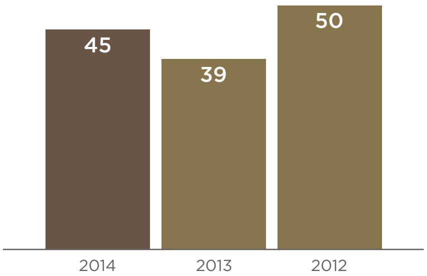
All-in sustaining cash cost (AISC),
$/oz



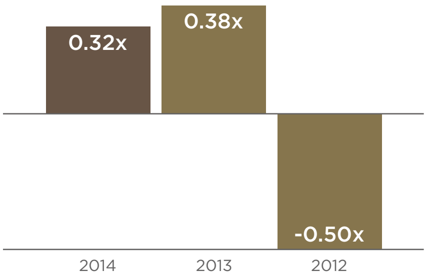
Adj. EBITDA,
$ million



Adj. EBITDA margin,
%



Net debt/adj. EBITDA



Key corporate events in 2014

Transformation across the Group in 2014 gave rise to a series of major corporate events and senior management changes.

March 2014

Change of CFO
Mikhail Stiskin appointed Chief Financial Officer of Polyus Gold.

May 2014

S&P Credit Rating Outlook Revision
S&P confirms 'BB+' long-term corporate credit rating on Polyus Gold; outlook on the Group's credit rating revised to Stable from Positive.

July 2014

Strategic Price Protection Programme
Polyus initiates Strategic Price Protection Programme under which the Group enters into a series of price protection arrangements.

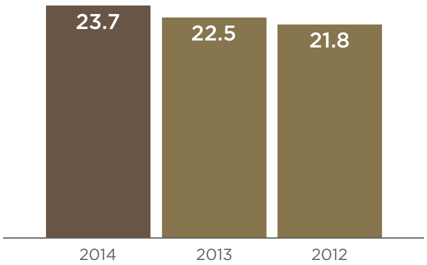
July 2014

Fitch rating confirmation
Fitch confirms 'BBB-' long-term issuer default rating on Polyus Gold and a Stable outlook.

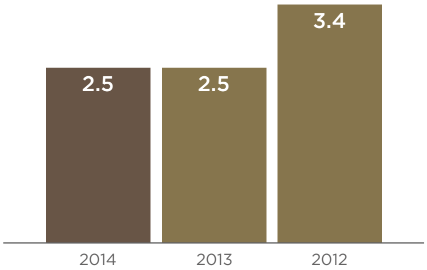
August 2014

Top Management Appointment
Vladimir Polin appointed Managing Director of CJSC Polyus, Polyus Gold's main operating subsidiary.

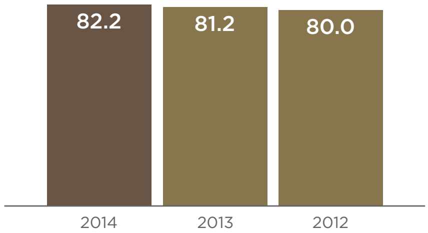
Ore processed,
million t



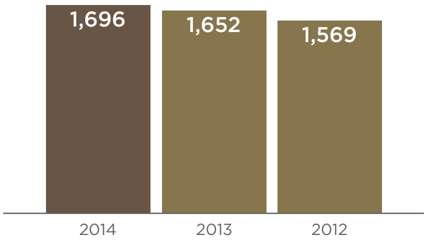
Average grade in ore processed,
g/t



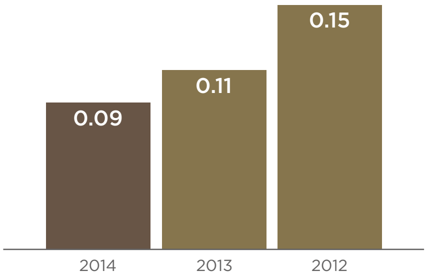
Recovery rate,
%



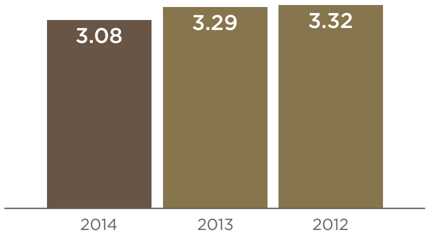
Gold production[6],
koz



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



Greenhouse gas (GHG) emissions, (CO_2-e) million t



6. Including gold in flotation concentrate.

August 2014

Changes to the Board of Directors
Ms Anna Kolonchina, Non-Executive Director, resigns from the Board and Ms Anastasia Galochkina is appointed to the Board as a Non-Executive Director.

November 2014

Natalka Project Update
Announcement of preliminary results of review of mineral resource and ore reserve estimates for Natalka deposit. The deposit's development was put on hold and its detailed operational review is expected in mid-2015.

November 2014

Appointment of CEO
Mr Pavel Grachev, Interim CEO of Polyus Gold International, appointed the Group's Chief Executive Officer.

December 2014

Special dividend
Special dividend of $500 million announced and paid, approved by the Board.

December 2014

Listing on Moscow Stock Exchange
In addition to the primary LSE listing Polyus Gold shares obtained the secondary listing on the Main Market of the Moscow Stock Exchange on 26 December 2014.

1.2 Chairman's statement

Weaker gold prices put much pressure on all gold producers globally, and in 2014 Polyus responded with wide-scale initiatives aimed at improving operational efficiency, tightening financial discipline when it comes to operating and capital spending and rolling out best business practices. Devaluation of the Russian rouble was supportive for the domestic gold miners and we were no exception to this, as all our operating assets are in Russia with most of the costs denominated in roubles.

Dear Shareholders,

I am pleased to present to you the Polyus Gold results for 2014. By any measure, it was a year of multiple challenges; nevertheless, Polyus delivered strong operational and financial performances, recalibrated its strategy and strengthened its Top Management team, thus laying the foundation for the transformation we intend to undergo in the next few years.

As a result of these efficiency measures we increased production by 3% to 1.7 moz, adjusted EBITDA by 11% y-o-y to $1,011 million, lowered our cost base by 17% and generated a healthy and positive FCF.

We commenced a number of large financing initiatives to ensure balance sheet stability. These included attracting a number of long-term debt facilities at low rates, which gave us a level of security, despite the Russian economy being thrown into turmoil by the imposition of harsh sanctions and a dramatic oil price decline.

The Group's credit ratings from both S&P and Fitch were reaffirmed in 2014 and in the very beginning of 2015 they converged with Russia's sovereign rating. Closing this gap represents a breakthrough which reflects operational improvements, cost reductions, a healthy balance sheet position and prudent capital allocations.

The combination of strong underlying earnings and a robust balance sheet enabled the Group to declare and pay towards the end of 2014 a special dividend of $500 million, thus rewarding our shareholders.

These positive corporate developments in FY 2014 were clouded by unrest in Ukraine and the resulting geopolitical tensions, which led to sanctions being imposed by the US and EU on certain Russian officials, businessmen and companies – including the country's largest banks – thus shutting off access to capital markets for the entire economy. Global rating agencies downgraded Russia's sovereign rating. In addition, global oil prices slumped in 2H 2014, putting pressure on the Russian budget, as oil exports account for a large share of budget receipts. This caused a severe depreciation of the rouble against major currencies. These events lie outside management's control; nevertheless, the Group made all possible efforts to mitigate these risks by keeping a prudent balance sheet, optimising its credit portfolio and using the benefits of a weaker local currency.

Changes to the Board

There was only one change to the Board in 2014: Anna Kolonchina, a Non-Executive Director and a representative of Wandle Holdings Ltd., informed us of her decision to step down to pursue other activities. I would like to acknowledge Anna's valuable contribution to the Board's activities and the decisions it took, especially as a Risk Committee member. We wish her all the best in the future.

Wandle Holdings Ltd. nominated Anastasia Galochkina to replace Anna, and the Board appointed her on 22 August. I strongly believe that Anastasia's extensive experience in the investment industry will be beneficial to both the Board and the Group overall. As a Non-Executive Director, Anastasia is also a member of the Risk Committee.

For me, 2014 was my first full year at Polyus Gold, and I have been inspired by the work that we did and the goals that we set.

Strategy update

Success in an evolving market environment cannot be achieved without a timely revision of strategic priorities. The management team and the Board made significant progress in 2014 to define the pillars of the Group's strategy and development in the upcoming years.

Efficiency across all operations and business processes is a key component of our strategy. In particular, capital allocation and shareholder returns are a defining feature. Polyus Gold possesses a truly Tier-1 asset base, with multiple growth opportunities and we plan to monetise these while carefully managing the risks associated with such growth.

Management changes

The new strategy entails applying modern business practices, and the year 2014 saw a significant management reshuffle, both at head office and at operating mines. We actively sought to hire talented people for each management level from the most efficient and advanced companies in the region.

Overall, of the list of top executives, 11 out of 12 were newly appointed over the course of 2014 and the Board places high hopes on the skills and expertise of the much-renewed management team.

In March 2014 Mikhail Stiskin, who had previously been appointed Deputy Head of Strategy and Corporate Development, was appointed CFO of the Group. In August 2014 Vladimir Polin was appointed Managing Director of Polyus Gold's main operating subsidiary, CJSC Polyus, and he will oversee all of Polyus Group's operations-related activities, including operations, energy, logistics, construction and procurement.

1.2 Chairman's statement continued

Management changes continued
In December 2014 James Nieuwenhuys informed us of his intention to resign from his position as Chief Operating Officer of the Group. I would like to take this opportunity to thank James, who headed the Group's operations for four years, for his contribution to its success and we are pleased to retain him in an advisory role going forward.

I am pleased that the Board has appointed Pavel Grachev, former Interim CEO of Polyus Gold, as our permanent CEO. Pavel has also retained his position as a member of the Board. The Board is very happy to have Pavel as CEO, and I am personally sure that his previous sound executive and managerial experience will prove to be of great value for the Group.

Shareholder returns and investment in growth
The new focus on free cash flow generation underpins our approach to capital allocation. In view of the volatile market environment, we will be very careful and selective in the allocation of funds. A volatile environment makes each dollar of profit generated more valuable and also increases the risk of error. While pursuing a conservative financial policy, we will also be trying to strike a proper balance between targeted investments in growth and appropriate cash returns to shareholders.

At the same time, the Board is aware that Polyus Gold's reserve base affords us multiple brownfield and greenfield opportunities that are not available to many of our peers. This is something that our shareholders greatly value, and we will strive to capitalise on this in the most disciplined manner possible.

As a reflection of our confidence in the firm standing of the Group's business, and bearing in mind the lack of dividend payments made for the year of 2013, in December 2014 we decided to pay a special dividend of US 16.49 cents per ordinary share, or $500 million in total.

Capital management
In recent years the Group's development plans have been mostly associated with the Natalka mine. Being very mindful of the size and scale of the deposit, we have nevertheless taken the hard decision to slow down its development after a reassessment was made of the deposit's reserves. We made a significant investment over 2011–2014, but felt that this massive project would benefit from a break and a review of all the options available to us. This includes both technical and engineering opportunities the team is working on and potential partnerships we could establish for joint development. Although this was not an easy decision for the Board, nevertheless we felt it had to be made in order to safeguard our capital and to ensure the best returns on it.

We have identified some attractive growth options at our core Krasnoyarsk and Irkutsk regions, which we intend to pursue and which will compete for the Group's capital and management time. It is our sense that priority should be placed on these projects, which will achieve the highest returns and unlock the full potential of our world-class core mines.

Infrastructure remains a constraint on expansion and in order to help alleviate this problem we are constructing, in cooperation with Federal Grid Company (FGC, the national electricity transmission monopoly), two grids – Peleduy-Mamakan in the Irkutsk Region and Razdolinkaya-Taiga in the Krasnoyarsk Region.

We had to delay the launch of the Peleduy-Mamakan grid from end of FY 2014 to mid-2015. The reasons for the delay were primarily weather-related, however we admit the postponement could have been potentially avoided if procurement and construction activities had been more rigorously managed and appropriate measures taken by management to tighten controls and optimise relevant business procedures.

The Board will provide the necessary control over capital discipline and scrutiny in realising these projects.

Maintaining a stable balance sheet remains our overriding priority in the current conditions of market and geopolitical turbulence. In mid-2014 the Group initiated a number of financing transactions to buttress its earnings amid macroeconomic environment volatility, which included a four-year Strategic Price Protection Programme (SPPP), ensuring a minimum realised price on gold and currency collars from September 2014 to December 2015 to protect against any local currency (in which our expenses are denominated) strengthening.

The SPPP lifted our average realised price in 2014 by $25/oz to $1,300/oz as the gold price averaged $1,266/oz, and the dramatic devaluation of the rouble, due to both the plummeting oil price and sanctions, proved an unexpected – but welcome – boost to our earnings. That said, up to December 2015 the Group will not be able to fully benefit from the cheaper currency due to currency collar agreements, as strikes are set at 40.06-40.65 RUB/USD, and will only be able to fully reap the rewards from 2016 onwards.

In terms of liquidity, as a result of a range of strategic financing initiatives launched in 2014 we are enjoying a comfortable position of $1.5 billion (as of end of 2014 post the dividend payment). Our interest costs are very low due to interest-rate and cross-currency swaps, and the first significant repayments are due only in 2019.

Outlook
As we reported in our trading update for FY 2014, we are targeting a broadly flat output of gold in 2015 as we prepare for the next leg of our growth in 2016–2019. The focus of the team will be on operational efficiency, cost controls, financial discipline and implementing best-in-class business practices. We plan to complete an operational review of our assets and to finalise our Strategy for 2020.

We anticipate being in the first cost decile (10% of global producers with the lowest costs) in 2015, which is very encouraging, however we admit that 2015 will present its own challenges as a result of the gold market volatility and the economic travails befalling the Russian economy. Though the Group is in very good shape, we remain concerned about the lack of financing available to Russian corporates and closed capital markets.

In 2014 we embarked on a path of transformation and we are confident that the strategic initiatives we launched in 2014 will continue to bear fruit both in 2015 and beyond. The journey will last for some time and at the end of it I expect to see a new Polyus Gold – an efficient, top-of-the-class company that will lead the way and set the pace in the industry. During this exciting journey, the Board will provide oversight and support for all steps and initiatives. This, coupled with the great commitment of management and the entire Polyus team, should guarantee the leading position of the Group for many years to come.

Ilya Yuzhanov
Chairman of the Board
London, 12 March 2015

1.3 Market review

Jewellery and investment are major sources of demand for gold. Gold is also widely used in electronics and in the medical sphere. In 2014 the global gold supply was 4,273 tonnes, which was in line with the 2013 level of 4,272 tonnes.

Gold demand decreased by 19% to 4,041 tonnes, mostly driven by lower retail investment, although this was partially offset by an increase in Central Bank purchases.

Supply
According to Gold Fields Mineral Services (GFMS), global mine production was up 2% in 2014 to a total of 3,109 tonnes, driven by new project ramp-ups. In China strong output growth was broad-based, while in other major producing countries higher output was driven by specific projects. These countries included Russia, Canada, Democratic Republic of the Congo and Mongolia.

China's gold output in 2014 amounted to 466 tonnes, and the country remained the largest global producer, with production growth of 6% y-o-y. Russia moved from third position in 2013 to second in 2014, achieving significant y-o-y growth of 9%, with overall production in 2014 reaching 272 tonnes.

Scrap (gold from gold-containing recyclable materials) supply volumes continued a downward trend, falling 11% y-o-y to 1,122 tonnes.

2014 saw net producer hedging return to the market for only the second time in the past decade, with major volumes being attributable to the Polyus Gold International Strategic Price Protection Programme.

GFMS believes that in 2015 growth from mine production will taper off and that scrap volumes will continue to decrease.

Demand
Jewellery production in 2014 was down 11% compared to 2013 and totalled 2,133 tonnes. This was largely due to substantial losses in China, where jewellery demand slipped 33% y-o-y to 608 tonnes (albeit from a very high base in 2013). Excluding China, which accounted for approximately 28% of total production, in the rest of the world the volume of jewellery production rose by 3%, led by a surge in demand in India and a modest recovery in some parts of the developed world. In 2014 jewellery production in India rose 14% to a record high of 690 tonnes, surpassing China and restoring India's status as the world's largest jewellery manufacturer. In contrast to jewellery, industrial demand retreated 5% y-o-y to 389 tonnes in 2014 due to continued substitution in the electronics industry. Gold used in medical and other industrial applications also continued to see a reduction despite lower gold prices.

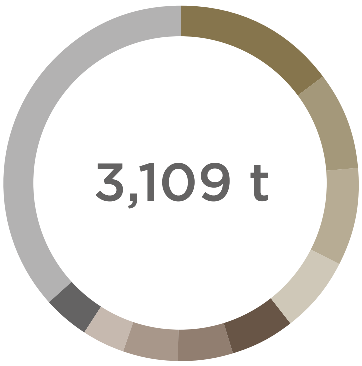
Net central bank purchases in 2014 rose by 13% compared to 2013, and amounted to 461 tonnes. Central bank acquisitions were the second highest since the end of the gold standard, with major buyers being Russia and Kazakhstan.

Bar and coin investment decreased by 40%, to 1,057 tonnes last year, as speculative interest from key Asian markets was largely absent.

Gold demand breakdown by type, 2014

- 53% Jewellery
- 10% Industrial
- 11% Official sector
- 26% Retail investment

Biggest gold-producing countries, 2014



- 15% China
- 9% Russia
- 9% Australia
- 7% US
- 6% Peru
- 5% South Africa
- 5% Canada
- 4% Mexico
- 4% Indonesia
- 37% Rest of world

Gold supply breakdown by type, 2014

- 73% Mine production
- 26% Scrap
- 1% Net hedging supply

1.4 Business model

Polyus' key strategic elements are backed by its business model, which involves efficient asset development throughout the entire production cycle, from the earliest stages of exploration and evaluation to refined gold sales. The Group commits to high health, safety and environmental standards and develops and uses best operating practices and technologies to maintain leading positions across the globe and to create a strong foundation for increasing value for shareholders.

1. Exploration and evaluation

We consider the expansion of our resource base as fundamental to sustaining future growth. Polyus focuses on both near-mine exploration and searching for promising greenfield projects that will expand the resource base. The Group has an experienced in-house exploration team with a proven track record. We conduct exploration activities in the core regions of our presence.

2. Development

Polyus has extensive experience in delivering growth through developing greenfield and brownfield projects. The Group has successfully delivered four large-scale projects since 2008: construction of Mill 3 at Olimpiada to treat sulphide ores, Blagodatnoye and Verninskoye commissioning and modification of Mill 1 to treat the Titimukhta ores. The Group identified options for developing its brownfields, which will unlock the potential of the existing operations and fuel further growth of Group.

3. Mining and processing

Polyus Gold has wide-ranging mining experience, along with highly qualified in-house operational and technological expertise. This means it can extract ore in the most efficient way and with a primary focus on health and safety. The Group generates extra value by processing all mined ore using own capacities.

4. Production

Polyus continues to demonstrate strong production growth through the development and use of best operating practices and technologies, driving efficiencies throughout all assets and commitment to the health and safety protection of employees.

5. Sales of refined gold

Sales of gold to Russian commercial banks are governed by a transparent sales policy. Most of our sales are made at spot prices, with the remainder executed through the Strategic Price Protection Programme.

6. Delivering value to shareholders

Sustainable results for stakeholders are the top-priority objective for the Group. Polyus sticks to disciplined investment principles, coupled with prudent management of the balance sheet and cash returns to shareholders. We are focused on long-term investment opportunities and are committed to making dividend payments to shareholders.

1.5 Strategy

Our strategy encompasses every aspect of our operations, the pillars of which are our assets, people, shareholders and the environment. Guided by a long-term view, we strive to develop a responsible business that provides a basis for disciplined and sustainable growth which benefits both the Polyus family as well as the communities in the regions where we have a presence.

	Strategic priorities	2014 achievements
1. Focus on consistent production growth	- Criteria for selecting assets: open pittable reserves, sufficiently large-scale and high return on capital - Brownfields are the priority - Focus on a limited number of regions – Russia and CIS	- Seventh consecutive year of production growth for Polyus - Olimpiada remained the flagship mine of the Group (43% of total output) - Blagodatnoye continued to deliver strong results - Titimukhta underperformed and a decision was taken to reconfigure its mill - Verninskoye operated at its nameplate throughput capacity of 2.2 mtpa during the year, after achieving design parameters at the end of FY 2013 - Kuranakh performed ahead of plan on both the production and cost fronts - Development of the Natalka project was put under review, as the revised geological model revealed a significant decrease in the mine's reserves and resources. The project's operational review is expected to be completed in mid-2015

2. Improving cost management and operational efficiency	- Comprehensive operational efficiency programme
	- Moving firmly from the second to the first quartile on the global cost curve
		- A full-scale efficiency programme was launched which, coupled with the weaker RUB, helped lower costs and improve efficiencies. As a result, Polyus moved to the first quartile on the global cost curve:
		  - TCC retreated 17% y-o-y to $585/oz
		  - AISC slid to $825/oz, down 18% on the previous year
		- An ambitious working capital optimisation programme was launched to free up locked-in cash
		- Management and operational teams were materially improved to bring best industry practice and new expertise to the Group

Our business relies on our exposure to one product – gold. Thus, we are subject to the volatility of the gold market. Currency fluctuations can have a significant impact on the Group's profitability as well, as most of the operating costs are denominated in roubles, while the gold selling prices are linked to US dollars. The Group has no control both over gold price and currency deviations.

What we can control, however, is our efficiency and performance and the way our assets are developed. That is precisely why our strategy aims to continuously improve every aspect of our operations by striving for production growth, operational efficiency, shareholder returns, corporate governance and health and safety performance.

	Strategic priorities	2014 achievements
3. Maximising shareholder returns	- Smart growth via prudent Capex and high-yield growth projects - Healthy leverage - Dividends – returning money to shareholders	- Titimukhta ceased to match investment criteria and a decision was taken to reconfigure the mine and the mill - The effective interest rate fell to 3.0% following debt portfolio diversification - Credit ratings reaffirmed at BBB-/BB+ - Low leverage made a special dividend payment possible in late 2014
4. Continued focus on corporate governance	- The highest standards of corporate governance and disclosure maintained	- Polyus complies with all UK Corporate Governance Code requirements and applicable laws, regulations and disclosure and transperancy rules - Over 90% of the Group's employees have undergone anti-corruption and internal anti-bribery trainings
5. Maintaining high health and safety performance standards	- Zero fatalities - Continued LTIFR reduction - Maintaining a responsible attitude towards environmental issues so as to avert serious or catastrophic environmental incidents - Continued cooperation and investment in communities in regions where we operate	- LTIFR was 0.09, a 19% improvement over 2013. However, four fatalities were registered at our operations - Zero serious or catastrophic environmental incidents - Investments in HSE in FY 2014 totalled $12 million

1.6 Principal risks *and* uncertainties

Our activities are associated with a variety of risks which may have financial, operational or reputational impacts that could affect the Group's operations and financial results and, consequently, shareholder returns. The Group seeks to mitigate these risks wherever possible, although some, such as those caused by a decline in the price of gold, are largely beyond our control.

Since the previous year new geopolitical and regional risks have evolved, related to an emerging conflict in Ukraine and subsequent sanctions imposed by the US and the EU against Russia. The significance of risk management in the areas of investments and capital projects increased, due to the launch of a number of large-scale power construction projects and challenging hydrogeological conditions during the construction of tailings facilities at Verninskoye.

Following the decision to slow down the Natalka project there was an increase in license compliance risks. The level of regulatory risks increased due to new Russian Government initiatives to deoffshorise the economy. It is worth noting is that the gold price in 2014 stabilised, somewhat reducing price risk. Other risk factors remained unchanged.

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

The Group's risk management process is overseen by the Risk Committee, which is made up of three independent Non-Executive Directors and two Non-Independent Directors appointed by the Board of Directors. The Risk Committee ensures that a robust framework is in place for identifying and assessing key risks to the business. Principal risks and uncertainties are shown below, together with mitigation measures.

Mineral resources and ore reserves

Risk description

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

Background

Mineral resources and ore reserves are difficult to quantify and estimates of viable reserves may be inaccurate and subject to significant correction. The evaluation of mineral resources and ore reserves depends to a certain extent on statistical conclusions made on the basis of the results of limited drilling, as well as other analyses that may prove incorrect. The viability of reserves is also heavily reliant on the prevailing global price of gold.

Based on new geological data received from international consultants Micromine and AMC Consulting and following a revision of the block model, implementation of the Natalka project was slowed down for a major revision of technical and economic components (see section 1.8 'Operational review', page 25).

Potential impact

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

Risk treatment

The Group invests considerable sums each year in geological surveys, which are undertaken using cutting-edge technologies. The Group engages independent international experts to conduct audits on prospective and existing deposits and the Group's actions are guided by these experts' conclusions and recommendations.

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

Natural hazards and technology disasters

Risk description

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

Background

The Group's activities are carried out in remote regions of Russia, from Krasnoyarsk to Magadan, and often at sites having a difficult geology and which are additionally subject to extreme weather. In such conditions, the risk of equipment failure and accidents increases and plants and equipment are subject to additional servicing and maintenance costs.

Potential impact

These risks could result in business interruptions and in the suspension of ore production and recovery, an increase in operational costs and adverse social, safety and environmental impacts.

Risk treatment

The Group aims to mitigate the risk of business interruptions through various processes, including the strict enforcement of maintenance regimes and carrying out a probability analysis and effective risk management. The latter includes the identification of potential threats, modelling risk scenarios, a detailed analysis of potentially negative events and implementing various risk mitigating measures.

The Group continues to improve its business continuity management in order to comply with ISO 22301. The main purpose is to enhance the ability to respond immediately if an adverse event occurs and to ensure the uninterrupted operation of the Group at any level.

Capital construction and project risks

Risk description

Implementation of the Group's investment projects is subject to geological, market, operational and compliance risks.

Background

During the development phase of a mine or other major project there are significant risks caused by fluctuations in the prevailing price of gold, changes in exchange rates and the effects of inflation. Operational risks include delays in the commissioning of projects and failures due to errors in project design, which may lead to cost overruns and loss of forecast revenue.

As a result of various economic and political factors including probable economic recession, it is likely that the Russian Government may revisit its investment priorities, with due regard for their social consequences and regional effects. Uncertain macroeconomic trends may impact the government's ability to co-finance a number of the Group's projects, leading to such projects being indefinitely postponed.

Potential impact

Occurrence of identified risks may result in late commissioning, increased cost of projects, reduced profitability and lower efficiency of projects and revocation of mining and exploration licenses.

Risk treatment

To reduce these project risks, the Group has developed procedures for the careful and comprehensive study, selection and analysis of proposed investment projects. Each project is considered by the Investment Committee of the Group, which is made up of individuals with expertise in economics, production and law, and is subject for further approval by the Group's Board. Control over investment projects is exercised at all stages of their implementation. Professional and reliable consultants are engaged to provide audit and assistance in risk identification and ongoing control over the execution of large investment projects, including design development, subcontracting, procurement, construction, commissioning and reporting to stakeholders.

1.6 Principal risks *and* uncertainties continued

Regulatory risk

Risk description

The activities of the Group may be adversely affected by the failure to obtain or the termination or non-renewal of mining and exploration licenses from government or regulatory authorities.

Background

The Group holds a significant number of mining and exploration licenses for gold and other minerals. The terms of these licenses require the Group to comply with a range of industrial standards, employ qualified personnel, ensure that appropriate plant and machinery are used, develop and enforce quality control systems, maintain relevant documentation and provide information to the licensing authorities when requested.

Potential impact

Failure to comply with the requirements and terms of mining and exploration licenses issued by Russian state authorities, such as the terms and conditions of development and failure to achieve design parameters estimated in accordance with Russian classification, may result in the subsequent termination of licenses crucial to operations and cause reputational damage. Alternatively, financial or legal sanctions could be imposed on the Group. Failure to secure new licenses or renew existing ones could lead to the cessation of mining at the Group's sites or an inability to expand operations.

Risk treatment

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

Political risks

Risk description

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

Background

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

Potential impact

Changes in Russian law aimed at implementing 'deoffshorisation' initiatives could increase the Group's taxes, or otherwise have a negative effect on the business, financial condition or trading price of shares. In particular the Group, which is incorporated in Jersey, may face:

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

Risk treatment

The Group recognises the potential impact of changes in Russian legislation and carefully monitors developments in this area. The Group is having to reconsider the expediency of the further use of its foreign corporate structure and is considering options and mechanisms for transferring the shares to the Russian jurisdiction. As part of this process, the Group has obtained an admission for a secondary listing of its shares on the Moscow Stock Exchange, in addition to a premium listing on the main market of the LSE.

To help guide its further actions the Group is involved in consultations with corporate legal advisors and is carrying out a detailed analysis of the potential consequences of the amendments to Russian laws in terms of its strategic priorities.

Country and regional risks

Risk description

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

Background	Potential impact	Risk treatment
The Group, as a company incorporated in Jersey, must ensure compliance with the EU requirements and sanctions regime introduced in view of the situation in Ukraine. This regime includes, but is not limited to, freezes on the assets of certain companies and individuals, visa restrictions and restrictions on certain operations in the stock and money markets. Bearing in mind that the Group's main production assets are located in the Russian Federation, expansion of the sanctions to the metals and mining sector may cause difficulties in the implementation of investment projects in terms of supplies of imported equipment and raising funds on EU and US markets.	Potential default on warranty and post-warranty maintenance of equipment manufactured in Ukraine. Failure to implement executed contracts and an inability to execute new contracts for the supply of equipment, machines, components and spare parts manufactured in Western countries. In addition, US/EU sanctions could apply to US and EU employees or Directors of the Group and its subsidiaries, meaning such individuals could not approve or in any other way participate in operations with the banned organisations or enter into transactions to which sanctions apply.	The Group, in cooperation with its legal advisors, has developed an internal policy aimed at ensuring compliance with the requirements of applicable laws and other requirements that apply to the Group in connection with the sanctions regime. Additionally, the Group is taking actions to diversify the purchase of equipment, materials and reagents and to find alternative sources of financing.

Counterparty and supply chain risks

Risk description

There are risks of late delivery due to the Group's principal operations being located in remote areas, with harsh climates and poor road infrastructure.

Background	Potential impact	Risk treatment
The delivery of supplies to areas where the Group operates may be disrupted or transportation costs may increase. During winter the minimum air temperature at the largest production sites (Olimpiada and Blagodatnoye) in Krasnoyarsk Region is -61°C and the annual average is -5°C. The main transshipment terminal at Lesosibirsk, which is designed to handle, tranship, store and deliver all supplies to sites, is connected by a 320 km road with a ferry crossing over the Yenisei River, or, in winter months, an ice crossing of the frozen river. The route is impassable for between two and three months each year. The mud season periods also significantly challenge the timely procurement of materials and technical resources for capital construction projects.	The delivery of supplies may be disrupted or transportation costs may increase. Failure by suppliers to meet schedules for the production and delivery of necessary supplies could affect the Group's ability to conduct operations and to continue developing mines. The inability to obtain consumables, materials and equipment in time could adversely affect the introduction of both new production capacity and existing production plans.	A special division, LLC Polyus Logistics, is responsible for carrying out logistics functions in the most effective manner. There is stringent quality control over deliveries of new equipment prior to acceptance. The Group also has an adequate stock of spare parts and other inventory to avoid production interruptions when the roads are impassable.

1.6 Principal risks *and* uncertainties continued

Energy supply risks

Risk description

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

Background	Potential impact	Risk treatment
There is a deficit of generating and power grid facilities in the Krasnoyarsk Region (Olimpiada and Blagodatnoe deposits) and in the Irkutsk Region (Verninskoe deposit). This results in the need to use more expensive captive generations, reducing the security of the energy supply for existing operations. The implementation of new power line construction projects may come under threat from a poor road infrastructure and harsh climatic conditions. These have been the reasons for the delay in constructing the Peleduy-Mamakan power grid.	An inadequate energy supply may threaten the development of the Verninskoe and Blagodatnoe expansions.	To improve power supply reliability and reduce operating costs, the Group has initiated the creation of an energy network infrastructure within the regions of its activity (Krasnoyarsk and Irkutsk). The construction of power substations and high-voltage transmission lines connected to the Siberian and Yakutia federal grid will provide operating plants with a reliable power supply and is also intended to incentivise the development of new deposits. In addition, to reduce dependence on external suppliers, the Group mines its own coal deposit and delivers the coal to power stations at the Olimpiada and Blagodatnoye mines.

Environmental risk

Risk description

The Group's business is associated with potential significant negative impact on the local environment.

Background	Potential impact	Risk treatment
Mining operations create physical damage to the soil, subsoil and underlying strata, damage flora and fauna and result in the loss of habitats. Spoils from mining operations and the waste products of processing may be toxic, requiring careful handling and disposal. The reputational and financial costs of environmental failures can be significant. For more information, see section 2.8 'Environmental stewardship' of the Sustainability report on pages 71 to 76.		

Macroeconomic risks

Risk description

The Group's business is dependent on macroeconomic environment and significant fluctuations of macroeconomic parameters may heavily affect it.

Background	Potential impact	Risk treatment
Macroeconomic risks that apply to the Group include: price risk, foreign exchange risk, interest rate risk, inflation and certain other macroeconomic factors. These risks are described in section 1.11 on page 38.		

1.7 Chief Executive Officer's review

The year 2014 was a landmark year in the Group's history. The Group initiated a series of sweeping efficiency improvement programmes, and I am proud to have been appointed the permanent CEO of the largest gold producer in the CIS. Polyus Gold has always been an outstanding business; however, we believe that the time has come to embark on an internal transformation of the Group in order to cement our leading position. To this end, we are intent on introducing best practices, bringing on board new talented people and exploring new horizons for development.

Safety performance

Our safety performance in 2014 continued to be solid, with the LTIFR remaining at 0.09, 19% lower than in 2013. We undertook a full-scale safety culture improvement programme, with a focus on behaviour audits, risk assessment, root cause analysis and an integrated safety management structure. Despite all our extensive efforts to become a zero-fatality mining company, we were unable to reach this target in 2014, with four of our colleagues losing their lives at our operating units, which we find entirely unacceptable. In 2015 we will strive to further improve our safety performance and to do absolutely everything in our power to prevent loss of life at our operations.

Operational performance

I am proud to say that 2014 became the seventh consecutive year of production growth for Polyus Gold. Our total gold output reached 1,696 koz, representing a 3% increase over 2013, an absolute record. Our operating units demonstrated solid performance against a weak market backdrop. Olimpiada remained the flagship mine of the Group, delivering 43% of total output. In the middle of the reporting period we commenced vast stripping works to cut back the Olimpiada open pit, which will last one-and-a-half years. Since these works began we have been processing previously stockpiled ore. Blagodatnoye, our lowest-cost mine, also continued to deliver strong results, due to strong throughput and exceptional recoveries. Grade issues at Titimukhta spurred us into thinking about ways to optimise production flows at the mine and we are looking into ways to reconfigure the mill and to integrate it with Olimpiada. Verninskoye, our newest asset, after reaching nameplate throughput parameters showed an 84% recovery towards the end of 2014. We target reaching the design recovery figure over the course of 2015. In 2014 we intentionally lowered production at our alluvial operations by idling production at high-cost units. Nevertheless, the placer unit performed ahead of plan, on both the production and cost fronts. We launched a number of efficiency programmes at Kuranakh that enabled the mine to drastically decrease its TCC per ounce sold by 20% compared to the previous year and to continue to generate a positive result.

We look ahead to 2015 with confidence in both our operations and in all the people that make up the Polyus family, and we believe that it will be another strong year for the Group's operating performance.

Financial performance

We worked hard in 2014 to improve our margins and to optimise expenses in order to mitigate a weak pricing environment, which included managing consumption norms, raising overall equipment efficiency (OEE), improving procurement and optimising working capital. Our efforts, coupled with the rouble devaluation, helped us maintain a high level of profitability, at a 45% adjusted EBITDA margin. Our adjusted EBITDA was boosted by 11% compared with 2013, to $1,011 million. Our Capex approach became more prudent, as we lowered capital expenditures in 2014 by 64% y-o-y, to $525 million. All the above contributed to $284 million in positive free cash flow being generated.

We are satisfied with the financial results for the year 2014 but are nevertheless setting ambitious goals to surpass them in 2015.

We expect a relatively heavy spending programme in 2015, which will include energy projects (Razdolinkaya – Taiga grid in Krasnoyarsk) and a number of growth initiatives at Krasnoyarsk and all projects in the pipeline underwent a rigorous selection procedure, having met the criteria we set ourselves in terms of risk and profitability.

Margins are set to remain healthy, and SPPP on gold sold will continue to act as a buffer against any price decline. The local currency devaluation is a strong supporting factor for us, and although in 2015 we will not fully benefit from this (due to currency-collar transactions we entered in mid-2014), we will see a benefit from 2016 onwards, when these contracts expire.

Owing to a strong liquidity position and a carefully managed maturity portfolio, we are not as dependent as some of the peers on capital market fluctuations, and we can focus on developing our business – even during tumultuous economic times.

Cost position improvement

Polyus Gold has always been able to boast of its competitive cost positioning, and we are glad that in 2014 we were able to further improve it as a result of lowering both production costs and capital expenditure, as well as the weaker rouble. Our TCC per ounce sold decreased by 17% y-o-y, to $585/oz, and the Group drifted leftwards on the global cost curve, from second to first quartile (based on GFMS data). Our all-in sustaining cash costs were also down significantly, by 18% y-o-y to $825/oz, which is currently one of the best results among major global gold producers.

We began a full-scale optimisation programme in 2014 which will last for several years and should be instrumental in helping the Group stand firm, even in the event of severe gold price deterioration. While the results of the programme already became apparent in 2014, we expect to see more material improvements in the coming years as we launch more complex initiatives.

In 2015 we anticipate finding ourselves in the first cost decile globally – i.e. among the 10% of producers with the lowest cash costs – and the onus will be on us to retain this position going forward.

1.7 Chief Executive Officer's review continued

Capital projects

Our approach towards capital investments is primarily return-driven, and we will continue to recalibrate our portfolio with a view to achieving maximum returns on capital invested.

We were disappointed to have to put our largest greenfield project, the Natalka mine, on hold, although we felt that this difficult decision was both justified and necessary. We are looking at all the technical options available to us and we will carefully weigh up all the pros and cons before committing ourselves to a new project configuration.

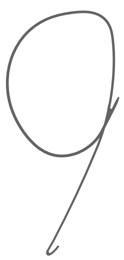
At the same time we are excited by the brownfield opportunities at our existing portfolio in Krasnoyarsk and Irkutsk, and we believe we can deliver maximum value to our shareholders by realising them.

Polyus Gold has always been a growth story, and we have all the resources at our disposal to keep it that way.

Outlook

As recently announced, we anticipate our annual production in 2015 to be approximately flat on last year, in the range of 1.63-1.71 moz.

As gold prices remain volatile, we are expecting another difficult year for the industry. However, I am fully convinced that thanks to the commitment and professional excellence of our employees and management team, we will be able to successfully navigate the challenges that lie ahead.



Pavel Grachev
Chief Executive Officer
London, 12 March 2015

1.8 Operational review

We reached our upgraded production guidance for 2014 of 1.68-1.72 moz, with gold output of 1,696 koz in 2014, up 3% year-on-year.

This stemmed from higher output at our flagship Olimpiada mine due to higher grade and processing volumes and the successful ramp-up of the Verninskoye mine.

The volume of total ore mined for the Group amounted to 24,346 kt in 2014, a 19% drop on 2013. This was primarily due to lower mining volumes at Olimpiada, where large-scale stripping works began in the middle of 2014 and will last until the end of 2015. This decrease does not affect Olimpiada's processing volumes, as large stockpiles of ore were created in 2013 and 2014. Thus, in comparison with 2013 the Group's total ore processed volumes were up 6%, to 23,743 kt. The largest outperformance came from Verninskoye, where ore processed volumes surged as the asset operated at its nameplate throughput capacity during the year. Overall, grade in ore processed remained stable year-on-year at 2.5 g/t, while the average recovery advanced 1.0 ppts to 82.2% as a result of progress made at Olimpiada, Kuranakh and, especially, Verninskoye.

Progress and setbacks

Progress

- Another strong result at Olimpiada on the back of large-scale stripping works to cut back the open-pit. Recoveries increased by a further 1.4 ppts to 75.9%, and the refined gold output from the mine was up 5% y-o-y to 726 koz.
- A noticeable progress at Verninskoye. The mine operated at its nameplate throughput capacity of 2.2 mtpa during the year after reaching it at the end of FY 2013, while recoveries demonstrated sizeable progress of 8.6 ppts to 79.4%, reaching 84.4% by the end of the year.
- The turnaround programme at Kuranakh proved successful: the mine decreased its TCC per ounce sold by 20% y-o-y to $868/oz. Recoveries improved by 2.8 ppts y-o-y, to 86.8%.

Setbacks

- The Natalka project development was slowed down due to a significant decrease in the reserves of the mine, following a thorough review of the block model. See page 25 for more details on the reasons for the project's revision.
- Despite numerous management initiatives, Titimukhta failed to reach the reserve grade. The Group took the decision to reconfigure the mine and the mill to process antimony-content ores from Olimpiada at the Titimukhta plant; intensive geology exploration works continue at the mine.

Asset development

A list of new projects was announced after a comprehensive analysis of the Group's current portfolio of assets was conducted.

Krasnoyarsk Business unit

Reconfiguration of Titimukhta mill

A large quantity of ores rich in antimony is mined every year at Olimpiada and a significant amount has been stockpiled. The project involves the processing of these ores at the Titimukhta mill, with the further sale of antimony concentrate to third parties or the further processing of gold flotation concentrate at Olimpiada Bio oxidation section.

Heap-leaching facility at Blagodatnoye

A very substantial amount of low-grade ore has been stockpiled at Blagodatnoye. The project encompasses the construction of a heap-leaching facility at the mine to treat low-grade and in-situ Blagodatnoye ores.

Blagodatnoye mill expansion

The Blagodatnoye mill has been operating above its nameplate capacity of 6 mtpa since its commissioning in 2010. A thorough analysis of the production flow revealed an opportunity to expand the mill's capacity to 8 mtpa at current production lines, using project reserve with the implementation of innovative engineering solutions.

Construction of Razdolinskaya-Tayga grid

Construction of the 228 km grid is an essential step towards the development of the Krasnoyarsk Business Unit and its further operational improvement. The project will be implemented in 2015–2016 and will require $110 million in capital expenditure.

The grid is vital for the potential expansion of the Blagodatnoye mill and will connect the Krasnoyarsk Business Unit to the Boguchanskaya Hydro Power Plant (HPP), providing the Group with a cheap supply of electricity.

Verninskoye

Verninskoye mill expansion

The project involves the expansion of the processing capacity of the Verninskoye mill, from the current 2.2 mtpa to 3.6-5.0 mtpa, depending on the results of a feasibility study and the decision of the government regulator on the cut-off grade.

Construction of Peledui-Mamakan grid

Construction of the grid began in 2013 and will be completed in mid-2015. The grid will connect Viluyskie HPP to Verninskoye and provide it with a low-cost power supply. Construction of the grid is vital for the Verninskoye expansion.

Kuranakh

Heap-leaching facility at Kuranakh

A huge amount of low-grade ore has been stockpiled at Kuranakh. The project envisages the construction of a heap-leaching facility at Kuranakh for the treatment of low-grade and in-situ Kuranakh ores.

Total Operational Efficiency programme (TOE)

In spring 2014 an independent audit for operational efficiency enhancement was carried out. As a result of the audit, a full-scale Total Operating Efficiency (TOE) programme was elaborated.

The TOE programme involves:

- modification of the technological process;
- optimisation of staff workload and headcount;
- optimisation of consumables' usage (grinding balls, reagents, etc.);
- elimination of waste and irrational utilisation of consumables (electricity, compressed air, reagents, fuel, explosives);
- enhancement of equipment efficiency: capacity utilisation and technical readiness coefficient;
- standardisation of processes;
- KPI visualisation at sections and permanent, thorough analysis of KPI deviations; and
- regular collection of recommendations from the personnel (kaizens).

As part of the TOE programme, which was already launched at the Krasnoyarsk Business Unit in summer 2014, a series of initiatives have already been implemented:

- reduction of the normative consumption of cyanide;
- the application of new reagents;
- loading less (or 30% less to be exact) explosives in the buffer holes; and
- optimised ore-feeding process to the plant.

We intend to launch the TOE programme across the rest of our assets in 2015.

Natalka project reassessment

In December 2013 the Group took the decision to re-sequence the development of the Natalka project and to postpone the commissioning of the plant to summer 2015. A thorough revision of the project was initiated, including an analysis of technical options and a review of the Natalka deposit resource block model. Micromine Consulting Services and AMC Consultants were engaged to perform the studies and to update the resource block model and mineral resource and ore reserve estimates.

Gold output koz

Mines	**FY 2014**	FY 2013	y-o-y change
Olimpiada	**726**	691	5%
Blagodatnoye	**394**	395	0%
Titimukhta[7]	**93**	131	(29%)
Verninskoye	**146**	89	64%
Alluvials	**190**	205	(7%)
Kuranakh	**137**	138	(1%)
Total refined gold output, koz	**1,686**	1,649	2%
Olimpiada flotation concentrate	**10**	2	N.M.
Total gold output, koz	**1,696**	**1,651**	**3%**

Mining works and ore processing

Total rock moved, 000 m^3	65,905	66,351	(1%)
Av. stripping ratio, m^3/t	2.2	1.8	22%
Total ore mining, kt	24,346	30,032	(19%)
Total ore processed, kt	23,743	22,480	6%
Average grade in ore processed, g/t	2.5	2.5	–
Recovery rate, %	82.2	81.2	1.0 ppts
Total doré gold production, koz	**1,707**	**1,659**	**3%**

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

Initial Natalka mineral resource and ore reserve estimates were based on the 2011 resource block model reviewed by Micon International. Mining works at Natalka commenced in early 2013, in accordance with the existing Licence Agreement. By the end of 2014, 9.2 million tonnes of ore had been mined. Gold content amounted to 250 thousand ounces of gold, which was less than expected from the 2011 mineral resource block model.

According to the consultants' report, channel sampling information comprising approximately 60% of the resource database and derived from historical Soviet-era underground samples dating back as far as 1945, had significant location errors, caused by coordinate conversions and poor-quality control support, which resulted in a systematic positive bias.

As per the new block model Natalka measured, indicated and inferred resources totalled 36.8 million ounces of gold at 1.5 g/t, compared to 59.7 million ounces at 1.71-1.74 g/t as per the previous estimates, which is equal to a 38% reduction in the deposit resources. Proven and probable reserves total 16.2 million ounces of gold at 1.6 g/t, compared to 31.6 million ounces at 1.6 g/t as per previous estimates, which corresponds to a 49% contraction in the deposit reserves.

As a result of these changes the Group took a decision to postpone the commissioning of the mine and does not target to launch it in summer 2015. The above mentioned changes require a detailed operational review of the Natalka project which is anticipated to be completed in the middle of 2015.

The current engineering studies are aimed at minimising outstanding capital expenditure and optimising the infrastructure which has been built to date. Options under close consideration include the potential implementation of the photometric separation technology (optical sorting), alterations in flowsheet, heap leaching and a number of other initiatives.

The Group is engaged in talks with a number of potential partners with regard to development of the project.

Despite the change in the resources and reserves estimates, Natalka remains one of the largest development projects in the gold industry. Polyus Gold confirms its commitment to taking it forward in a prudent and cost-effective manner in the interest of all stakeholders.

1.8 Operational review continued

Asset review
Olimpiada

The Olimpiada mine is located 500 km north of the local centre Krasnoyarsk. Currently two mills, with a total capacity of 8 mtpa, operate here. It is Russia's largest gold mine.

The deposit contains primary sulphide ores. Sulphide ores represent metasomatic ore bodies with rare impregnations of sulphide minerals. The average gold grade is 3.5 g/t.

Olimpiada is an open-pit mine with surface stockpiling. Rock is removed by excavation and hauling after blasting. The ore is processed using the gravity and flotation concentration method, with subsequent bio-oxidation of the flotation concentrate and sorption leaching of the bioleach product using the carbon-in-leach (CIL) process.

In 2014 Olimpiada produced 726 thousand ounces of refined gold, compared to 691 thousand ounces in 2013. In the middle of the year ore mining at Olimpiada was cut to a minimum, as the open pit began to be cut back. The ore is mainly taken from earlier created stockpiles, thus fully feeding both mills. Pit optimisation will continue until the end of 2015. The automation of processing equipment was completed during 2014, which led to an increase in recovery from 74.5% in 2013 to 75.9% in 2014.

	Overview
Location	Krasnoyarsk Region
Commissioned	1996
Mining/processing type	Open pit, flotation-bioleach
Reserves (JORC)	29.3 moz
Processing capacity	2 plants with total capacity of 8.0 mtpa
JORC grade	3.3 g/t
LOM[8]	40 years

	FY 2014	FY 2013	y-o-y change
Rock moved, km³	**24,122**	25,052	(4%)
Stripping ratio, m³/t	**3.6**	1.8	100%
Ore mined, kt	**6,005**	11,597	(48%)
Grade in ore mined, g/t	**3.7**	3.6	3%
Ore processed, kt	**8,526**	7,822	9%
Grade in ore processed, g/t	**3.6**	3.6	–
Recovery, %	**75.9%**	74.5%	1.4 ppts
Doré gold production, koz	**726**	698	4%
Refined gold production	**726**	691	5%

8. LOM calculated as P&P reserves divided by 2014 production.

Blagodatnoye

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

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

The Blagodatnoye mine operates as an open-pit mine with surface stockpiling.

The mill was commissioned in 2010 and is based on gravity concentration, flotation and CIL. The plant has a processing capacity of 6.0 mtpa.

In the reporting year Blagodatnoye produced 394 thousand ounces of refined gold, in line with 395 thousand ounces in the previous year.

As announced recently, a heap-leaching facility is planned to be constructed at Blagodatnoye to treat low-grade and in-situ ores. A total of 2.4 moz of gold can be recovered using heap leach technology.

Another major brownfield project at Blagodatnoye is the plant's expansion up to 8 mtpa from the current 6 mtpa. The Blagodatnoye mill has been operating above nameplate capacity since its commissioning, reaching 7.3 mtpa in 2014. Our recent estimates indicate that it is operationally possible to increase processing capacity by 15% without the construction of additional production lines, implementing innovatory engineering solutions and using project reserve.

	Overview
Location	Krasnoyarsk Region
Commissioned	2010
Mining/processing type	Open pit, gravity, flotation cyanide leaching
Reserves (JORC)	8.7 moz
Processing capacity	6.0 mtpa
JORC grade	2.3 g/t
LOM	22 years

	FY 2014	FY 2013	y-o-y change
Rock moved, km^3	**14,696**	13,321	10%
Stripping ratio, m^3/t	**1.6**	1.6	–
Ore mined, kt	**7,392**	6,840	8%
Grade in ore mined, g/t	**2.0**	2.1	(5%)
Ore processed, kt	**7,251**	6,755	7%
Grade in ore processed, g/t	**2.0**	2.0	–
Recovery, %	**88.0%**	88.3%	(0.3 ppts)
Doré gold production, koz	**403**	396	2%
Refined gold production	**394**	395	0%

1.8 Operational review continued

Titimukhta

The Titimukhta deposit is located 9 km northwest of the Olimpiada deposit. The deposit contains quartz vein and veinlet stockwork. Ores are of the same process type – free milling, without arsenic – and of two natural varieties – oxidised and sulphide (primary).

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

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

In 2014, 93 thousand ounces of refined gold were produced at Titimukhta, which was 29% less than in 2013. The main reason for the production decrease was lower grades. Mining operations during 2014, in accordance with the mine plan, concentrated on the flanks of the Titimukhta ore body, which resulted in a significant decrease in gold grade. To offset the grade decrease, high-grade ore from the third-party Veduga deposit was processed at the Titimulhta plant, together with some Olimpiada and Blagodatnoye ore.

Another major brownfield project in our portfolio is the transformation of the Titimukhta mill production flow. Ores from the Olimpiada deposit could be treated at the Titimukhta mill, with the further sale of concentrate to third parties or the processing of gold flotation concentrate at Bio-oxidation sections of the Olimpiada mill.

Overview	
Location	Krasnoyarsk Region
Commissioned	2009
Mining/processing type	Open pit, RIP, cyanide leaching
Reserves (JORC)	1.5 moz
Processing capacity	2.4 mtpa
JORC grade	3.5 g/t
LOM	16 years

	FY 2014	FY 2013	y-o-y change
Rock moved, km^3	**9,640**	10,195	(5%)
Stripping ratio, m^3/t	**3.9**	3.7	5%
Ore mined, kt	**2,242**	2,514	(11%)
Grade in ore mined, g/t	**1.7**	2.0	(15%)
Ore processed, kt	**1,978**	2,466	(20%)
Grade in ore processed, g/t	**1.9**	1.9	–
Recovery, %	**83.7%**	85.2%	(1.5 ppts)
Doré gold production, koz[9]	**100**	128	(22%)
Refined gold production[9]	**93**	131	(29%)

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

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

The mine was commissioned in December 2011. The mill is based on gravity concentration, flotation and CIL and has a processing capacity of 2.2 mtpa.

Refined gold production at Verninskoye in 2014 amounted to 146 thousand ounces, an increase of 64% on 2013. Higher gold production in 2014 was owing to the completed ramp-up of the mill after it reached nameplate throughput capacity at the end of FY 2013. The recovery rate improved significantly in 2014, reaching 79.4%. Bottlenecks at the carbon regeneration circuit were fixed with a new kiln installed in October, which, coupled with the usage of new reagent, improved recovery to 84% in December. We continue to work hard and hope to reach the design parameter of 86% in 2015.

The decision to expand the mill from the current 2.2 mtpa to 3.6-5.0 mtpa will be carried out during 2015 and will be subject to the results of the feasibility study and the decision of the government regulator.

	Overview
Location	Irkutsk Region
Commissioned	2011
Mining/processing type	Open pit, gravity, flotation and cyanide leaching
Reserves (JORC)	4.1 moz
Processing capacity	2.2 mtpa
JORC grade	2.5 g/t
LOM	28 years

	FY 2014	FY 2013	y-o-y change
Rock moved, km^3	**4,910**	4,539	8%
Stripping ratio, m^3/t	**0.7**	0.5	40%
Ore mined, kt	**4,716**	4,934	(4%)
Grade in ore mined, g/t	**1.9**	2.0	(5%)
Ore processed, kt	**2,203**	1,626	35%
Grade in ore processed, g/t	**2.7**	2.5	8%
Recovery, %	**79.4%**	70.8%	8.6 ppts
Doré gold production, koz	**150**	93	61%
Refined gold production	**146**	89	64%

1.8 Operational review continued

Alluvials

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

Stripping is performed by walking excavators and bulldozers, depending on the gold-bearing placer's characteristics.

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

Gold production from alluvial deposits amounted to 190 thousand ounces in 2014, a fall of 7% on 2013. Lower gold production in 2014 was due to a planned reduction in production from the highest-cost areas in order to maintain a competitive cost profile for the operations.

Alluvials continue to be an important part of our portfolio, accounting for approximately 11% of the Group's production. As low-cost reserves are depleting, they require permanent attention and strict cost control. A full-scale optimisation programme for the alluvial asset portfolio has been launched within the Group. In November 2014 a new Head of Alluvials was appointed, Maxim Semyanskikh, who previously managed alluvial operations in the Magadan Region.

	Overview
Location	Irkutsk Region
Mining/processing type	Sands washing
Reserves (JORC)	1.1 moz
Processing capacity	10 million m^3
JORC grade	0.6 g/t
LOM	6 years

	FY 2014	FY 2013	change y-o-y
Sands washed, km^3	**9,139**	10,107	(10%)
Average grade, g/t	**0.6**	0.6	–
Gold in slime, koz	**190**	205	(7%)
Refined gold production	**190**	205	(7%)

Kuranakh

The Kuranakh mine is located in the Aldan Region of the Republic of Sakha (Yakutia). Gold ore is mined from numerous deposits of the Kuranakh ore field.

All Kuranakh ore-field deposits exhibit common geological structures, morphologies and lithologies. The ores are of the quartz–pyrite type. Gold is made up of microscopic and submicroscopic particles.

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

Refined gold production at Kuranakh amounted to 137 thousand ounces in 2014, broadly flat compared to 2013. An average lower grade in 2014 was due to processing stockpiled lower-grade ore. The reduced grade was compensated by improved recoveries, achieved through operational improvements, namely the blending of ore to improve its chemical and mineralogical composition.

As announced recently, a heap-leaching facility is planned to be implemented at Kuranakh to process the low-grade and out-of-balance ores of the deposit, which were stockpiled at the deposit during mining operations in previous years.

	Overview
Location	Republic of Sakha
Commissioned	1965
Mining/processing type	Open pit, RIP cyanide leaching
Reserves (JORC)	2.6 moz
Processing capacity	3.8 mtpa
JORC grade	1.4 g/t
LOM	19 years

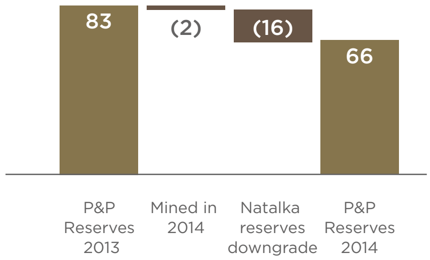
	FY 2014	FY 2013	y-o-y change
Rock moved, km^3	**12,537**	13,244	(5%)
Stripping ratio, m^3/t	**2.6**	2.6	–
Ore mined, kt	**3,991**	4,146	(4%)
Grade in ore mined, g/t	**1.3**	1.4	(7%)
Ore processed, kt	**3,785**	3,811	(1%)
Grade in ore processed, g/t	**1.3**	1.4	(7%)
Recovery, %	**86.8%**	84.0%	2.8 ppts
Doré gold production, koz	**136**	138	(2%)
Refined gold production	**137**	138	(1%)

1.9 JORC resources and reserves[10]

Other than for the Natalka deposit, the JORC (2004) resources and reserves estimates for the Group's remaining deposits did not materially change in 2014, but for the mining-related reserve depletion during 2014. Thus the Group's total measured, indicated and inferred resources for 2014 amounted to 127 million ounces, while total proven and probable reserves totalled 66 million ounces. The Group's mining annual reserve depletion totalled 2 million ounces, which was reviewed and updated, by adjusting the Competent Person's resource and reserve estimates in accordance with JORC (2004) the current year's extraction by the Group's geological department (Sergey Lobov[11] – Director, geology).

In respect of the Natalka deposit, a comprehensive JORC (2012) compliant audit was undertaken during 2014 by independent mining industry consultants Micromine Consulting Services (the Competent Person is Mr R. Mohan Srivastava[12]) and AMC Consultants Pty Ltd. (the Competent Person is Mr Mark Chesher[13]). As part of this audit, the Group initiated a detailed review of the Natalka deposit resource block model and Resources and Reserves estimates. The resultant estimates have been prepared and reported in accordance with the JORC (2012) Code. As a result of the block model review the Natalka resources decreased by 38% to 36.8 million ounces, whilst the reserves decreased by 49% to 16.2 million ounces, compared with the 2011 estimates.

Proven & probable reserves reconciliation as at 31 December 2014, koz



Proven and Probable Reserves

Deposit	Ore mt	Grade g/t	Gold moz	Cut-off grade g/t	Gold price $/oz
Operating mines (JORC 2004)					
Olimpiada	277.2	3.29	29.3	1.0	1,200
Blagodatnoye	120.5	2.25	8.7	1.0	1,200
Titimukhta	13.3	3.45	1.5	1.0	1,200
Verninskoe[14]	50.4	2.52	4.1	1.0	1,200
Alluvials	53.1	0.64	1.1	N/A	1,200
Kuranakh	57.1	1.39	2.6	0.7-0.9	1,200
Subtotal operating mines	**571.6**	**2.57**	**47.3**		
Mine under development (JORC 2012)					
Natalka[15]	319.0	1.58	16.2	0.5	1,250
Exploration project (JORC 2004)					
Chertovo Koryto	34.5	2.12	2.4	1.0	1,200
Total	**925.1**	**2.21**	**65.8**		

10. Performed as at 31 December 2014.
11. Sergey Lobov – member of Society of Mining, Metallurgy and Exploration (SME), PhD in Geology and Mineralogy, 35 years in the industry, Director of Geology, Polyus Gold.
12. Mr Mohan Srivastava is the Competent Person for the 2014 Natalka Mineral Resource estimate, and estimated the Mineral Resource with assistance from specialists in geological data acquisition and resource modelling. Mr Srivastava is a Member of the Association of Professional Geoscientists of Ontario and a consulting associate of Micromine Consulting Services. He has sufficient experience relevant to the style of mineralisation and type of the deposit under consideration, and in resource model development, to qualify as a Competent Person as defined in the JORC Code. Mr Srivastava consents to the inclusion of this information in the form and context in which it appears.
13. Mr Mark Chesher is the Competent Person for the 2014 Natalka Ore Reserve estimate, and supervised preparation of the estimate with assistance from specialists in each area of the estimate. Mr Chesher is satisfied that the work of the specialists is acceptable for the purposes of estimating the 2014 Natalka Ore Reserve. Each person has accepted responsibility for the estimate in their area of expertise. Mr Chesher is a Fellow of the Australasian Institute of Mining and Metallurgy, a Chartered Professional, and is a full-time employee of AMC Consultants Pty Ltd. He has sufficient experience relevant to the style of mineralisation and type of the deposit under consideration, and in open pit mining activities, to qualify as a Competent Person as defined in the JORC Code. Mr Chesher consents to the inclusion of this information in the form and context in which it appears.
14. Hereinafter include the Smezhny deposit.
15. Hereinafter Reserves and resources estimate as at 23 February 2015.

Measured and Indicated Resources

	Measured			Indicated			Total measured and indicated				
Deposit	Ore mt	Grade g/t	Gold moz	Ore mt	Grade g/t	Gold moz	Ore mt	Grade g/t	Gold moz	Cut-off grade g/t	Gold price $/oz
Operating mines (JORC 2004)											
Olimpiada	23.0	3.99	2.9	281.2	3.32	30.1	304.3	3.38	33.0	0.5	1,200
Blagodatnoye	0	0.00	0	144.2	2.30	10.7	144.3	2.30	10.7	1.0	1,200
Titimukhta	2.2	2.98	0.2	15.3	3.22	1.6	17.5	3.19	1.8	0.8	1,100
Verninskoe	1.7	3.11	0.2	73.4	2.47	5.8	75.1	2.48	6.0	1.0	1,200
Alluvials	0	0.00	0	63.2	0.74	1.5	63.2	0.74	1.5	N/A	1,200
Kuranakh	0	0.00	0	85.3	1.71	4.7	85.3	1.71	4.7	1.0	1,200
Subtotal operating mines	**26.9**	**3.80**	**3.3**	**662.6**	**2.55**	**54.4**	**689.7**	**2.60**	**57.7**		
Mine under development (JORC 2012)											
Natalka	204.0	1.4	9.0	355.0	1.47	16.8	559.0	1.43	25.8	0.4	1,500
Exploration projects (JORC 2004)											
Chertovo Koryto	4.1	1.9	0.3	46.3	1.84	2.74	50.5	1.84	3.0	0.8	1,200
Panimba	4.8	2.3	0.4	11.2	2.32	0.83	16.0	2.32	1.2	0.7	N/A
Razdolinskoye	0	0.00	0	9.8	3.94	1.24	9.8	3.94	1.2	0.5	N/A
Subtotal exploration projects	**8.9**	**2.11**	**0.7**	**67.3**	**2.22**	**4.81**	**76.3**	**2.21**	**5.4**		
Total	**239.9**	**1.67**	**12.9**	**1,085.0**	**2.18**	**75.9**	**1,324.9**	**2.09**	**88.9**		

Inferred Resources

Deposit	Ore mt	Grade g/t	Gold moz	Cut-off grade g/t	Gold price $/oz
Operating mines (JORC 2004)					
Olimpiada	160.3	2.78	14.4	0.5	1,200
Blagodatnoye	11.6	1.94	0.7	1.0	1,200
Titimukhta	1.6	1.72	0.1	0.8	1,100
Verninskoe	110.0	1.95	6.9	1.0	1,200
Alluvials	3.3	0.9	0.1	N/A	1,200
Kuranakh	7.8	1.35	0.3	1.0	1,200
Subtotal operating mines	**294.6**	**2.37**	**22.5**		
Mine under development (JORC 2012)					
Natalka	218.0	1.58	11.1	0.4	1,500
Exploration projects (JORC 2004)					
Chertovo Koryto	2.1	1.64	0.1	0.8	1,200
Panimba	24.4	1.79	1.4	0.7	N/A
Razdolinskoye	17.6	3.5	2.0	0.5	N/A
Medvezhy Zapadny	23.5	1.83	1.4	1.0	1,200
Subtotal exploration projects	**67.6**	**2.24**	**4.9**		
Total	**580.2**	**2.06**	**38.5**		

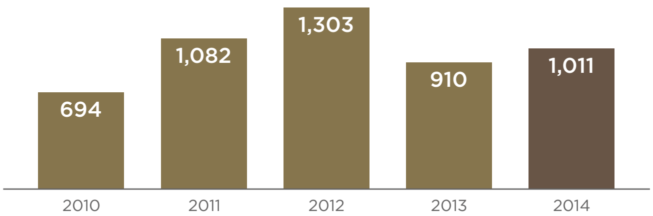
1.10 Key performance indicators

We track our performance in 2014 against the set of the key financial, operational and sustainability metrics for the previous year.

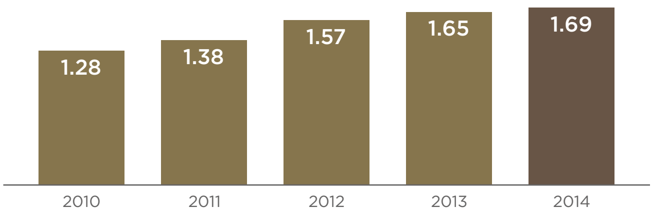
Despite a significant pullback in the gold price, we managed to progress well with our key performance indicators (KPIs), thanks to our efficiency programmes, stricter control over operating and capital expenses and new sustainability initiatives.

The relevance of our KPIs to the Group's strategy, their performance against 2013 and a description of related initiatives are outlined below. All these KPIs are used as a measure in the long-term incentive arrangements for the remuneration of our Executive Directors.

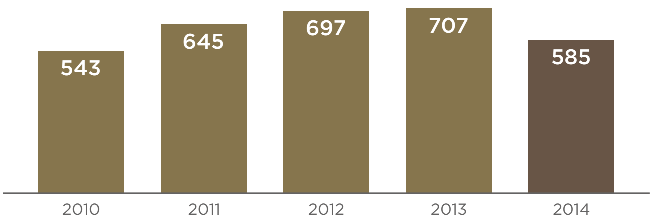
Adjusted EBITDA, $ million



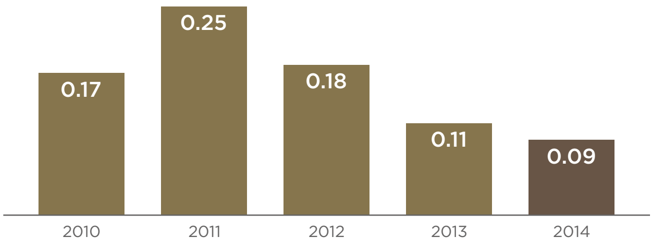
Gold production, moz



TCC, $/oz



LTIFR



Adjusted EBITDA, $ million

Definition	Relevance to the strategy	FY 2014 performance	Looking ahead	More information
Adjusted EBITDA is profit/(loss) for the period before financial income, financial expenses, foreign exchange gains and losses, fair value changes, taxation, depreciation, amortisation and impairment charges.	This is a key financial measure used across the Group to indicate the ability to generate operating cash flows, which are a major source of funds for the capital expenditure programme, working capital requirements, and credit portfolio servicing.	The Group's adjusted EBITDA advanced 11% y-o-y to $1,011 million and was well ahead of the internal plan. The better-than-expected performance came from strict cost control measures, a weaker local currency and a positive effect from the Strategic Price Protection Programme.	Polyus is focused on boosting EBITDA through rigorous cost control and operating efficiency initiatives.	For additional information, see section 1.11 on page 43.

Gold production, moz

Definition	Relevance to the strategy	FY 2014 performance	Looking ahead	More information
The amount of gold produced from Polyus' hard-rock mines and alluvial operations within the reporting period. Gold production volumes are measured in millions of troy ounces.	Gold production is an indication of Polyus' operational performance and demonstrates the ability of the Group's operational and managerial teams to meet the targets outlined in the mining plan.	The Group managed to increase its gold output for the seventh consecutive year, beating the internal plans. In 2014 production volumes totalled 1.7 moz, 3% higher than a year ago.	Polyus has a wide production growth profile, allowing the Group to keep steady production growth through the further expansion of existing assets and the development of greenfield projects.	For additional information, see section 1.8 'Operational review' on page 25.

TCC, $/oz

Definition	Relevance to the strategy	FY 2014 performance	Looking ahead	More information
Total cash cost (TCC) per ounce sold is the cost of producing and selling an ounce of gold, which includes mining, processing, transportation, refining, as well as general costs from both mines and alluvial operations.	TCC is a key measure of the effectiveness of the Group's operations. Polyus pays great attention to its production expenses by monitoring and benchmarking the efficiency and effectiveness of its assets and implementing best practices to control expenses.	The newly commissioned efficiency programmes alongside the weaker rouble were key to the lower TCC. The positive dynamics were ahead of the Group's initial expectations.	The Group is developing a business efficiency improvement programme which, among other things, focuses on measures to address cost inflation and production bottle-necks, and targets cost-cutting initiatives in each production process.	For additional information, see section 1.11 on page 42.

LTIFR

Definition	Relevance to the strategy	FY 2014 performance	Looking ahead	More information
The lost time injury frequency rate (LTIFR) is a key measure of how Polyus is delivering on its commitment to the health and safety of its total workforce, including contractors.	Polyus tracks a range of safety performance indicators and data to measure the efficiency of the Group's health and safety initiatives in order to control their application across operations and to pursue the aim of operating in a safe and responsible manner.	The LTIFR showed positive dynamics in 2014, up 19% on the previous year to 0.09.	Polyus is aiming for a low LTIFR and zero fatalities by seeking to improve on the existing robust Occupational Health and Safety (OH&S) systems.	For additional information, see section 2.7 'Health and safety' on pages 67 to 70.

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

FY 2014 – Financial highlights

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

Mikhail Stiskin
Chief Financial Officer

Highlights

$ million (if not mentioned otherwise)	FY 2014	FY 2013	y-o-y change	2H 2014	1H 2014
Total gold production (koz)	**1,696**	1,652	3%	950	746
Gold sold (koz)	**1,691**	1,631	4%	939	751
Average realised gold price (excl. effect of Strategic Price Protection Programme[16]) ($/oz)	**1,275**	1,385	(8%)	1,259	1,296
Average realised gold price (incl. effect of Strategic Price Protection Programme) ($/oz)	**1,300**	1,385	(6%)	1,295	1,306
Total revenue	**2,239**	2,329	(4%)	1,232	1,007
Operating profit	**846**	222	281%	568	278
(Loss)/profit from continuing operations	**(182)**	143	N.M.	(435)	253
(Loss)/earnings per share – basic and diluted (US cents)	**(5)**	4	N.M.	(13)	8
Adjusted net profit[17]	**615**	565	9%	387	228
Adjusted net profit margin (%)	**27**	24	3 ppts	31	23
Cash and cash equivalents and bank deposits	**1,486**	857	73%	1,486	1,177
Net cash inflow from operations	**809**	422	92%	473	336
Capital expenditure	**525**	1,440	(64%)	238	287
Adjusted EBITDA[18]	**1,011**	910	11%	618	393
Adjusted EBITDA margin (%)	**45**	39	6 ppts	50	39
Net debt[19]	**327**	349	(6%)	327	370
Net debt/adjusted EBITDA, (x)	**0.32**	0.38	(16%)	0.32	0.42
Total cash cost (TCC) per ounce sold ($/oz)[20]	**585**	707	(17%)	524	662
All-in sustaining cash cost (AISC) per ounce sold ($/oz)[21]	**825**	1,002	(18%)	760	905

16. The Strategic Price Protection Programme comprises a series of zero-cost Asian gold collars ('revenue stabiliser') and gold forward contracts.
17. For a definition and calculation of Adjusted Net profit, see the section Net profit on page 47.
18. 'Adjusted EBITDA' is defined by the Group as profit before finance costs, income tax, income/(losses) from investments (including derivatives), depreciation, amortisation and interest, and is further adjusted for certain items included in the table below. The Group has made these adjustments in calculating Adjusted EBITDA to provide a clearer view of the performance of its underlying business operations and to generate a metric that it believes will give greater comparability over time with peers in its industry. The Group believes that Adjusted EBITDA is a meaningful indicator of its profitability and performance. This measure should not be considered as an alternative to profit for the year and operating cash flows based on IFRS, and should not necessarily be construed as a comprehensive indicator of the Group's measure of profitability or liquidity.
19. Net debt is defined as short- and long-term debt, less cash and cash equivalents and short-term bank deposits. Short-term bank deposits with an original maturity of more than three months can be withdrawn on demand and therefore have the same liquidity as cash and cash equivalents. Net debt excludes derivative financial instrument liability, site restoration and environmental obligations, deferred tax and other non-current liabilities. Net debt should not be considered as an alternative to current and non-current loans and borrowings and should not necessarily be construed as a comprehensive indicator of the Group's measure of liquidity.
20. For a definition and calculation of Total cash costs per ounce sold, see the section Total cash costs on page 42.
21. For a definition and calculation of All-in-sustaining costs per ounce sold, see the section All-in-sustaining costs on page 43.

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

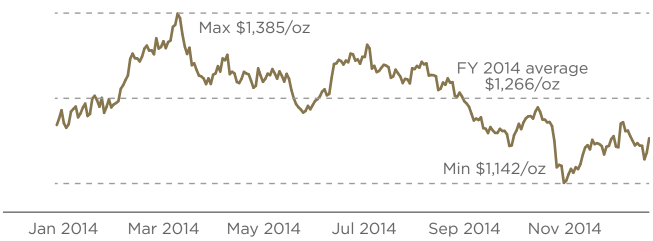
External factors review

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

Gold price dynamics

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

LBMA gold price dynamics in FY 2014, $/oz

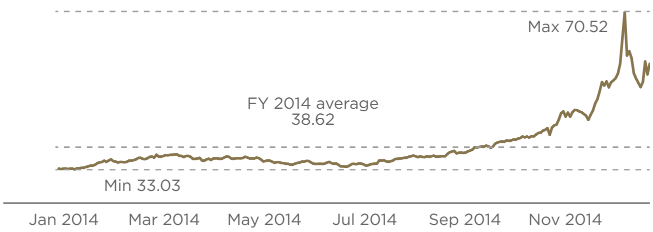


Source: London Bullion Market Association.

Rouble exchange rate dynamics

The Group's revenue from gold sales is linked to US dollars (USD), whereas most of the Group's operating expenses are denominated in Russian roubles (RUB). The strengthening of the RUB against the USD may negatively affect the Group's margins by increasing the USD value of its RUB-denominated costs, while a stronger USD positively affects the Group's margins by decreasing the USD value of its RUB-denominated costs. In FY 2014, the average RUB/USD exchange rate was 38.42, compared to 31.85 in FY 2013, representing a 21% y-o-y RUB fall. The combination of sanctions imposed on the Russian economy (related to the Ukrainian conflict) combined with a steep fall in the oil price from $103/bbl to $58/bbl at year-end, caused a sharp decline in the value of the RUB, whose rate fell from 33 RUB/USD to 58 RUB/USD by the year-end, or 43%. This fall in the RUB has positively affected the Group's operating margins in FY 2014, though reduced the Group's net assets due to the RUB use as the Group's functional currency.

RUB/USD dynamics, FY 2014



Source: Bloomberg.

Inflationary trends

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

Financial review
Profit and loss statement review
Revenue analysis

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

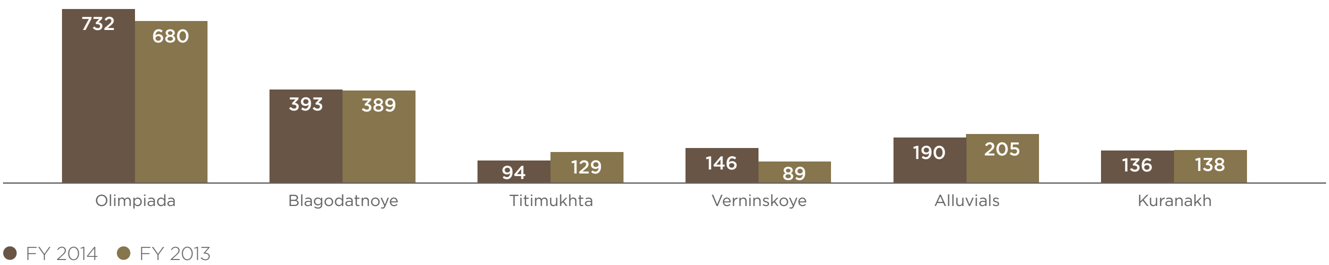
The Group's revenue from gold sales in FY 2014 was down 3% y-o-y, to $2,197 million, as a result of lower gold prices, while sales volumes increased by 4% y-o-y to 1,691 koz. The average realised gold price in FY 2014 amounted to $1,300/oz, down 6% y-o-y. The decrease could have been steeper (the average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

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

Revenue breakdown by mine, FY 2014

$ million	Olimpiada	Blagodatnoye	Titimukhta[22]	Verninskoye	Alluvials	Kuranakh	Other
Gold sales	961	517	124	186	234	175	0
Other sales				6	10	5	21
Total sales	**961**	**517**	**124**	**192**	**244**	**180**	**21**

Gold sold by mine, koz



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

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

Profit and loss statement review continued

Cash costs analysis

Cost of sales breakdown

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

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

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

Cash operating costs breakdown by item

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

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

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

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

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

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

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

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

Cash operating costs breakdown by business unit

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

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

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

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

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

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

SG&A breakdown by item

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

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

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

Profit and loss statement review continued

Total cash costs (TCC)

TCC calculation

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

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

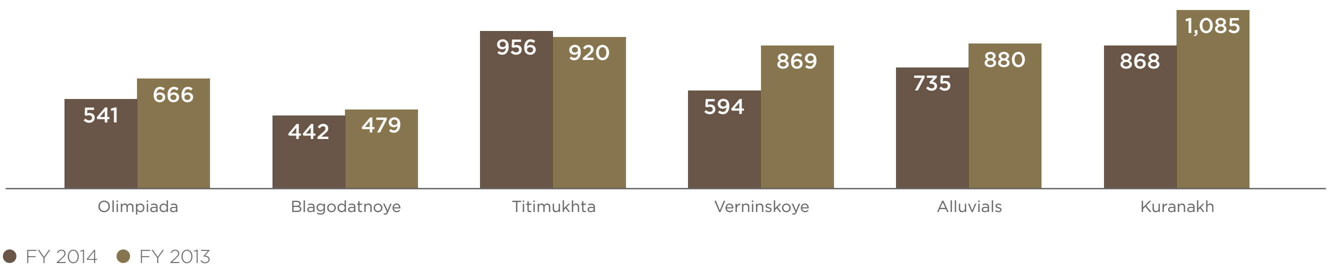
The most significant unit cost reduction in the reporting period occurred at Verninskoye (down 32% y-o-y) due to the RUB devaluation and economies of scale as the mine reached its throughput design parameters at the end of FY 2013 and operated at nameplate capacity throughout FY 2014, boosting its gold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

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

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

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

TCC performance by mine, $/oz



All-in sustaining costs (AISC)

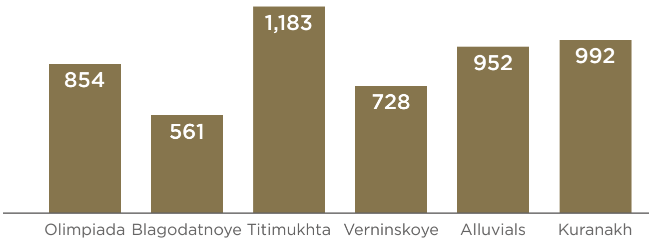
As with the TCC reduction, the Group's AISC dropped substantially: from $1,002/oz in FY 2013 to $825/oz in the reported period, or by 18% y-o-y. Lower AISC were driven by the decrease in TCC described in the section above, as well as lower SG&A and sustaining Capex. The latter dropped 53% y-o-y to $99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

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

All-in sustaining costs calculation

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

All-in sustaining costs by mine 2014, $/oz



Adjusted EBITDA

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

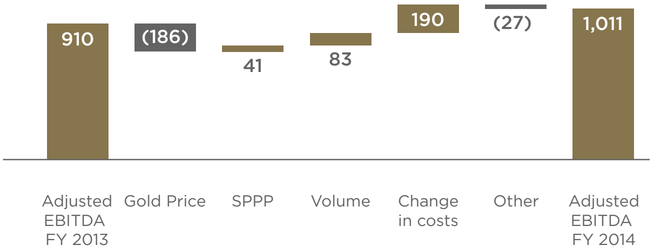
Adjusted EBITDA calculation

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

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

Profit and loss statement review continued

Adjusted EBITDA bridge, $ million



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

FY 2014 adjusted EBITDA breakdown by mine, $ million

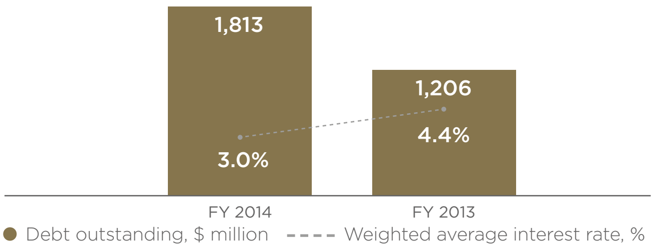
	FY 2014	FY 2013	y-o-y change
Olimpiada	**490**	418	17%
Blagodatnoye	**305**	309	(1%)
Titimukhta	**27**	46	(41%)
Verninskoye	**89**	37	141%
Alluvials	**70**	80	(13%)
Kuranakh	**50**	29	72%
Other	**(20)**	(8)	150%
Total	**1,011**	**910**	**11%**

Finance cost analysis

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

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

Weighted average interest rate dynamics



Foreign exchange gain and derivatives

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

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

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

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

Revenue stabiliser

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

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

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

Forward contracts

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

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

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

Currency collars

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

- September 2014 to August 2015: exchange rates for puts 36.83 RUB/USD and for calls 40.06 RUB/USD.
- September 2015 to December 2015: exchange rates for puts 38.21 RUB/USD and for calls 40.65 RUB/USD.

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

Profit and loss statement review continued

The majority of operating and capital expenses of the Group are RUB-denominated. The currency collars were mostly entered in April-May 2014, when the spot RUB stood at around 35 RUB/USD and the intention was partially to remove the risks of RUB strengthening and thus protect the earning capability of the Group during a period of heavy investments and substantial cash outflows, including the Natalka project, and to ensure balance sheet stability.

Contrary to the Group's and consensus expectations, the RUB lost materially in value in 2H 2014. The combination of sanctions imposed on the Russian economy related to the Ukrainian conflict and the steep fall in the oil price, from $108/bbl in July 2014 to $58/bbl at year-end, caused a substantial decline in the value of the RUB, whose rate fell from 33 RUB/USD at the beginning of FY 2014 to 58 RUB/USD at the year-end, or 43%.

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

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

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

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

Cross-currency swaps

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

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

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

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

Interest rate swap

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

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

Income taxes

The Group's overall income taxes amounted to $222 million in FY 2014. The major reason for the income tax y-o-y increase was the $185 million allowance for deferred tax assets on derivatives, due to the recognition of several taxes as non-recoverable. For the reconciliation of the income taxes calculation see note 13 in the Financial Statements on page 166.

Impairments

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

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

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

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

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

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

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

Net profit

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

Adjusted net profit calculation

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

Statement of financial position review

Translation loss

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

Debt

As of 31 December 2014, the Group's gross debt amounted to $1,813 million, 50% above the $1,206 million at the end of FY 2013[23]. Only 5% of gross debt ($90 million) was short-term, with the balance long-term, thus reflecting the Group's robust liquidity position.

The $750 million in Eurobonds continued to account for a large proportion of the debt. Bank loans accounted for 52% of the debt portfolio, dominated by the credit facility from Sberbank for RUB 36 billion, obtained in April 2014.

Debt breakdown by type

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

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

23. The debt figure excludes liabilities arising from derivative financial instruments, discussed above in the section foreign exchange gain and derivatives.

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

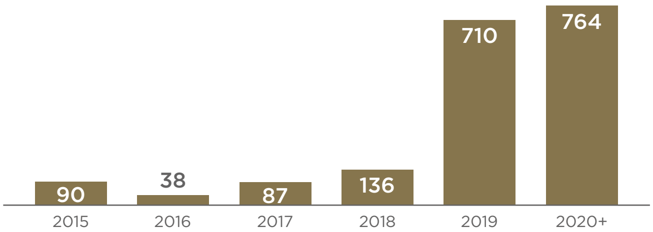
Statement of financial position review continued

Debt breakdown by currency

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

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

Debt maturity schedule[24], $ million



Cash and cash equivalents and bank deposits

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

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

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

Net debt

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

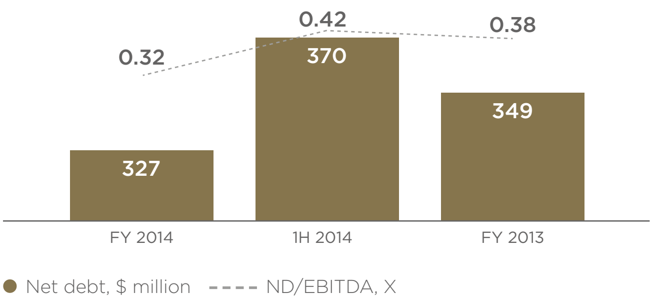
Net debt evolution

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

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

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

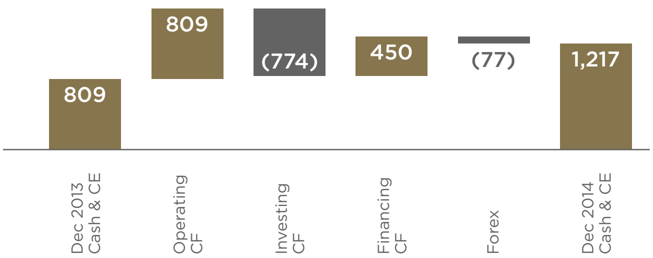
Net debt and net debt/adjusted EBITDA evolution



Cash flow review

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

FY 2014 cash flow bridge, $ million



Operating cash flow

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

Capex

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

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

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

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

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

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

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

Cash flow review continued

FY 2013/FY 2014 Capex breakdown[25]

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

Financing cash flow

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

Related-party transactions

Related-party transactions are disclosed in note 30 on page 183 to the consolidated financial statements. The Group had no transactions with its shareholders during FY 2014 and FY 2013.

Going concern

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in this MD&A on page 47. As at 31 December 2014, the Group held $1.5 billion of cash and had net debt of $327 million with $700 million of undrawn but committed facilities available subject to covenant compliance. Details on borrowings and credit facilities are disclosed in note 26 on pages 179 to 181 of the financial statements. In assessing its going concern status, the Directors have considered the uncertainties affecting future cash flows and have taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. In the event of certain adverse pricing scenarios and the risks and uncertainties below, management has within its control the option of deferring uncommitted capital expenditure to maintain the Group's funding position.

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

Risks and uncertainties

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

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

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

The Directors do not consider that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 December 2013, other than the above mentioned sanctions against the Russian Federation. A detailed explanation of the risks summarised above and how the Group seeks to mitigate the risks, can be found on pages 14 to 19 of the Annual Report 2014.

The Group's activities expose it to a variety of financial risks, which are discussed in detail below. The Group uses derivative financial instruments to reduce exposure to commodity price, foreign exchange and interest rate movements. The Board of Directors is responsible for overseeing the Group's risk management framework. The Audit and Risk Committee assists the Board with its review of the effectiveness of the risk management process, and monitoring of key risks and mitigations.

Commodity price risk

The Group's earnings are exposed to price movements of gold, which is the Group's main source of revenue. The Group sells most of its gold output at prevailing market prices. However to protect its earnings and balance sheet from a potential significant fall in gold prices the Group initiated a Strategic Price Protection Programme (SPPP), which includes gold collars and gold forward contracts. A detailed discussion on SPPP is provided on pages 45 and 46 of this MD&A.

Foreign exchange risk

As stated on page 38 in the MD&A section, the Group's revenue is linked to the USD, while most of the Group's operating expenses are denominated in RUB. In order to reduce the adverse effects associated with the changes in the exchange rates of the RUB against the USD the Group entered into currency collar contracts, which are discussed on page 45 of this MD&A. As most of the Group's debt is denominated or linked to the USD, the Group strategy is to keep its cash and deposits in USD – as at the end of FY 2014 95% of cash and cash equivalents and bank deposits of the Group were in USD, 1% in EUR and 4% in RUB – please refer to page 48 of this MD&A for a detailed discussion on this.

Interest rate risk

The Group is exposed to interest rate risk, as a significant part of the Group's debt portfolio is the US dollar floating rate borrowings. Fluctuations in interest rates may affect the Group's financial result. In order to obtain a floating rate in exchange for a fixed rate on its $750 million Eurobonds the Group entered into interest rate swaps, which are discussed on page 46 of this MD&A.

Inflation risk

As stated on page 38 in the MD&A section, the Group's earnings are exposed to inflationary trends in Russia and inflation negatively impacts the Group's earnings increasing future operational costs. To mitigate the RUB inflation risk the Group estimates possible inflation levels and incorporates them into its cost planning, has implemented cost reduction initiatives at its operations and the Group's treasury function is responsible for ensuring that the majority of cash and cash equivalents are held in USD.

Outlook

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

According to GFMS forecast[26], in FY 2015 Polyus Gold will move to the first decile on the global TCC curve, as a result of cost cutting, operational improvements and RUB devaluation.

This report was approved by the Board of Directors on 12 March 2015 and signed on its behalf by:

Pavel Grachev
Chief Executive Officer
12 March 2015

Mikhail Stiskin
Chief Financial Officer
12 March 2015

26. Source: https://gfmsonline.com/

Message *from the* Chairman *of the* Health, Safety, Environment *and* Community Committee

Dear Stakeholders,
Over the past three years, Polyus Gold has put a lot of effort into embracing sustainability and embedding it in every aspect of the Group's activities.

We have witnessed the evolution of a number of our business processes and we believe the path of transformation we embarked upon will lead to a positive and lasting improvement in the relevant aspects of the Group's overall performance. We have had to adapt to a rapidly-changing environment brought about by volatile economic and political factors. Like other gold producers faced with increasing costs and a lower gold price, the Group had to refocus its strategic priorities by placing greater emphasis on productivity enhancement and cost reduction, while maintaining high sustainability standards. We are convinced that sustainability should be fundamental to our business and serves as a key driver of our long-term success. Operating in an increasingly complex world means we must push ourselves forward, exploring new means of always being safe, efficient and sustainable while at the same time demonstrating leadership in governance and transparency. This Report provides an opportunity to share our achievements over the past few years and to highlight the areas that need to be addressed in the future.

The Group believes that there is nothing more important than the safety, health and well-being of our employees. Despite our continuing efforts on achieving zero fatalities, we failed in this objective in 2014. We were all deeply saddened by the death of four colleagues and five contractors and our thoughts and support remain with their families and friends. We will not stop in our quest to eliminate fatal accidents at our operations. There is no doubt that performing our work more safely means doing it better and more efficiently. The Group conducted a thorough analysis of accidents and near-misses that occurred at its operations and identified measures that should be taken and higher risk target groups that must be addressed. Our employees' health has been an area of greater focus during 2014 and we have continued to progress in the area of the management of occupational health. We continue to place a great deal of emphasis on developing a safety culture and we want each and every one of our employees to be interdependently safety-conscious and to feel responsible, not only for their own safety, but also for the safety of the people around them.

Maintaining high environmental standards and minimising the environmental footprint of our operations is integral to our business's sustainability and continuity. The Group ensures strict compliance with all legal requirements and addresses a wide spectrum of impacts that may affect employees, local communities and, in some instances, future generations, as well those that may contribute to climate change. Understanding the substantial responsibility involved, we constantly work on improving our operational practices and introducing new technologies. There are many projects planned at all business units (BUs) aimed at improving on what has already been achieved. Polyus Gold remains committed to engaging its employees and supporting skills development. In our efforts to become an employer of choice we continuously work on meeting employees' expectations, thus making Polyus Gold stronger from within. The second employee satisfaction survey was conducted in 2014 and showed progress against the targets defined in the Action Plan adopted two years previously. We realise that overall employee well-being is equally important at work and during free time. That is why improving employees' accommodation and living conditions as well as recreational facilities remains one of our key focus areas.

We at Polyus believe that our success depends not only on our technical expertise, but on having the support of local authorities and communities as well. Despite challenging economic conditions, we continued to support the communities where we operate. We invest in community programmes, provide employment opportunities and develop infrastructure and facilities which have a long-lasting, positive impact on host regions as well as on our employees. In all our engagements we aim to maintain a high level of transparency and to provide stakeholders a higher level of confidence about what we do.

I would like to take this opportunity to say thank you to our employees for all their efforts and commitment in what has been a year of challenges and change. None of these achievements would be possible without the dedication of our employees and the support of the communities and regions in which we operate. We look to the future with cautious optimism, but we will remain vigilant and focused. Sustainability will continue to be a core value of our business, with safety in the coming years being more crucial than ever. There is no single way to make the Group sustainable, so we are looking for innovative ways to bring about behavioural and attitude changes, despite all the stumbling blocks – remoteness and harsh conditions being some of the key ones. And the sustainability foundation that was laid during the past three years will allow the Group to face and overcome with confidence all future challenges.

With kind regards,

Edward Dowling
Chairman of the HSEC Committee
Polyus Gold International Limited

2.1 About this Report

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

The International Council on Mining and Metals (ICMM) Principle

10: Implement effective and transparent engagement, communication and independently verified reporting arrangements with our stakeholders.

The year 2014 is now over and Polyus Gold is proud to say that despite all the economic and political difficulties witnessed during the year, the Group successfully tackled all the challenges it faced. This success is as a result of the Group's strict adherence to the principles of sustainable development, in accordance with which the Group operated in 2014.

The Group takes very seriously its obligation to provide timely, reliable and complete information on its performance. For this purpose, the Group constantly strives to enhance its management of sustainability and its data-collection procedures. In 2014, the Group continued to develop its sustainability framework in order to properly manage and mitigate sustainability-related risks. The changes affected some internal processes and the management structure related to the sustainability management system.

The Group first began publishing information on safety, environmental protection and social responsibility in 2006. Initially, the Group followed a biennial reporting cycle, before switching to reporting on an annual basis in 2012. Over this time the Report's content has gradually changed from being a simple description of the Group's sustainability performance to focusing on issues that were the most material to the Group's business over the previous year.

The Group's previous sustainability report was published in 2014 and covered the year 2013. This, the Group's sixth sustainability report, entitled Sustainability Report for the Year 2014 (the Report), reflects the sustainability performance for the year from 1 January 2014 to 31 December 2014.

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

Guidelines and standards

The Report was prepared in accordance with GRI G4 Guidelines and the requirements of the Mining and Metals Sector Supplement. The Report is prepared in accordance with GRI G4 Comprehensive option.

The Report has been prepared in line with the G4 Principles for defining report quality: balance, comparability, accuracy, timeliness, clarity and enabling comparison with the Group's previous reports as well as the reports of leading international mining companies. References to information sources covering the standard disclosures are presented in the GRI Content Index (pages 89 to 101).

The Group adheres to the AA1000 Accountability Principles Standard – a framework based on the three following principles for managing and reporting sustainability performance:

- inclusivity: identifying and engaging with stakeholders to gain a full understanding of issues;
- materiality: determining which issues are important to the Group and its stakeholders; and
- responsiveness: responding to material issues and being transparent about the Group's performance.

The recommendations of the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard are used to collect data on and calculate greenhouse gas (GHG) emissions.

Report boundaries

GRI Guidelines were applied when defining the boundaries of the Report as a whole, as well as for individual performance indicators. Under these Guidelines the Report should cover the subsidiaries over which the Group has operational and financial control, as well as subsidiaries that have an impact on the Group's operational, financial, social and environmental performance results.

2.1 About this Report continued

Report boundaries continued

The Report covers the performance of all the wholly owned subsidiaries and joint ventures of the Group[27], namely:

Name of subsidiary	Mentioned in the Report as
Operational business units:	
CJSC Polyus	Krasnoyarsk BU
OJSC Lenzoloto	Irkutsk alluvial BU
OJSC Pervenets	Irkutsk ore BU
OJSC Aldanzoloto GRK	Yakutia Kuranakh BU
OJSC SVMC	Yakutia Nezhdaninskoye BU
OJSC Matrosov Mine	Magadan BU
Professional services:	
LLC Polyus Stroy	Construction service
PSF Polyus Shield LLC	Security service
CJSC Polyus Logistics	Logistics service
LLC Polyus Project	Engineering service
Polyus Energy represented by: CJSC Vitimenergo, CJSC Vitimenergosbyt, CJSC Mamakanskaya Hydroelectric Power Plant	Energy service

The term 'the Group' as used in this Report refers to the above group of BUs and professional services.

Data measurement techniques

The primary source of data and information for the sustainability reports is the Group's own corporate sustainability data collection system. Site-level reports are consolidated and verified at a corporate level annually, with the aim of collecting information on material sustainability indicators.

Information on health and safety, employees and social issues is acquired through the internal reporting system. Labour performance indicators are calculated based on the headcount as at the 31 December 2014, and include, if applicable, information on the managing company for the Russian assets (OJSC Polyus Gold, located in Moscow). Environmental data are primarily collected through federal state statistical monitoring forms, which are complemented by internal reporting forms. The forms are aggregated regularly on an ad-hoc, daily, monthly, quarterly or yearly basis, depending on the Group's requirements.

GRI indicators are calculated as specified in the GRI G4 Guidelines, or in accordance with the Group's internal requirements.

All Polyus Gold financial performance indicators are denominated in USD, which is also the currency used in the Group's audited IFRS consolidated financial statements for the year ended 31 December 2014.

Requirements of labour law and specific mining industry conditions define the structure of employment at the Group, which means that male employees are mostly involved in production. Female employees hold positions in service units (administrative services, medical centres, canteens and others). Due to this disproportion, it is unrepresentative to show some statistical data required by the GRI Guideline (e.g. Health and Safety statistics) broken down by gender and such information is not gathered within corporate reporting system.

Report content

In defining the Report content, the Group was guided by the principle for defining report content as stipulated by the GRI Guidelines[28]:

- stakeholder inclusiveness;
- sustainability context;
- materiality; and
- completeness.

The reported information is comparable with that of previous reports and serves as a basis for a comprehensive assessment of sustainability performance. In seeking to fully and objectively reflect its performance, the Group transparently discloses in the Report both its achievements and the challenges that arose during the reporting year.

27. G4-17.
28. G4-18.

In 2014, the Group applied a formal procedure of materiality assessment of information for inclusion in the Report text. The current Report focuses on these issues, identified as material in terms of their impact on the Group's activities and on stakeholder interests and expectations (see section 2.2 'Sustainability approach' on pages 56 to 58).

Material issues may have an impact both within and outside of the Group, affecting the Group's performance as well as the communities where it operates. Particular emphasis was put on managing these issues during the reporting year, as is reflected in this Report. A full list of material aspects covered in this Report is included in the section 2.5 'Materiality assessment' on pages 64 to 65.

Restatements and significant changes
There have been no material changes in the applicable methods for measuring and presenting data[29], or to reporting boundaries in relation to the Group as a whole, except GHG emissions.

The GHG emissions data for 2012–2013 was amended to reflect changes to accounting methodology.

Figures on the purchase and consumption of energy from primary sources for 2013 was restated due to acquisition of more accurate data.

Assurance
The Group engaged a professional firm to provide independent sustainability reporting assurance services over selected indicators, keeping in mind that independent sustainability report assurance enables the entire sustainability reporting process in the Group to be improved. The main objectives pursued by the Group are to increase the quality of reported information (including compliance with the principles of balance, accuracy and reliability as they relate to the presented performance data), satisfy stakeholders' requirements and ascertain the effectiveness of internal processes.

In 2014, a decision was made to take a further step to ensure the credibility of the reports. In addition to limited assurance this Report features reasonable assurance of a number of GRI standard disclosures, in order to increase the transparency and quality of the reporting information. The standard disclosures for which reasonable assurance has been given are indicated in the GRI Content Index on page 89.

More detailed information on the boundaries and the subject of assurance can be found in the section 2.3 'Independent Assurance Statement' on pages 59 to 61.

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

Alexey Fortygin, HSEC Director
Address: 15/1 Tverskoy Boulevard Moscow
E-mail: FortyginAV@polyusgold.com
Tel.:+ 7 (495) 641-33-77

29. G4-22.

2.2 Sustainability approach

Polyus Gold's strategic priority is maximising the business value for the benefit of all stakeholder groups by comprehensively improving all aspects of its activities.

Due to the volatile economic situation and increasing geopolitical uncertainty, the Group concentrates firmly on implementing constant improvements in all aspects of its activities, taking into account the interests of a wide range of stakeholders. The Group is committed to increasing its operational efficiency in line with the principles of sustainable development.

Being aware of its responsibility to investors, employees and communities in the regions where it operates, the Group aspires to be forward-thinking and innovative, acting proactively to meet all the challenges posed by the demanding and turbulent environment in which the Group works.

Having adopted the GRI G4 Guidelines, the Group embarked on a path of substantial internal change. The broad spectrum of GRI G4 requirements for materiality assessment calls for a significant shift in existing internal procedures, including the reporting process.

In 2014, the Group took steps towards a more comprehensive materiality assessment procedure in accordance with GRI G4. In the future the Group will continue to evolve and adapt its processes to meet all requirements and stakeholder expectations. The Group is keen to proactively tackle all the challenges it encounters and to endeavour to meet and exceed its goals.

Since 2012, Polyus Gold has publically communicated the Group's commitment to alignment with the International Council on Mining and Metals (ICMM) Sustainable Development Framework. In 2013 Polyus Gold started the ICMM membership application process. As part of this application for membership, an independent consultant carried out a strategic review of the policies and practices of the Group to analyse and assess the degree of current alignment with ICMM's principles, position statements, reporting and assurance requirements. Polyus Gold also approved the 2015–2016 ICMM Road Map that sets out key actions needed for the coming two years to address cases of Partial Alignment and catalyse Broad Alignment with each element of the ICMM Sustainable Development Framework.

2.2.1 Stakeholder engagement

The Group is embracing international best practice, making stakeholder engagement an inherent part of its processes and fostering a culture of diversity and mutual respect. The Group strives to engage openly and proactively with all its stakeholders.

In its relationships with individuals, legal entities and authorities the Group is guided by its Corporate Code of Ethics. In addition, a Stakeholder Engagement Policy and a Human Rights Policy were developed in the Group in recent years[30].

The Stakeholder Engagement Policy aims to formalise the Group's relations with its stakeholders. As part of any project, the Group consistently identifies project stakeholders and develops engagement strategies that are socially and culturally sensitive and tailored to the needs of each stakeholder group. Through these strategies Polyus Gold informs its stakeholders about the Group's activities, addresses their concerns and expectations, provides appropriate feedback and facilitates collaboration (for more information refer to the Group's website (http://polyusgold.com/sustainability/human_rights_policy/)).

Through the Human Rights Policy the Group is committed to determining and assessing the impact of its operations on human rights, to establishing a confidential grievance mechanism, and monitoring and reporting on the Policy's implementation.

30. G4-25

The Polyus Gold stakeholder engagement approach[31]

Shareholders
- Annual General Meetings
- regular hard-copy and electronic communications
- regular meetings with institutional shareholders
- access vie the Group website www.polyusgold.com

Government and regulators
- supporting and developing the social infrastructure (agreements on social-economic partnerships)
- charity and sponsorship initiative (sport and cultural events)

Employees and contractors
- direct communication with employees through immediate supervisors and management
- operation-based newsletters and general communications
- participation in HSEC performance improvement initiatives at subsidiaries

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

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

NGOs
- regularly interacts with relevant national and international organisations

Media
- press releases, briefings
- presentations and interviews

2.2.2 Supply chain management

As part of its business the Group procures a wide range of materials, consumables and spare parts. This means that in practice the Group is required to deal with many suppliers from various industries and with both local and international vendors.

The majority of the Group's suppliers are located in Russia and adhere to Russian legal requirements, including the Labour Code, which governs labour rights. The Group strives as much as possible to engage and support local suppliers at both national and regional level. In its procurement activities the Group at BU level also takes into account the interests of small- and medium-sized businesses.

Taking into account a specific feature of the Group's business (Polyus Gold's BUs are located in sparsely inhabited remote Siberian regions with poor transport and production infrastructure), it is important to emphasise that not all of the Group's suppliers are based in the regions of its operations. Hence through its procurement system the Group has a considerable impact on the development of a number of different areas – even those where the Group does not have any operations.

The Group currently does not rigorously assess its supply chain against sustainability criteria. However, the Group makes efforts to continuously develop the procurement system and its approach to engaging suppliers, ensuring transparency of the procurement process. Thus one of the most significant achievements in 2014 was to update all procurement documentation. Following this the procurement process is now standardised for material, consumables and spares, as well as for contractor services.

Another change witnessed in the reporting year occurred in relation to supplier assessment factors, the list of which was revised to now include such criteria as price, experience and capabilities, the quality of products and services and reliability of potential suppliers. In case of purchasing specific goods (such as hazardous substances, personal protective equipment, spares and water treatment and gas cleaning equipment) the Health, Safety, Environment and Community (HSEC) department is involved in the procurement process, including at the potential supplier assessment stage.

The Group is considering expanding its supplier assessment procedures to cover environmental performance, labour practices and human rights and social impact and it is also considering introducing auditing of potential suppliers.

31. G4-24, G4-26, G4-27

2.2 Sustainability approach continued

2.2.2 Supply chain management continued

All supplier contracts are scrutinised by Legal Department specialists to ensure compliance with Russian law. When the transportation of hazardous substances is required, the Group engages only licensed providers. In 2014 approximately 9% of all the Group's suppliers were engaged in the transportation of hazardous substances. Potential counterparties are required to complete a questionnaire and to provide charter and other documents, which are also required for anti-money laundering purposes.

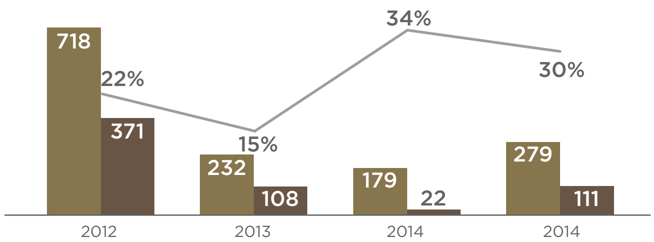
The Group is working actively on the development and implementation of procurement risk management measures. Risk management has become a central element in the Group's new strategy and risk management in the field of procurement and supplier engagement is no exception. Last year's list of risk management measures was introduced only partially in 2014 and will continue to be rolled out next year.

A priority in 2015 will be to increase efficiency in the field of inventory management and logistics. Other key development areas include providing an uninterrupted supply of materials and equipment, and increasing the effectiveness of the supply chain management function at Corporate centre and BU level.

Distribution of suppliers by region

- 18% Moscow
- 29% Krasnoyarsk Territory
- 11% Irkututsk Region
- 4% Sverdlovsk Region
- 5% Novosibirsk
- 5% St. Pertersburg
- 8% Magadan Region
- 20% Other

Local procurements by region (number of local companies and percentage of total spend, 2014)



2.2.3 Commitments to external initiatives

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

- The Russian Union of Gold Producers (a non-profit organisation);
- The Partnership of Russian Mining Operators (a non-profit organisation);
- The Russian Union of Gold Prospectors (a non-profit organisation);
- The Russian Union of Mining Surveyors (a public body);
- Mining Work (a non-profit partnership that promotes the mining industry);
- The Russian Union of Industrialists and Entrepreneurs (an independent non-governmental organisation);
- The State Duma Committee on Natural Resources, Environment and Ecology (a government body);
- The Eurasian Business Council (a non-commercial partnership promoting trade and economic ties);
- The International Council on Mining and Metals (ICMM) (the Group is not yet a member of this organisation, but is in the process of taking measures to achieving full compliance with ICMM requirements); and
- The Group also takes into account the requirements of The International Financial Corporation (IFC) (international financial institution).

2.3 Independent assurance statement

Independent assurance statement by ZAO Deloitte & Touche CIS ('Deloitte') to Polyus Gold International Limited (PGIL) Board of Directors on the 2014 Sustainability Report ('the Report') for the year ended 31 December 2014.

Our conclusions
Based on the scope of our work and the assurance procedures we performed we conclude that:

Limited assurance conclusion:
- nothing has come to our attention that causes us to believe that the selected sustainability performance data, listed under 'limited assurance' below, and compiled as described in PGIL's basis of reporting and presented on pages 84, 85 and 98 are materially misstated.

Reasonable assurance opinion:
- the selected sustainability performance data, listed under 'reasonable assurance' below, and compiled as described in PGIL's basis of reporting and presented on pages 67 to 70, 71 to 76 and 77 to 83 are fairly stated; and
- the Polyus Gold International Limited sustainability reporting at GRI G4 comprehensive level is, in all material respects, fairly stated.

Scope of our work and the assurance standards we used
We have been engaged by the Board of Directors of Polyus Gold International Limited (PGIL) to give assurance procedures on:

Reasonable assurance
- Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity:
  - Number of employees by business unit, region, function, gender and ages group in 2014; and
  - Percentage of employees by business unit, region, function, gender and ages group (%) in 2014.

- Career development:
  - Number of employees trained in 2014;
  - Employees trained as percentage of total headcount (%) in 2014;
  - Average number of hours of training per year per employee by employee category ('Manual workers', 'Office employees') in 2014;
  - Average number of hours of training per year per employee trained in 2014;
  - Percentage of employees included in the corporate talent pool in 2014; and
  - Number of employees by type of trainings taken in 2014 ('Completed initial training', 'Obtained secondary profession', 'Obtained professional development trainings', 'Upgraded skills').

- Fatalities:
  - Number of fatalities in 2014 (employees and contractors).

- Injury rates:
  - Lost Time Injury Frequency Rate (LTIFR) by Business Unit during 2014 (employees, per 200,000 hours worked);
  - Total injury rate (IR) by Business Unit during 2014 (employees, per 200,000 hours worked);
  - Lost-day rate (LDR) by Business Unit during 2014 (employees, per 200,000 hours worked); and
  - Absentee rate (AR) by Business Unit during 2014 (actual absentee days lost due to any reason expressed as a percentage of total days scheduled to be worked by the workforce).

- Occupational health and hygiene:
  - Number of identified and registered case of occupational diseases (OD) in 2014; and
  - Occupational diseases rate (ODR) by Business Unit in 2014 (employees, per 200,000 hours worked).

- Energy/electricity use and climate change:
  - Purchase of primary energy resources in 2014 (tonnes);
  - Consumption of primary energy sources in 2014 (tonnes);
  - Amount of electricity produced and sold in 2014 (Gwh);
  - Amount of heating produced and sold in 2014 (thousand Gcal);
  - Amount of electricity purchased in 2014 (MWh);
  - Amount of heating purchased in 2014 (thousand Gcal); and
  - Energy saved under the conservation and energy efficiency programme in 2014 (kWh per unit by category ('Process optimisation', 'Equipment replacement').

- Greenhouse gas (GHG) emissions:
  - Total GHG emissions in 2014 (tonnes of CO_2-e);
  - Direct emissions (Scope 1) in 2014 (tonnes of CO_2-e); and
  - Indirect emissions (Scope 2) in 2014 (tonnes of CO_2-e).

2.3 Independent assurance statement continued

Scope of our work and the assurance standards we used continued

- Significant air emissions:
  - Carbon dioxide emissions (CO_2) in 2014 (tonnes);
  - Sulphur dioxide emissions (SO2) in 2014 (tonnes);
  - Amount of Nitrogen oxide emissions (NO2) in 2014 (tonnes);
  - Volatile organic compound emissions (VOC) in 2014 (tonnes); and
  - Solid dust emissions (PM2.5 and PM10) in 2014 (tonnes).

- Waste:
  - Total waste (thousands tonnes) in 2014.

- Regulatory compliance:
  - Total monetary value of fines in 2014 ($'000 USD); and
  - Number of non-monetary sanctions for non-compliance with environmental laws and regulations in 2014.

- Water:
  - Total water withdrawal in 2014 (thousand cubic metres);
  - Total water withdrawal by source in 2014, (thousand cubic metres);
  - Total volume of water discharged in 2014 (thousand cubic metres);
  - Percentage of water recycled/reused in 2014 (%);
  - Total water effluents discharged in 2014 (tonnes); and
  - Total volume of water recycled/reused in 2014 (thousand cubic metres).

Limited Assurance

- Employee turnover:
  - Total number and rates of new employee hires in 2014 (rate of new employee hires being calculated as percentage of number of new hires to total headcount); and
  - Employee turnover in 2014 (average number of employees who left PGIL voluntarily)/(average number of employees).

- Employee engagement, motivation and benefits:
  - Standard entry wage compared to local minimum wage by Business Units in 2014 ($); and
  - Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation (%) in 2014.

- Agreements/dialogue with indigenous communities:
  - Number of incidents of violations involving rights of indigenous peoples in 2014;
  - Number of operations taking place in or adjacent to indigenous peoples' territories in 2014;
  - Number of operations or sites where there are formal agreements with indigenous peoples' communities in 2014;
  - Percentage of operations with implemented local community engagement, impact assessments and development programs in 2014;
  - Number of operations with significant actual and potential negative impacts on local communities in 2014; and
  - Number of significant disputes relating to land use, customary rights or local communities and Indigenous Peoples in 2014.

- Sponsorship and charity:
  - Total monetary value of charity and sponsorship in 2014 ($'000 USD).

Assurance in accordance with GRI G4: Using the Global Reporting Initiative G4 Reporting Principles and Standard Disclosures ('the GRI guidelines') in preparing the report – PGIL's has applied the GRI guidelines at a comprehensive level in preparing the report.

We carried out assurance on the selected key performance indicators in accordance with the International Standard on Assurance Engagements 3000 (ISAE3000). To achieve limited assurance the ISAE3000 requires that we review the processes, systems and competencies used to compile the areas on which we provide assurance. It does not include detailed testing of source data or the operating effectiveness of processes and internal controls. To achieve reasonable assurance the ISAE3000 requires that we review the processes, systems and competencies used to compile the areas on which we provide assurance. Considering the risk of material error, we planned and performed our work to obtain all of the information and explanations we considered necessary to provide sufficient evidence to support our assurance conclusion.

Our key assurance procedures

To form our conclusions, we undertook the following procedures:

- interviewing personnel at PGIL's head office including the CR team;
- analysed and reviewed on a non-statistical sample basis the key structures, systems, processes, procedures and controls relating to the collation, aggregation, validation and reporting processes of the selected sustainability performance indicators;
- checking the report against the requirements of GRI G4 comprehensive level;
- reviewing information and reasoning about the Reports' assertions regarding sustainability performance in 2014; and
- reviewing the content of the Report against the findings of the aforementioned procedures and, as necessary, provided recommendations for improvement.

Our key procedures did not include testing, at asset level, of source data for all indicators. Where data relating to prior reporting years has been restated by PGIL no additional work has been undertaken by Deloitte to review the accuracy and completeness of the restated data. No assurance is provided over restated data.

Our independence and competencies in providing assurance to PGIL

- We complied with Deloitte's independence policies, which address and, in certain cases, exceed the requirements of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants in their role as independent auditors and in particular preclude us from taking financial, commercial, governance and ownership positions which might affect, or be perceived to affect, our independence and impartiality and from any involvement in the preparation of the report. We have confirmed to PGIL that we have maintained our independence and objectivity throughout the year and in particular that there were no events or prohibited services provided which could impair our independence and objectivity.
- Our team consisted of a combination of Chartered Accountants with professional assurance qualifications and professionals with a combination of environmental, sustainability and stakeholder engagement experience, including many years experience in providing sustainability report assurance.

Roles and responsibilities

- The Directors are responsible for the preparation of the Sustainability Report and for the information and statements contained within it. They are responsible for determining the sustainability goals, performance and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.
- Our responsibility is to express independently a conclusion on the Sustainability Report as defined within the scope of work above to PGIL in accordance with our letter of engagement. Our work has been undertaken so that we might state to PGIL those matters we are required to state to them in this statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than PGIL for our work, for this statement or for the conclusions we have formed.

Deloitte & Touche

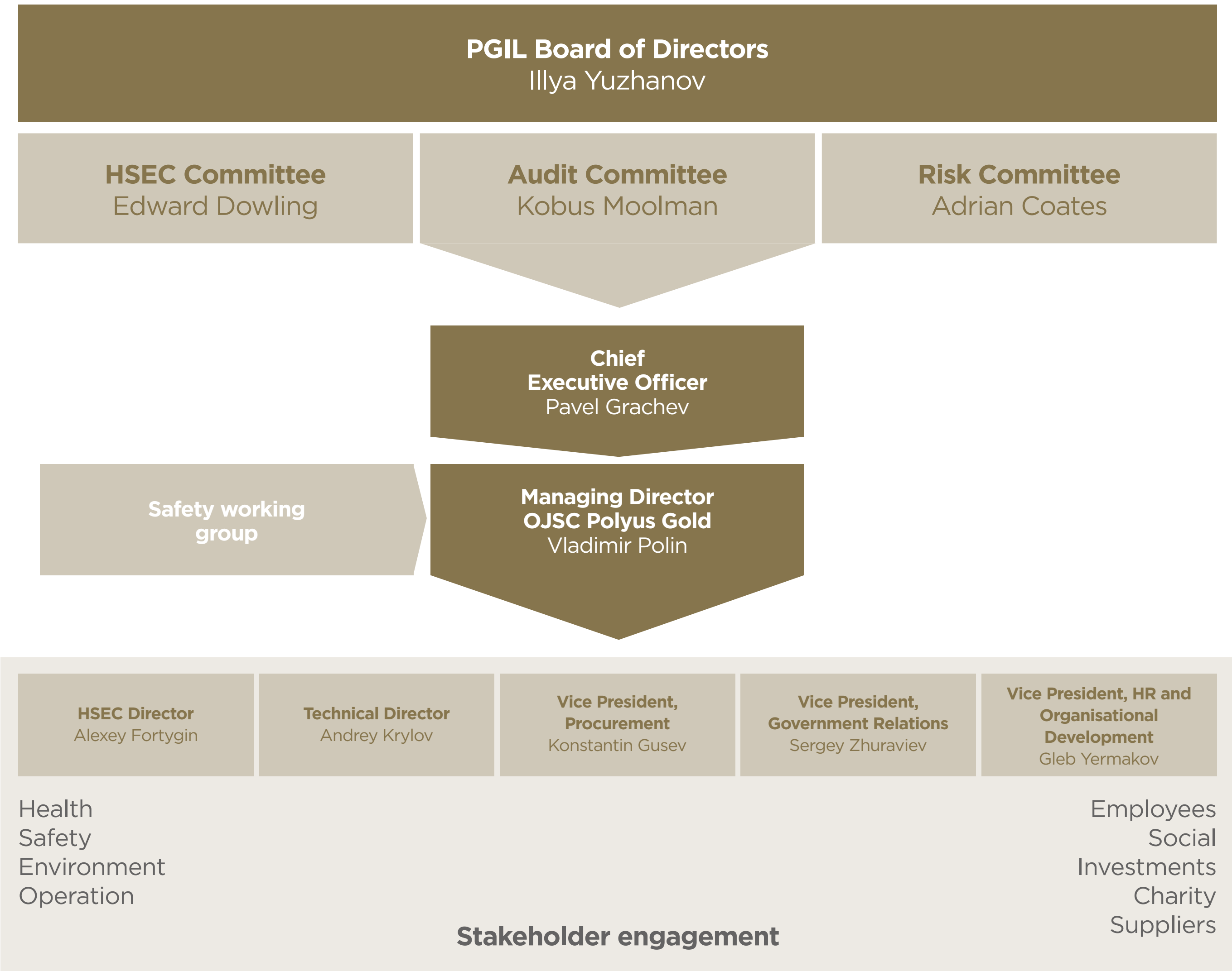
Deloitte & Touche CIS ZAO
Moscow
12 March 2015

2.4 Sustainability governance

Polyus Gold has put in place a sustainability governance system to oversee its sustainability agenda and to ensure its long-term value. The Group continues to implement its principles of sustainability at each stage of its operations. The Group believes that the changes introduced in 2014 will result in improved sustainability management in 2015 and beyond. The diagram below reflects these changes and shows the Group's sustainability governance structure.

ICMM Principles

1: Implement and maintain ethical business practices and sound systems of corporate governance
2: Integrate sustainable development considerations within the corporate decision-making process
4: Implement risk management strategies based on valid data and sound science



The HSEC Committee of the Board has been assisting the Board of Directors since 2011 and plays a key role in integrating sustainability values into the Group's decision-making process and mitigating risks related to health and safety, environment and community. Among other responsibilities, the HSEC Committee tracks environmental targets and objectives across the Group, evaluates the effectiveness of the Group's Health, Safety and Environment (HSE) policies and procedures, ensures that all employees, regardless of position, comply with internal practices and domestic HSE legislation, encourages the development of best practice and analyses management responses to incidents and accidents. The Committee meets at least four times a year and has well-established communication channels with the Board of Directors. The Board discusses and provides input to the sustainability report prior to its publication.

The Chief Operating Officer and the HSEC Director were responsible for developing a monthly HSEC report and presenting it at HSEC Committee meetings. Members of Top Management directly involved in health, safety, environmental and community issues in the Group can be invited by the Committee on a regular basis to clarify and discuss identified risks, respond to Committee requests, elaborate corrective action plans if required and develop communication tools.

The status of environmental targets and objectives across the Group is continuously tracked and presented for discussion on a quarterly basis at HSEC Committee meetings. In addition to corporate-level objectives and targets, which apply across the Group, leadership teams at mining sites and professional services have or are in the process of implementing Health, Safety and Environment Management Systems, and within these develop objectives and targets that are cascaded down from the corporate objectives. In addition, material issues are tackled at each specific site.

The Audit Committee plays an active role in developing and incorporating the best sustainability practices at all Group activity levels. Throughout last year the Polyus Gold management team has worked closely with the Audit Committee on exchanging ideas on sustainability issues, has sought feedback on the Group's Sustainability Report and has developed new best practice policies for the Group. In addition, the Audit Committee took an active part in directing the Group's Sustainability Report in compliance with GRI G4.

The Risk Committee ensures that a robust system is in place for identifying key risks to the business, the materiality and probability of such risks and that a suitably responsible body or individual is in place charged with monitoring, managing and, where applicable, mitigating such risks. The Committee advises the Board on the Group's overall risk appetite, tolerance and strategy, taking into account the current and prospective macroeconomic and financial environment. It also monitors the effectiveness of the Group's internal controls and risk management systems and reviews the adequacy and security of the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Risk Committee reviews the procedures for detecting fraud, the procedures in place for the prevention of bribery and receives reports on non-compliance.

A risk management and internal control system is successfully implemented in the Group. The Group identifies and mitigates financial as well as non-financial risks. Responsibilities for maintaining the risk management system are established in internal policies and other Group's internal regulations.

Environmental, health and safety and social risks are included in the corporate risk matrix. According to the results of implementing mitigating measures, the risk matrix is updated and reviewed on an annual basis. However, the specificity of non-financial risks is such that they go beyond the Group's scope of control.

The risk management process begins at employee level and covers all levels of management within the Group. The HSEC Committee's is directly involved in the management of non-financial risks and works in close cooperation with the Risk Committee and the Audit Committee of the Board of Directors.

Sustainability risks evaluated as being significant are included in an action plan that specifies deadlines and responsible risk managers in each BU and allocates funds for managing identified risks. The Board of Directors on a half-yearly basis reviews the results of risk management activities.

A Safety Working Group was set up in September 2014 to strengthen the health and safety culture across all business units of the Group and to create a robust long-term strategy for the Group's continuous HSE improvement. The Safety Working Group comprises the management of CJSC Polyus, the heads of BUs and has Managing Director Vladimir Polin as Chairman.

For more information, see section 4. 'Corporate governance report' on page 107.

2.5 Materiality assessment

A company such as Polyus Gold is faced with an enormous number of social, environmental and economic issues on which it could report. The Group is interested in continually improving reporting quality and completeness and strives to build transparent and open relationships with its stakeholders. However, to satisfy the different interests and expectations, the Group deliberately included only the material information in the Sustainability Report 2014, which enables the Group to focus on the key risks and opportunities that are most significant to the business.

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

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

STEP 1
Identification
Sustainability
Context

Analysis of open information sources:
- Industry trends and risks
- Peers
- Mass media publications
- Expectations of external stakeholders

Preliminary list of material aspects of industry/regions of operations

STEP 2
Prioritisation
Materiality

Internal interviews:
- 2014 highlights
- The company's reports
- Risk management
- Expectations of internal stakeholders

Updated list of material aspects

STEP 3
Identification
Validation
Completeness

Working Group meeting and presentation to Board of Directors

Agreed list of material aspects to be included in the Report

External stakeholder consultation does not yet form a constant part of the materiality assessment process. Although the Group conducts stakeholder consultations on an ad hoc basis, it does not intend to stand still and plans to further enhance its procedures in this area.

The agreed list of material topics[32] is divided into five focus areas, approximately the same as in the previous report[33], and corresponds to aspects defined in GRI G4 and the Metals and Mining Sector Supplement.

Focus areas	Risks	Page	Material topics	Within the Group[34]	Outside the Group[35]	GRI G4 and MMSS Aspects
Economic performance	Poor quality of products and services. Supply chain delays.	1	Economic performance.	✓	✓	Economic performance.
		115	Anti-corruption.	✓	✓	Anti-corruption.
		57	Supply chain management.	✓	✓	Procurement practices.
Health and safety	Fatalities. Insufficient medical emergency response.	67	Preventing injuries and fatalities. Occupational health. Safety culture.	✓	✓	Occupational health and safety.
Employees	A shortage of qualified specialists. Deterioration in the quality of professional training for the mining industry.	77	Attracting and retaining personnel.	✓	✓	Employment Market presence.
			Employee development and talent pool.	✓		Training and education.
Environment	Cyanide management. A requirement to mitigate the effect of the GHG release. Changes in environmental controls and regulations. Negative health and environmental outcomes to community in the event of environmental accidents. Inadequate water balance. Inaccurate estimates of closure costs; insufficient resources for closure.	71	Minimising environmental impacts.	✓	✓	Energy. Water. Emissions. Effluents and waste. Compliance. Overall. Environmental grievance mechanisms. Closure planning.
Communities	Lack of awareness about the Group's activities among local communities.	84	Social investments.	✓	✓	Indirect economic impacts.
			Focus on students.			Local communities.

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

2.6 An integrated Health, Safety *and* Environment Management system

The Group continues to improve its integrated management system based on ISO 14001 and OHSAS 18001 requirements. An HSE Management System Standard is under development and will be implemented in the forthcoming year to communicate the Group's requirement for having effective and integrated management systems that underpin HSE performance and strive for continuous improvement.

Some of the Group's BUs and sites have implemented Environmental Health and Safety Management Systems in compliance with ISO 14001 and OHSAS 18001. A fully certified ISO 14001 Environmental Management System (EMS) and OHSAS 18001 H&S Management System are in operation on four sites: Olimpiada, Blagodatnoye, Titimukhta and Kuranakh. The Integrated EHS Management System is under development at Verninskoye, with certification scheduled during 2015. At the Alluvial operations there is an existing Industrial Safety Management System that incorporates some EMS elements.

In addition to the above, HSE Management Systems are being developed at the Logistic and Construction professional services. The Group's strategy is to adopt a phased approach, with work commencing in 2015.

The Group conducts HSE Management System Certification Audits as part of the Group's commitment to continuous improvement and certification of existing ISO 14001 and OHSAS 18001 EHS Management Systems.

2.7 Health *and* Safety

The health and safety of the Group's employees is crucial to every facet of the Group's business. Polyus Gold has an established, Group-level commitment to zero fatalities. The Group fully recognises the right of its employees to work in a safe environment and the prevention of occupational diseases and injuries count among its core priorities.

ICMM Principle

5: Seek continual improvement of our health and safety performance

Targets	Status
Zero fatalities	Ongoing
Integrated EHS Management System	Ongoing
Compliance with ICMM health and safety principles	Ongoing
Compliance with the Cyanide Code	To be continued in 2015
Safety culture improvement	2015–2016
Automated medical screening system at all BUs	2015–2016

The Group is fully committed to a continuous improvement across all aspects of its health and safety management system, with a focus on implementing risk-based approaches. The Group continually assesses its workplaces to identify occupational risks and hazards and to ensure that all its facilities and operations are designed to be operated safely and with all appropriate controls in place and in compliance with the international requirements, including the ICMM's. Root-cause analysis is applied to investigate accidents and incidents, establish systemic causes and prevent the recurrence of accidents.

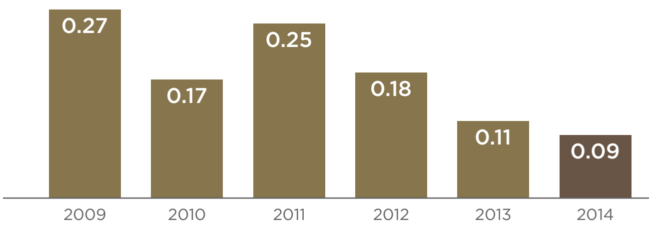
Polyus Gold is working towards a unified integrated health, safety and environment management system at all operating BUs, aligned with established best practice, OHSAS 18001 and ISO 14001. Two of the Group's sites are already OHSAS 18001 certified and two are working towards achieving OHSAS 18001 certification in 2015. The Group's health and safety management framework comprises health and safety standards that meet local regulatory requirements and, in many cases, exceed them.

Polyus Gold continues to build and encourage a culture of safety across the Group so that the Group's vision of zero harm can be achieved. The Group is utilising for this purpose all available experience, the extensive knowledge of its employees, and international health and safety standards. Health and safety best practices are shared across the Group, which comes both from internal experience and from recognised external leaders in providing health and safety solutions.

The Health, Safety, Environment and Community Committee leads the Group's health and safety activities. Its function and responsibilities are described in the 'Sustainability governance' section of this Report.

2.7.1 Injuries and fatalities

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



It is with deep sadness that, despite the Group's strenuous efforts to prevent occupational accidents and the declining LTI rate, the Group has to report four work-related fatalities and five contractor-related fatalities. An employee suffered a fatal fall during the replacement of a light bulb on a wooden pole at the Irkutsk alluvial BU when the pole broke. An employee was fatally injured when falling from the top of a tank, after a gas explosion at the Polyus Logistics acid storage tank (Krasnoyarsk Region). An employee was fatally injured whilst trying to manually start a stalled dozer engine at the Irkutsk Alluvial BU. An employee of the Polyus Logistics (Krasnoyarsk region) died when he was run over by a reversing shift bus.

2.7 Health *and* Safety continued

2.7.1 Injuries and fatalities continued

Polyus Gold is committed to achieving zero work-related fatalities and in the reporting year initiated a number of safety projects to enforce and strengthen the health and safety system across the Group. Polyus Gold is proud to report zero lost-time injuries at its Olimpiada site. The Group has achieved this inspiring result through the consolidation of health and safety best practice and effective partnership with DuPont. This sets an example and a key priority for every Polyus Gold site.

A thorough analysis of the data available since 2012 on work-related injuries, after hour's injuries and medical treatment injuries was performed for each Polyus Gold site to identify major risks and gaps in the BUs HSE management systems. The four most common types of accidents identified across the Group were: slips, trips and falls; traffic accidents; falls form heights; and machinery- and equipment-related incidents. The analysis identified the most vulnerable employee groups (by age and work record) and provided insights into where the greatest health and safety efforts should be channelled.

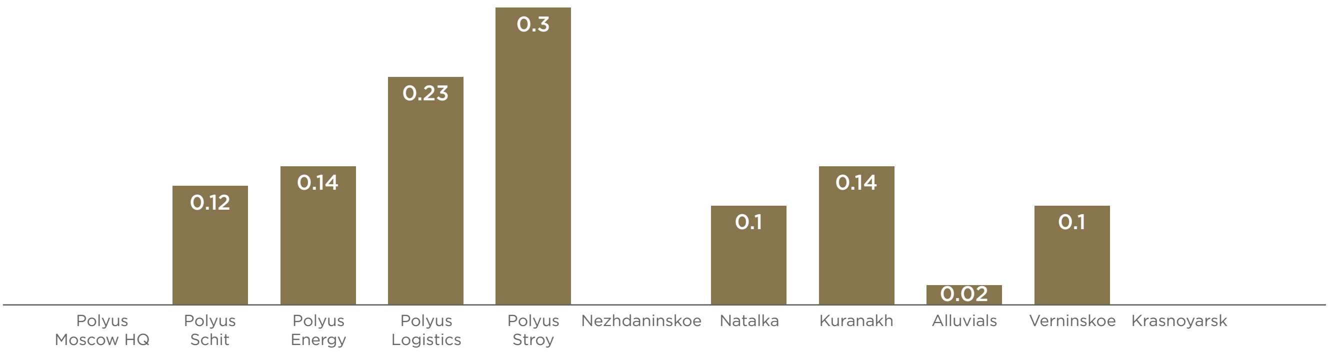
As mentioned above, the Group applies a thorough root-cause analysis to every accident and incident so that effective corrective actions could be taken. In this respect, fault tree analysis (FTA) and detailed inquiry (DI) are employed to establish every possible cause of the accident and to control identified hazards.

Improvements the Group introduced to its health and safety reporting system included ensuring that Top Management are informed of LTIs within 24 hours and of fatalities within two-to-four hours. The Group is committed to full and maximum transparency when it comes to reporting incidents and it strictly follows a number of internal standards and procedures to ensure a rigorous accuracy of reporting.

Progress has been made on compliance with ICMM health and safety principles. A detailed gap analysis by an independent consultant revealed that Polyus Gold is either Partly Aligned or Fully Aligned with ICMM health and safety principles. The Group has developed the Polyus Gold 2015–2016 ICMM Road Map to catalyse broad alignment with each component of the ICMM Sustainable Development Framework.

In the reporting year, the Group worked to strengthen existing contracts and contractor management systems with regard to health and safety in order to fully embed commitment to acceptable health and safety performance and disciplinary procedures. The Group is planning to specifically address contractor safety management as part of its safety culture improvement programme for 2015–2016.

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



2.7.2 Occupational health

In the reporting year, to the Group's deepest regret, seven non-work-related deaths were caused by the deterioration of employees' health, mostly because of cardio-vascular diseases. The Group regards occupational health one of the key directions of its consolidated health and safety efforts and seeks to build an effective system of employees' health protection.

The Group is particularly proud to report advances made in its innovative automated medical screening system. After a successful pilot project, the Group implemented an effective system of automated pre-shift/after-shift and pre-travelling/post-travelling medical checks at its Verninskoe site. At the Krasnoyarsk BU, the Group has been working towards an automated control system that features the detailed screening of employees' health indicators. The system has already diagnosed a number of medical conditions in employees and has thus prevented further health complications. Polyus Gold is planning to expand the scope of the project at other BUs in 2015, with the aim of ensuring timely preventative treatment and raising employee awareness about their health. In implementing the system the Group is very careful to protect the personal data of employees.

In the reporting year, the Group conducted medical screenings at selected BUs in order to identify early risk factors related to cardiovascular diseases. As a result, an extensive preventative programme was launched to address at-risk employees.

The Group seeks to positively influence employee attitudes towards their health and provides appropriate opportunities in this respect. In 2014 a number of wellness programmes were launched and new fitness centres were opened, in addition to existing sports and leisure facilities. The Group also introduced a number of health awareness programmes.

2.7.3 Safety culture

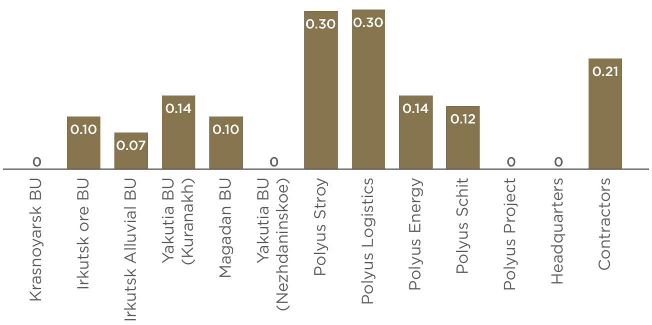
The Group places emphasis on its safety culture activities due to deep understanding that sustainable success in health and safety performance can be achieved only under the conditions of the robust health and safety culture in place across the Group. In the reporting year, there was a high rate of off-job-injuries, which is an additional piece of evidence that the Group should strive to improve health and safety culture of its employees applicable for both at and off work.

In partnership with DuPont, the Group is planning a two-year safety culture programme with a focus on behaviour-based audits, risk assessment, root-cause analysis and an integrated safety management structure. At the Olimpiada mine in-depth two-week workshop sessions for management and employees were held, including Courageous Safety Leadership Trainings and a two-day at-risk behaviour audit workshop. In the reporting year, pilot at-risk behaviour audits are being implemented at the Krasnoyarsk BU.

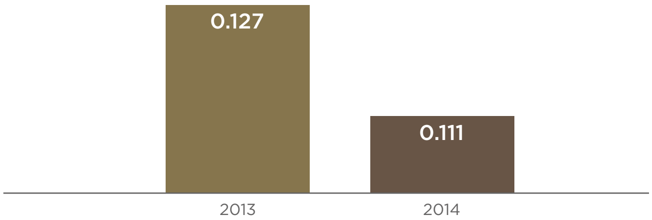
A Safety Working Group was set up in September 2014 (see the section 2.4 Sustainability governance on pages 62 and 63) and Polyus Gold is planning to organise health and safety committees at each BU and for Professional Services of the Group in order to facilitate the implementation of the Polyus Gold safety culture across the entire Group.

2.7.4 Performance result

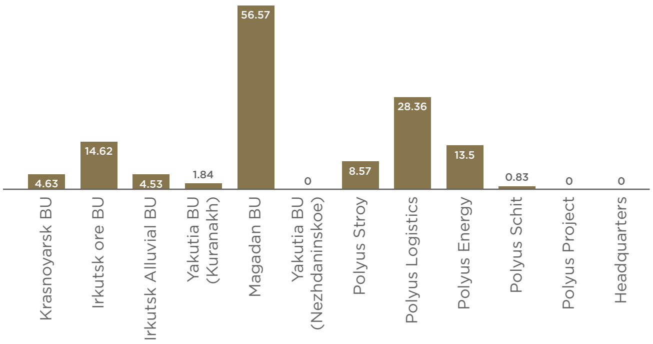
Injury rate per 200,000 hours worked
(fatalities included; near misses excluded)



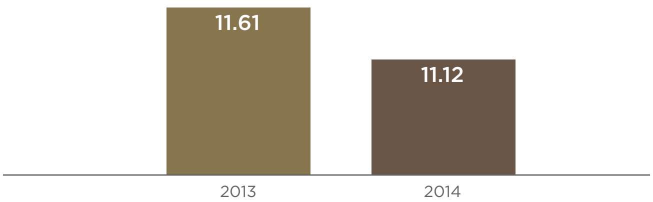
Injury rate (Group)
(per 200,000 hours worked)



Lost-day rate (LDR) by BU, 2014
(per 200,000 hours worked)



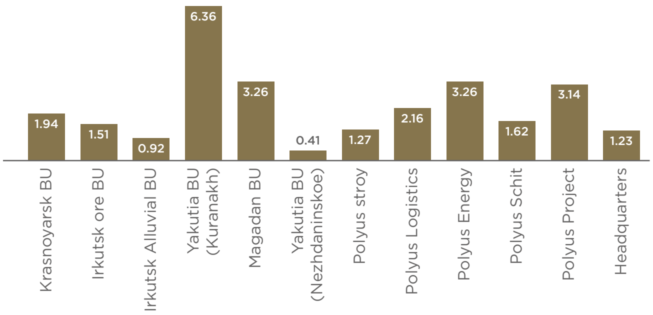
Lost-day rate (Group)
(per 200,000 hours worked)



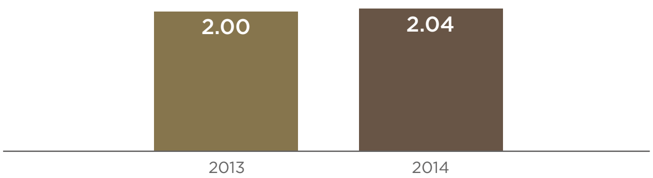
2.7 Health *and* Safety continued

2.7.4 Performance result continued

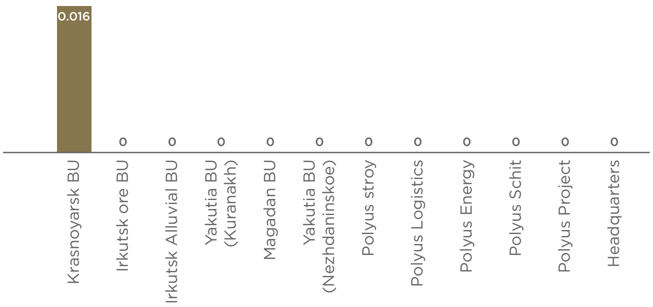
Absentee rate (AR) by BU, 2014, %



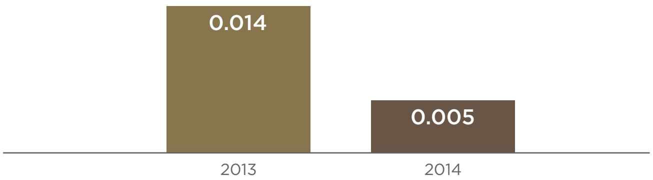
Absentee rate (Group), 2013–2014, %



Occupational diseases rate (ODR) by BU, 2014, (per 200,000 hours worked)



Occupational diseases rate (Group), 2013–2014, (per 200,000 hours worked)



2.8 Environmental stewardship

The Group strives to use natural resources sustainably in order to ensure current and future needs are met. The Group is committed to continuous improvement in this area and aims to reduce the environmental impact of its activities while, at the same time, being more efficient and cost-effective.

ICMM Principle

6: Seek continual improvement of our environmental performance
7: Contribute to conservation of biodiversity and integrated approaches to land use planning
8: Facilitate and encourage responsible product design, use, re-use, recycling and disposal of our products

The Group is one of the largest industrial companies in each of the areas in which it operates. The Group combines economic and environmental interests in order to minimise both relevant consumption rates and the environmental impact of its operations and comply with the industry best practices and requirements.

Environmental issues are governed by the Health, Safety, Environment and Community Committee of the Board of Directors, environmental personnel and a number of working groups on sites.

In its environmental performance the Group relies on highly qualified and experienced personnel. The Group organises environmental trainings for managers and specialists in order to meet Russian law requirements and to raise awareness among staff. The Group implemented training for environmental engineers in 2014 and plans to continue with various environmental training programmes in 2015.

The majority of the Group's mining sites and professional services have established Environmental Management Systems (EMSs). Krasnoyarsk and Yakutia Kuranakh BUs are ISO 14001 certified and the Group is working towards implementing ISO 14001 certified EMSs at all mining sites by the end of 2015. At project and early exploration sites the Group typically relies on the EMSs of contractors, who lead the day-to-day activities at these sites. A review of contracts is planned in the near future to improve and strengthen the current approach and to ensure that the Group's requirements are fully integrated and met.

The Group strives to ensure compliance with ICMM principles on environmental policies, standards and performance. The Group audits existing closure plans for currently operational mines and updates those plans where necessary to ensure full compliance with Russian legislation and ICMM guidelines.

The Group realises the importance of tackling climate change and endeavours to properly measure and reduce GHG emissions. In 2014 the Group issued an internal Greenhouse Gases Policy and plans to implement it in 2015 in order to set and review GHG objectives and targets. To reduce GHG emissions the Group strives to minimise the use of fossil fuels, to improve production efficiency and to enhance ventilation and gas cleaning systems on sites.

The Group pays special attention to air quality at its sites. An independent consultant was retained to conduct a preliminary assessment of ventilation systems and to develop a work plan for subsequent inspection of ventilation systems at Olimpiada processing facilities. The Group has launched a ventilation and gas cleaning pilot project at its Olimpiada mine, which is improving the quality of air on site.

Water treatment remains a priority issue for the Group. The Group plans to conduct a water balance assessment at each BU and is in the process of developing water management and water balance plans for the Olimpiada and Verninskoye mines and updating the existing plan for Natalka. Currently the Group plans to implement an integrated detoxification system that can treat heavy metals, different types of cyanide, sulphates, conductivity, turbidity and other types of contaminants at the Olimpiada mine.

The Group is constantly working on installing an efficient cyanide management system at all BUs in accordance with requirements of Cyanide Management Code. This work includes continuous improvement of the cyanide neutralisation facilities, ensuring that all necessary safety precautions are made in cyanide storage and transportation and engagement of compliant cyanide producers. The Group focuses on tailings management to optimise related activities and enhance safety. The Group applies tripartite supervision: designer's inspection, HSE control and internal audit. Measures are also being implemented based on the results of studies into Acid Rock Drainage and Metal Leaching (ARDML).

Through regulation the Group is required to have a closure plan for each mine and to allocate a budget for site rehabilitation in the event of a mine closure. The Group continues to establish and update closure plans for all mines in accordance with Russian legislation and ICMM guidelines and conducted a closure workshop in December 2014.

The Group initiated an analysis of the best available technologies in the mining industry and their application at the Group's operations and plans to continue this analysis in 2015.

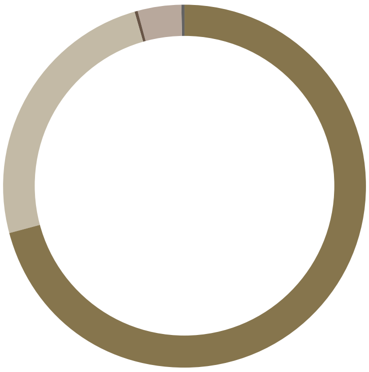
2.8 Environmental stewardship continued

The Group conducts environmental impact assessment of waste disposal sites and performs public hearings to present such assessment's results as well as overall status of operating sites.

The Group is aware that environmental reporting is an essential component of managing environmental performance. A recently developed corporate environmental incident reporting standard, which includes root-cause analysis procedures, is now to be implemented at each BU. The standard should raise environmental awareness across the Group and help prevent potential incidents occurring in the future.

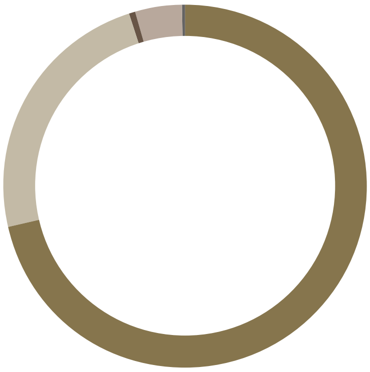
Performance results
Energy

Purchase of primary energy resources in 2014, tonnes



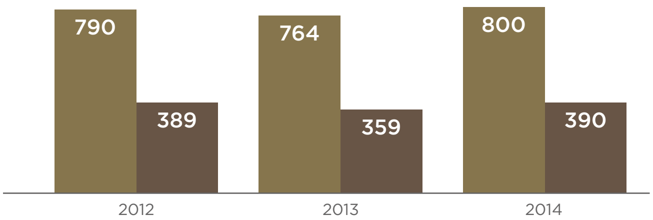
- 530,270 Coal
- 183,954 Diesel
- 2,722 Gasoline
- 28,885 Oil
- 187 Other

Consumption of primary energy sources in 2014, tonnes



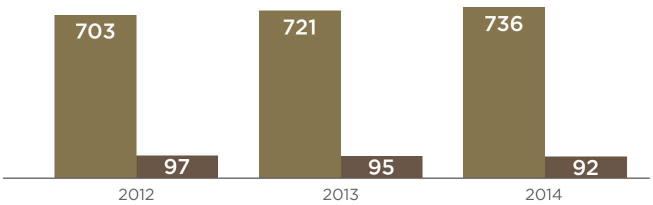
- 518,961 Coal
- 172,480 Diesel
- 2,315 Gasoline
- 31,932 Oil
- 334 Other

Amount of electricity produced and sold, 2012–2014, GWh



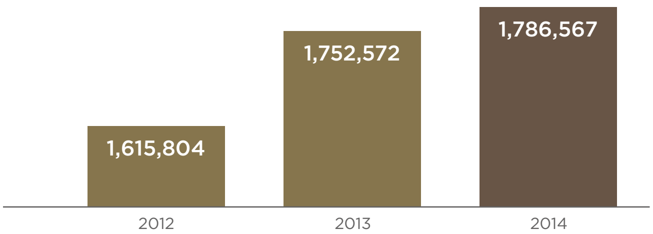
- Amount of electricity produced
- Amount of electricity sold

Amount of heating produced and sold, 2012–2014, thousand Gcal

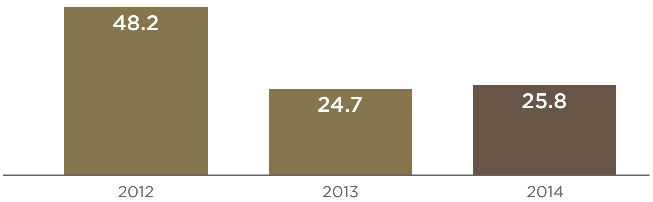


- Amount of heating produced
- Amount of heating sold

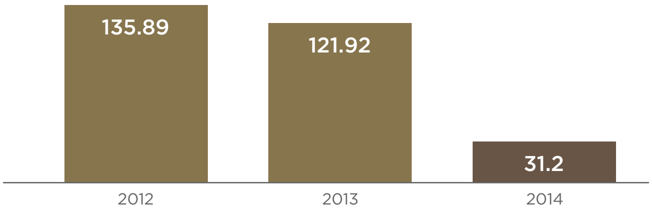
Amount of electricity purchased, 2012–2014, MWh



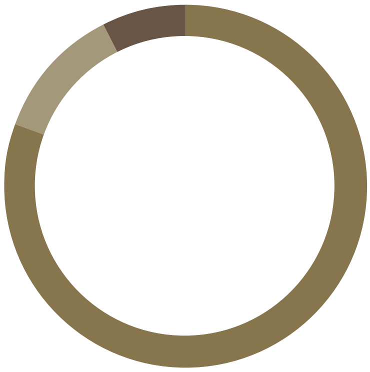
Amount of heating purchased, 2012–2014, thousand Gcal



Total energy saved due to conservation and efficiency improvements, 2012–2014, kWh per unit



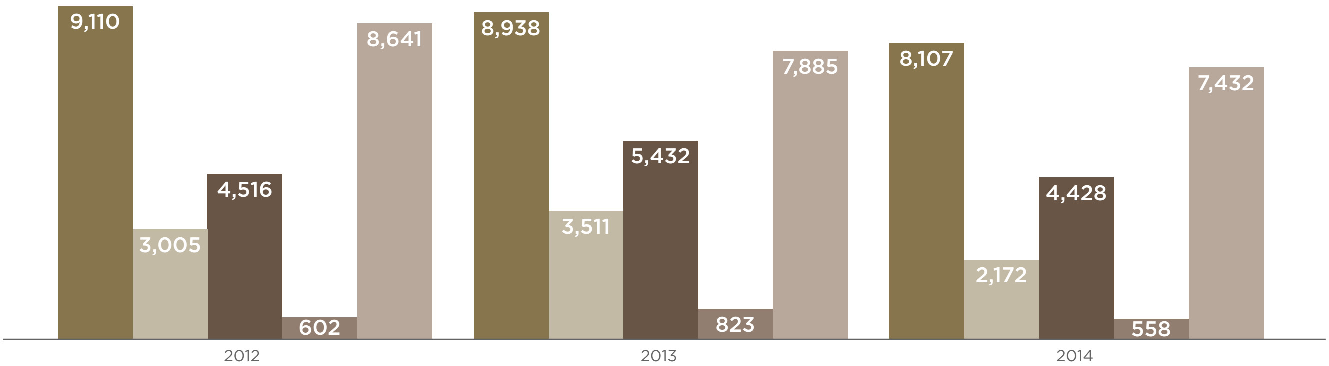
Energy saved under the conservation and energy efficiency programme in 2014, kWh per unit



- 25.3 Process optimisation
- 3.7 Equipment replacement
- 2.3 Other measures

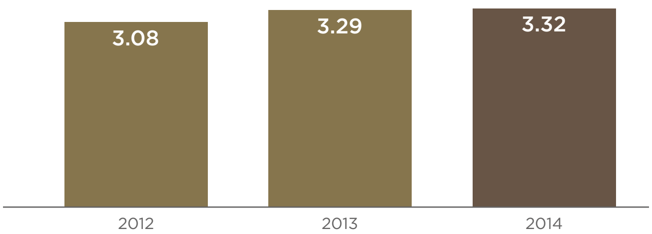
Air emissions and climate change

Significant air emissions 2012–2014, tonnes

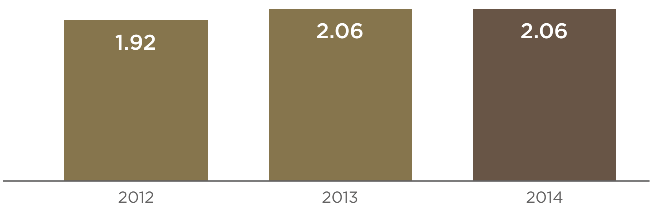


Carbon dioxide, CO_2 · Sulfur dioxide, SO2 · Amount of nitrogen oxides like nitrogen dioxide (NO2) · Volatile organic compounds (VOCs) · Solids (dust emissions)

Total GHG emissions (CO_2-e) 2012–2014, million tonnes[34]



Direct GHG emissions (CO_2-e) 2012–2014, million tonnes[34]

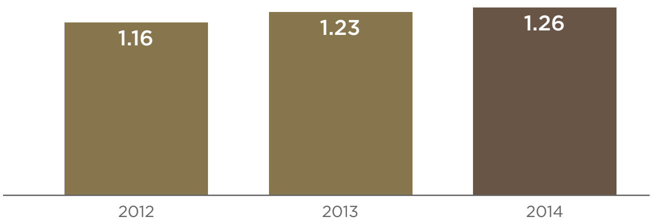


34. The data for 2012–2013 were amended to reflect changes to accounting methodology.

2.8 Environmental stewardship continued

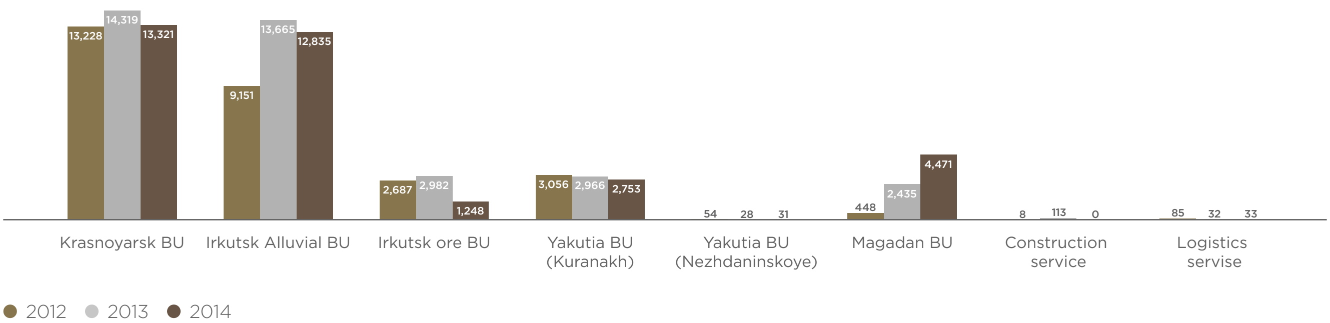
Air emissions and climate change continued

Indirect GHG emissions (CO_2-e) 2012–2014, million tonnes[36]

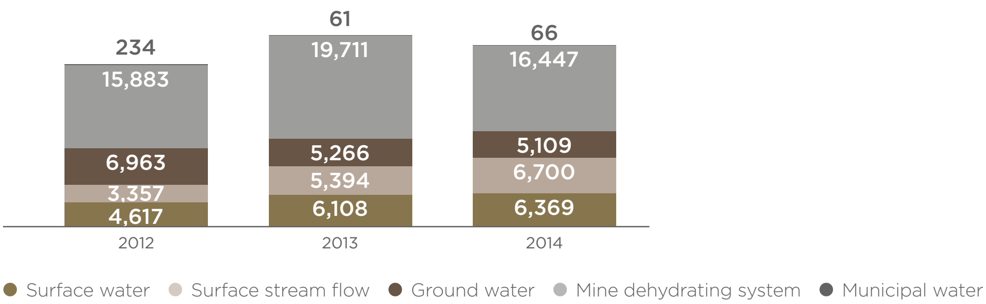


Water

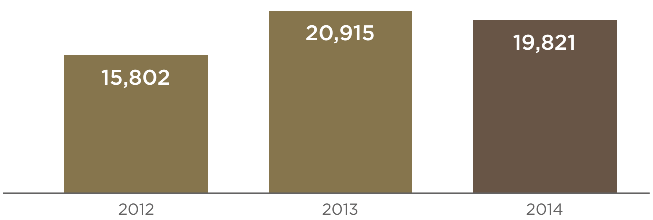
Total water withdrawal in 2012–2014, thousand cubic metres



Total water withdrawal by source in 2012–2014, thousand cubic metres

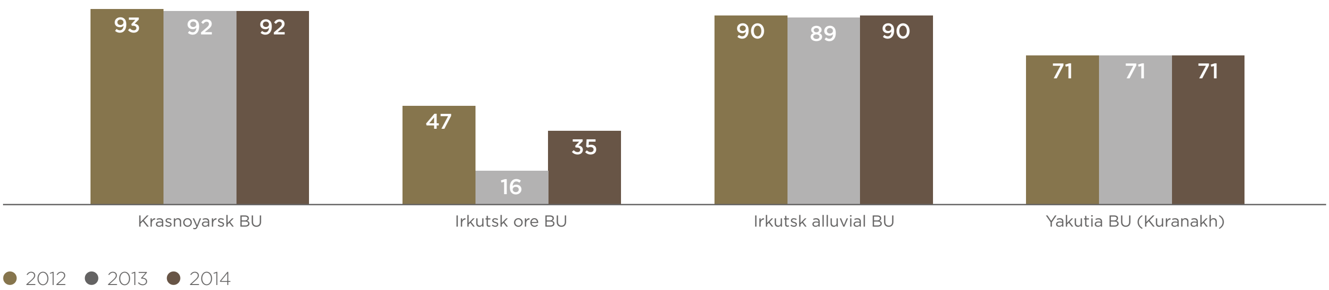


Total volume of water discharged, 2012–2014, thousand cubic metres

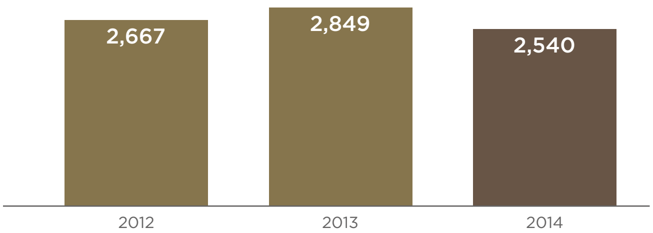


36. The data for 2012–2013 were amended to reflect changes to accounting methodology.

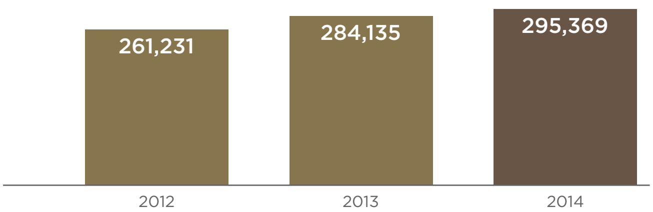
Percentage of water recycled/reused, 2012–2014, %



Total water effluents discharged, 2012–2014, tonnes

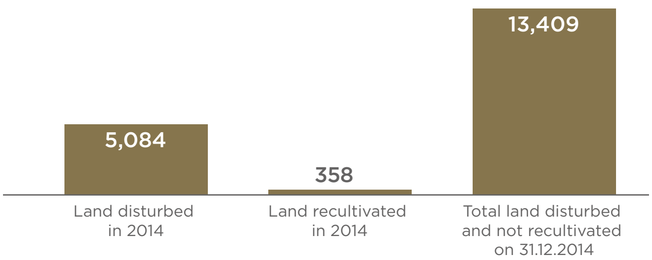


Total volume of water recycled/reused, 2012–2014, thousand cubic metres



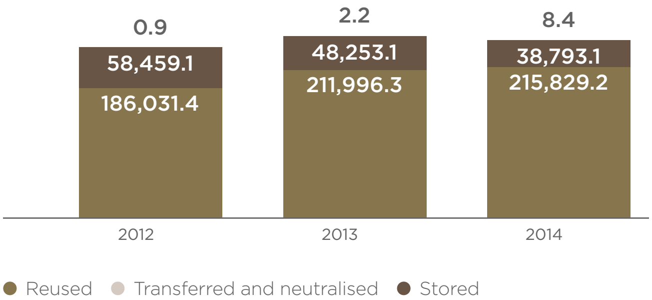
Land resources

Total land disturbed and recultivated in 2014, hectares

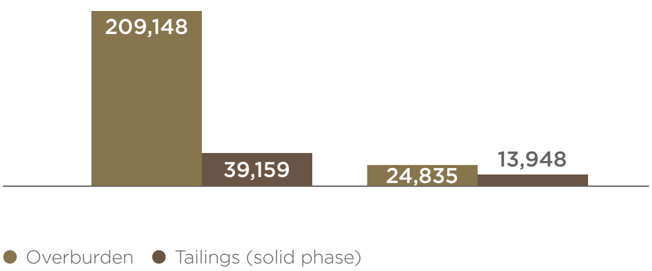


Waste

Total waste in 2012–2014, thousand tonnes



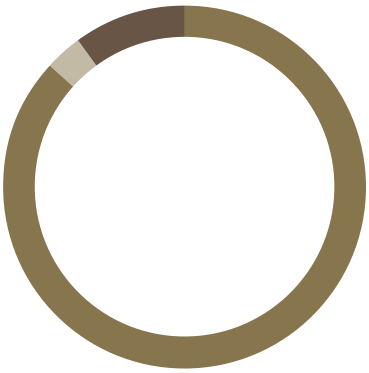
Waste generated, 2014, tonnes



2.8 Environmental stewardship continued

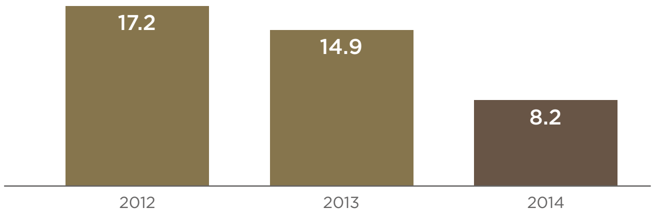
Environmental protection expenditures

Total environmental protection expenditures in 2014, $ thousand

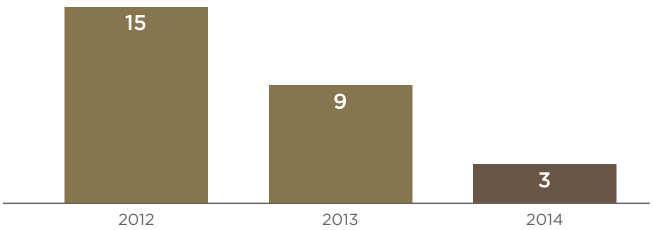


- 41,036.6 Current Expenditure on Nature Protection
- 1,628.6 Ecological and Natural Resource Payments
- 4,637.5 Capital Investments for Environmental Protection and Rational Use of Natural Resources

Total monetary value of the fines in 2012–2014, $ thousand



Number of non-monetary sanctions for non-compliance with environmental laws and regulations, 2012–2014



2.9 Employees

People are the most fundamental component of the Group's success. Throughout the wide geography of the Group's business, we always strive to encourage our people in their career and professional development and to provide them with healthy and safe working conditions.

ICMM Principle

3: Uphold fundamental human rights and respect cultures, customs and values in dealings with employees and others who are affected by our activities

Targets	Status
Develop a HR strategy as part of the Group-wide Strategy 2020	2015
Promote the Group in the labour market so as to attract the best specialists	Ongoing
Improving the availability and accessibility of employee trainings by developing e-learning opportunities	2015
Enhance current recruitment systems with enhanced communications strategy	2015
Unify existing remuneration and motivation systems across BUs	2015
Unify, streamline and strengthen current organisational structures	2015
Develop and implement a new programme on improving social conditions and leisure opportunities based on the results of the Employee satisfaction survey 2014	2015-2016

In 2014 the average headcount of the Group totalled 19,080 employees. In order to continue to operate successfully and to generate stable cash flows, the Group invests significant efforts in attracting, retaining and developing personnel. The Group strives to be an employer of choice, through fair treatment of its employees, proactive management of health and safety and supporting people development in line with the ICMM principles and other best practices. The Group is committed to protecting worker rights and has established HR policies and practices which fulfil or exceed Russian legal requirements and good practice in the sector.

The Group's activities in the field of human resources management are defined by a corporate approach, which focuses on four areas:

- creating safe workplace conditions;
- training staff to identify and eliminate hazards at work;
- motivating the Group's specialists to grow professionally; and
- continuously improving social conditions at all BUs and engaging with local communities.

Corporate labour practices are based on principles of sustainable development, which are supported by relevant internal policies and acts. The principles of policies include creation of equal opportunities for employee development, stimulation of employee performance, growth living standards improvement and support of collaborative and responsible employer/employee relations.

By acting in such a manner the Group furnishes itself with a highly qualified and socially stable workforce, which is a prerequisite for successfully implementing current and future projects of all levels of complexity.

2.9.1 Attracting and retaining personnel

As the Group operates in remote regions with harsh climates, the importance of attracting and retaining highly skilled professionals cannot be overestimated. The Group acknowledges its responsibility towards its people, and strives to do its utmost to provide them with attractive work and life opportunities.

In terms of changing the Group's strategic focus to increasing operating efficiency, this work becomes even more important, since it provides considerable opportunities for reducing operational costs. Building an effective Human Resources (HR) strategy for all BUs is one of the goals of the Group's long-term HR strategy 2020 as part of the Group-wide Strategy 2020.

As in previous years, recruiting talented specialists and promoting Polyus Gold as one of the most attractive employers to work for remained a key objective of the Group's HR management in 2014. In line with these goals, the Group concentrated its efforts on two major areas: developing motivation schemes across all BUs and improving working and social/recreational conditions.

2.9 Employees continued

2.9.1 Attracting and retaining personnel continued

Motivation

In recent years the development of motivation schemes across the Group has been an important aspect of HR management. Staff motivation combines both financial and non-financial incentives, and each group of incentives includes a wide spectrum of measures aimed at creating a comfortable and attractive workspace for each employee in the Group.

In line with the new strategic focus on increasing operating efficiency, Polyus Gold today places great emphasis on improving its non-financial incentives scheme. The Group believes that developing this element will make a positive impact on staff motivation without necessitating a significant cost increase.

Through the lead of top-management, HR specialists did much to improve the Group's motivation schemes in 2014. In particular, a range of both functional and individual KPIs linked to remuneration was established for employees of the corporate centre, and the KPIs of BU key personnel were significantly revised.

Another more traditional method of staff motivation was used by the Group in 2014 – holding professional competitions among employees within BUs. Such events allow the most talented and highly skilled specialists working in a variety of operational processes to be identified and recognised appropriately.

Working and social conditions

In accordance with Polyus Gold's Social standard, the Group implements measures to continuously provide decent working, social and living conditions for its personnel.

A programme on improving social conditions and leisure opportunities of the Group's employees was conducted in 2013–2014, aimed at increasing staff motivation across the Group. According to an employee satisfaction survey[37] held in the first half of 2014, the main result of the programme was a clear increase in personnel satisfaction with working and social conditions in almost all BUs (the Magadan BU was an exception). As part of this programme the Group implemented innovations in social infrastructure, including utility rooms, gyms, recreation rooms and canteens.

The employee satisfaction survey also allowed the Group to identify areas of development for future periods, including:

- the workplace attitude in the Group;
- workplace safety;
- transport services;
- catering quality;
- working conditions;
- social and living conditions; and
- organisation of leisure time.

Key results from the survey were presented to the top management of the Group, who indicated that the implementation of such programmes should be continued across all BUs.

With regard to the leisure time of employees, it is very important for Polyus Gold to encourage workers to take part in regular exercise and sports. With this in mind, the Group pays great attention to developing a sporting culture in all BUs. The Group holds various sports events each year in which the Group's personnel take part.

In 2014 the Second Corporate Sports Festival was held in the Krasnoyarsk BU, bringing together 12 teams – eight from BUs and four from universities in Krasnoyarsk. Participants competed in six sports over three days and demonstrated superb skills, outstanding team spirit and a strong desire to win.

Next steps

In the future the Group plans to continue to implement improvements in HR management. One of the priority goals in this area will be to further develop the staff motivation and grading schemes, both in the corporate centre and at BUs.

At the same time, another employee satisfaction survey, to monitor personnel satisfaction with working conditions and social programmes, will be launched in 2015 to serve as a basis for further measures on improving social conditions and leisure opportunities.

Other HR department goals include performing measures to improve and standardise existing recruitment procedures within the Group.

37. The survey was conducted at six major BUs and covered 2,700 employees. HR specialists evaluated eight different criteria under the survey using a five-point grading scale and compared these with the results of the employee satisfaction survey held in 2012.

2.9.2 Employee development and maintaining the talent pool

To maintain its competitive advantage in the current challenging economic environment, the Group strongly supports and encourages the professional development of employees through providing various training and other continued-education and career-development opportunities. Furthermore, in order to timeously identify and develop talented specialists, the Group has created a talent pool of staff, whose members will in the future occupy key managerial positions.

Professional development

In order to provide relevant career development for its personnel, the Group continues to invest in various educational activities.

The Group engages actively with a number of certified educational service providers; for example, in 2014, it conducted an educational course for over 150 Logistics service employees, through the federal institution The Kanskiy Professional Development and Skills Training Centre. All programme participants received a certificate upon successfully completing the course, as well as an ADR[38] certificate giving them the right to transport dangerous goods.

In order to improve the availability and accessibility of employee trainings, the Group has continued to make use of e-learning solutions.

The Group undertakes to provide professional retraining for workers that have been made redundant, with view to helping them secure other employment.

In 2014 training centres, established at all the Group's core BUs, including the Krasnoyarsk BU, the Irkutsk BU (ore unit) and the Yakutia BU (Kuranakh) effectively provided a wide range of professional training programmes for BU personnel, as well as for the Group's Professional Services operations and contractors.

The most significant evidence of the Group's successful work in personnel development is the government, industry and corporate awards handed out to our outstanding employees. In 2014 the employees of 12 BUs received departmental awards from the Ministry of Industry and Trade for making significant personal contributions to developing the industry and for their long and diligent service.

Talent pool

The Group takes the professional development of its employees very seriously. Developing the corporate talent pool also allows the Group to facilitate the managerial succession process and to minimise the induction period for new managers. The number of employees in the talent pool in 2014 totalled 436 and out of these 15% were assigned to other positions, including in other Group BUs.

A strategic session of the talent pool of the Group's Top Management was held in Krasnoyarsk in autumn 2014. The subject of the session was "Improving the operational efficiency of the Group's BUs" and 27 employees from across all BUs attended.

The session pursued a number of basic goals. One was to help young managers gain new knowledge and experience in implementing initiatives to improve operational efficiency. The Group's management was also able to engage with and ascertain the managerial potential of participants. Other tasks included familiarising the audience with a pilot project entitled 'Total Production Optimisation', which is currently being rolled out at the Krasnoyarsk BU.

Next steps

In terms of the future, the Group plans to further develop its e-learning system through increasing the number of courses available for its employees. In 2015 the training centres will continue to play a key role in supporting employees' professional development. More information on recruitment policy, career development, the Group's talent pool and other HR issues can be found:

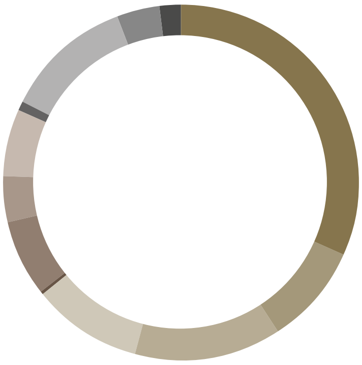
- At our website: www.rabota.polyusgold.com
- In the previous annual and sustainability reports of Polyus Gold (2011–2013) (http://polyusgold.com/investors/reports/annual_reports/)

38. Agreement on Dangerous Goods by Road.

2.9 Employees continued

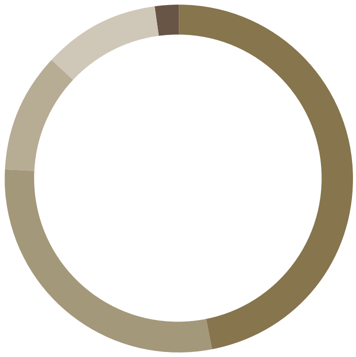
2.9.3 Performance results

Employees by BU, (2014, %)



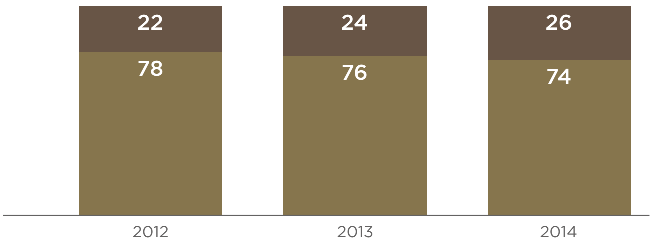
- 31.8% Krasnoyarsk BU
- 13.4% Irkutsk Alluvial BU
- 0.4% Yakutia BU (Nezhdaninskoye)
- 6.9% Magadan BU
- 6.0% Construction service
- 11.9% Logistic service
- 1.9% Corporate Headquarters
- 9.1% Irkutsk ore BU
- 10.0% Yakutia BU (Kuranakh)
- 4.2% Security service
- 0.8% Engineering service
- 3.7% Energy service

Employees by region, (2014, %)



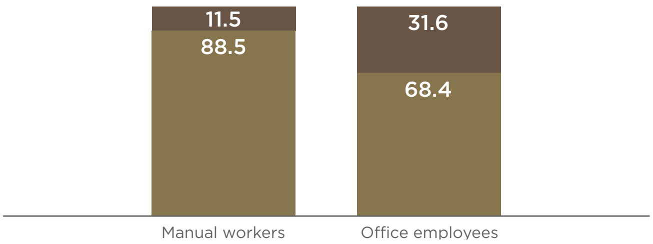
- 47% Krasnoyarsk Region
- 29% Irkutsk Region
- 11% The Sakha Republic (Yakutia)
- 11% Magadan Region
- 2% Moscow

Employees by function, (2012–2014, %)



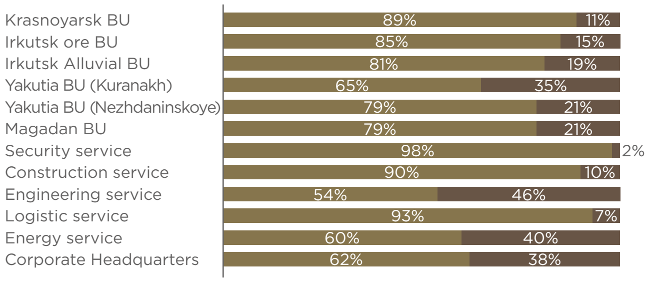
- Manual workers
- Office employees

Employees by gender and function (2014), (2014, %)



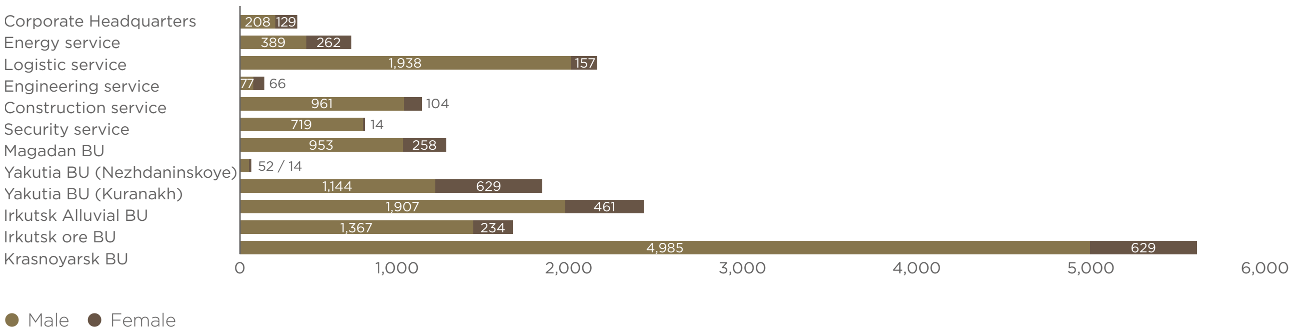
- Male
- Female

Employees by gender and BU (2014), (2014, %)

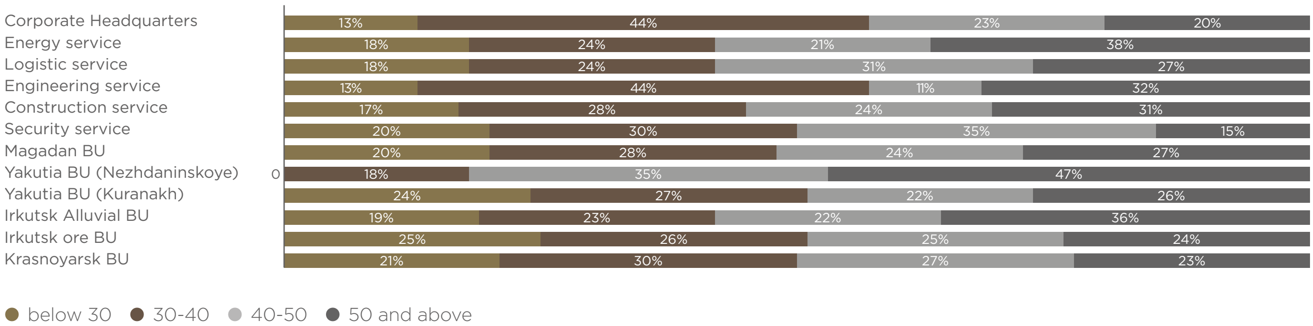


- Male, %
- Female, %

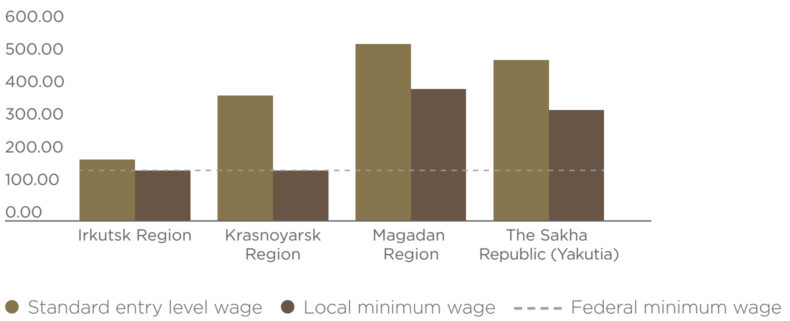
Employees by gender and BU (2014), (2014, %)



Employees by age group and BU, (2014, %)



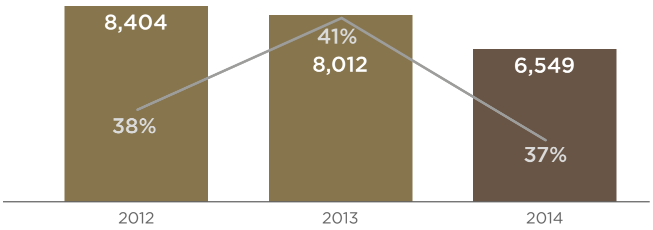
Standard entry wage compared to local minimum wage by BU, (2014, USD)



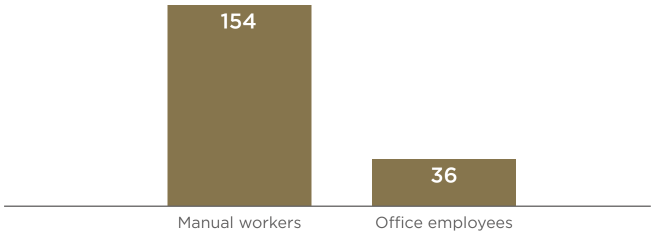
2.9 Employees continued

2.9.3 Performance results continued

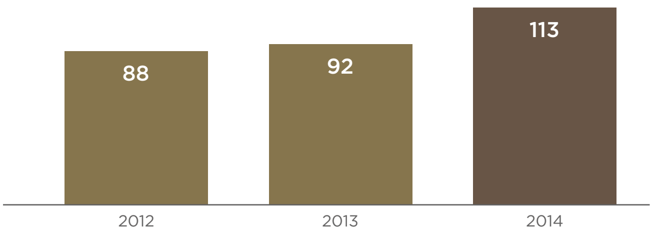
Number of employees trained, (2012–2014)



Average number of hours of training per year per employee by employee category, (2014)

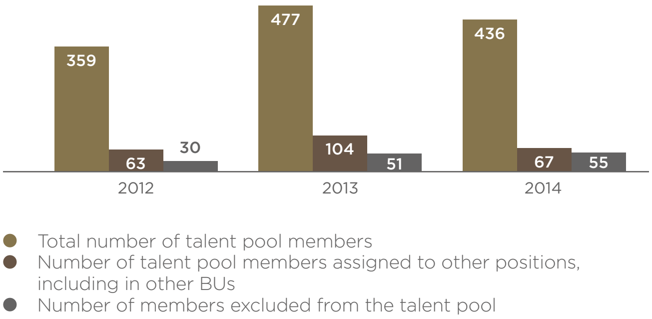


Average number of hours of training per year per employee trained, (2012–2014)

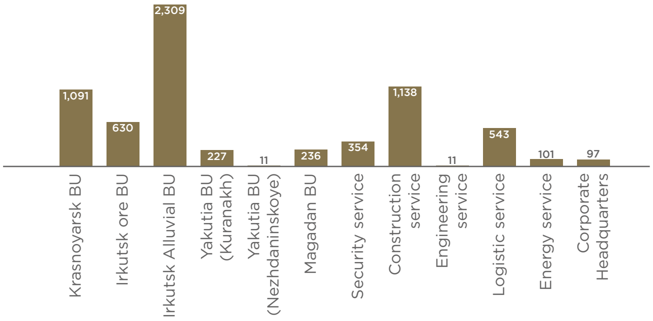


Employees by type of training undertaken, (2014)

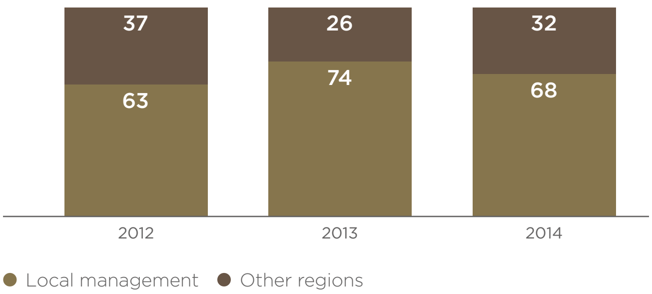
Talent pool, (2012–2014)



Employees hired in the reporting year, (2014)



Percentage of local management, (2012–2014, %)



2.10 Communities

Understanding the impacts the Group's activities have on local communities and its overall influence on the regions where it operates, the Group continues to work on improving engagement mechanisms with stakeholders and always seeks opportunities to contribute to local development and establish partnerships with governments and non-governmental organisations.

ICMM Principle

9: Contribute to the social, economic and institutional development of the communities in which we operate

Targets	Status
Continue its support of the regions where it operates	Ongoing
Systematise and unify the charity and sponsorship activities, update relevant policies and procedures	2015
Strengthen the corporate framework of community policies through implementation of the Stakeholder Engagement Policy and Human Rights Policy	Ongoing
Carry out Community Development workshops at each BU to catalyse development of corporate Community Investment and Development Policy and Community Development Plans for each BU	2015
Implement corporate Stakeholder Engagement Policy and enhance stakeholder engagement practices in order to ensure full alignment with ICMM Sustainable Development Framework	2015
Identify necessary resources and appoint personal to ensure policies implementation (if required)	2015–2016

All the Group's operations are located in rural, climatically harsh and remote areas; therefore some of the Group's key stakeholders are local and indigenous communities. Specifically, Polyus Gold engages with local and indigenous communities through:

- their participation in the Group's activities;
- newsletters and targeted communications; and
- public hearings and meetings.

In 2014 the Group used environmental impact assessment public consultations as a method of raising public awareness and ascertaining local authorities and communities' expectations and concerns. In total, five lengthy and comprehensive public hearings were held by the Group (in the Krasnoyarsk, Irkutsk and Magadan Regions).

Stakeholder engagement and community development activities are regulated by corporate policies – the Stakeholder Engagement Policy and Human Rights Policy approved by the Board of Directors. For various reasons, both internal and external, the development and introduction of the Community Development Policy has been postponed until 2015.

The Government Relations Department is responsible for the majority of charity and community development functions, with the exception of cooperation with educational institutions, which is managed by HR. The Public Relations Department manages sponsorship projects. The basis for the Group's charitable and community relations activities in its regions of operation is set forth in agreements on socio-economic cooperation with local authorities.

The Group is able to influence the economies of regions where it operates both directly and indirectly. The Group exerts a direct influence through cash flows between the Group and its stakeholders (including payments to suppliers), tax payments, charitable and sponsorship contributions and social investments (for example, infrastructure development). No less important is the creation of highly paid workplaces by the Group.

The Group's activities contribute to the budgets of the regions in which it operates, thus contributing to the financing of housing and public utilities, road building, medical services, and other social infrastructure.

The Group's indirect impact on the social and economic environment at BU level includes taking into account the interests of small- and medium-sized businesses.

This in practice translates into the creation of jobs and more income and tax payments, which increases the ability of local authorities and communities to implement social programmes.

2.10.1 Charity and sponsorship

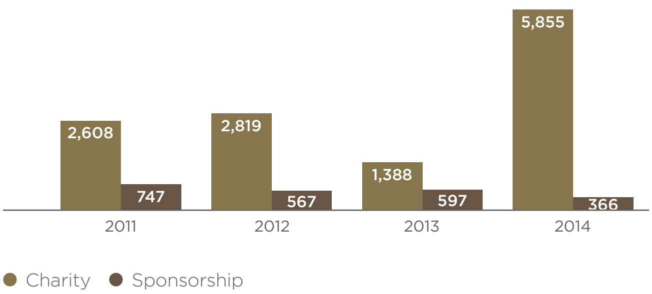
A core component of the Group's corporate social responsibility commitment is making a substantial contribution to the social and economic development of regions of operation and developing local communities. Regional charity support is based on social and economic partnership agreements between local authorities and Group subsidiaries. Corporate headquarters manage the budgeting and centralised planning of charity and sponsorship activities. In 2014, the results of activities for recent years were analysed.

In order to introduce unified corporate standards, the Group developed the document 'Principles for conducting charity and sponsorship activities'.

Each year the Group launches a number of sponsorship and charity initiatives aimed at improving living conditions in surrounding communities. The main areas of charity and sponsorship activities are:
- The construction of significant social infrastructure;
- The promotion of sports and healthy lifestyles;
- Funding large-scale public events (sporting events, festivals, city days, exhibitions and conferences);
- Providing targeted financial support; and
- Funding organisations which help to develop the gold mining industry in Russia.

The Group spent $6.2 million on charity and sponsorship in 2014 (2013: $1.9 million). In 2015, the Group plans to streamline the implementation process of charitable and sponsorship activities, create a unified central administration, standardise the ways of cooperating with regional administrations and revise the regulatory documents.

Charity and sponsorship activities, (2011-2014, $)



2.10.2 Youth outreach

The Group has for many years regularly collaborated with professional educational institutions. The Group's Youth Policy sets a number of objectives, including:
- Improving the quality of student training in specialised educational institutions;
- Promoting the Group brand in student environments;
- Selecting the most talented students; and
- The professional adaptation of young professionals in the workplace.

Collaboration activities include organising meetings with the Group's experts, career fairs and presentations. In 2014, these activities were organised for students of Zabaikalsky State University, Siberian Federal University, Krasnoyarsk Industrial-Metallurgical College, Divnogorsk Hydropower College, Nazarovo Construction College and Bodaibo Mining Colleges. More than 350 students participated at these meetings.

Topics that generated the most interest at the meetings were current working conditions and social security, the Group's development plans and career opportunities for young professionals. The questions of practical internship and subsequent employment at the Group's BUs were also raised.

2.10 Communities continued

2.10.2 Youth outreach continued

Learn the worth of gold!

This programme was launched following an increased need for staff as a result of the Group's expansion and increased competition among employers for qualified personnel.

The programme was started jointly with professional educational institutions in 2008. Since then, nearly 2,000 students have participated, approximately 20% of whom have come to work for the Group.

The senior students of universities and students of basic and secondary education institutions specialising in fields which are in demand at the Group can apply to enrol in the programme. Today the programme is being implemented in over 40 educational institutions of higher and secondary professional education.

Students on this programme receive a job offer after completing on-the-job training. During the period of on-the-job training experienced mentors are assigned to each student to help them master the subtleties of the profession and to adapt to working life. Tripartite agreements can be concluded between the Group, the student and the educational institution on the target preparation of the specialist and the student's future employment at the Group.

'The Learn the worth of gold!' programme offers a superb opportunity to acquire first-hand professional experience and to receive a job offer after graduation.

The Polyus Gold-CAF Grant Competition

CAF Russia, jointly with OJSC Polyus Gold, has been developing and implementing this competition since 2007. The programme is aimed at identifying and supporting the social initiatives and projects of non-profit organisations and initiative groups and encouraging socially useful activities within communities.

Since 2012, the programme has had a new focus – 'Student initiatives'. Students take part in role-playing trainings and workshops where they learn to develop, present and implement their own social projects.

The programme is being implemented in four specialised educational institutions:
- Irkutsk State Technical University (Irkutsk);
- Siberian State Industrial University (Novokuznetsk);
- Zabaikalsky State University (Chita); and
- Zabaikalsky Mining College named after Agoshkov (Chita).

In addition, students from any Russian educational institution of higher or secondary professional education have the opportunity to participate in competitions under this programme.

The programme includes team achievement and individual achievement competitions in the following categories:
- Participation in university life;
- Participation in public life;
- Professional and personal growth; and
- Achievements in art and sport.

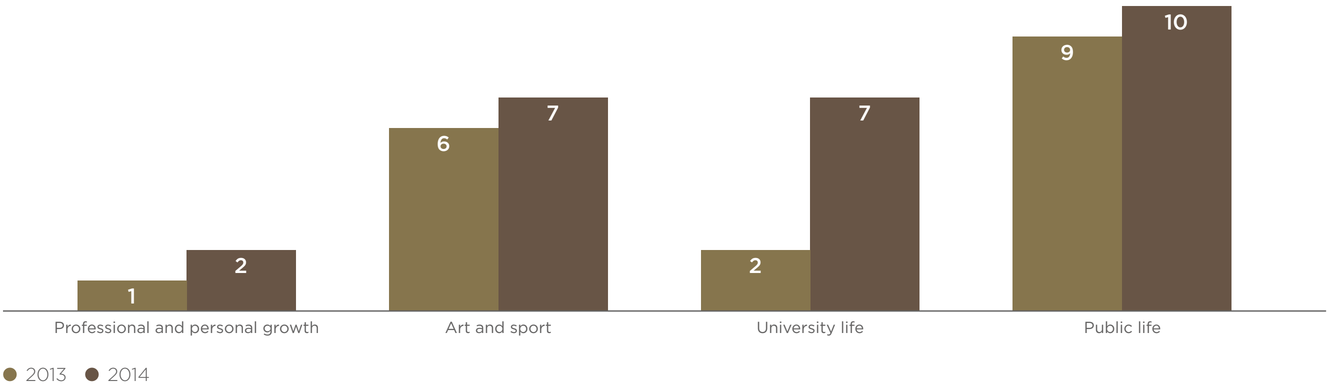
Team achievements

The goal of this competition is to identify and support the initiatives of the best students in the social sphere by providing an open competition for student projects.

The winning projects receive financial support and are implemented jointly with regional partners. More than 1,000 students of specialised educational institutions take part in activities related to the competition. In January 2014, contracts to implement 25 projects were signed, the greatest interest generated among students was towards projects aimed at changing university life. That said, a large proportion of projects in all educational institutions are devoted to public life. The categories of art and sport also became more popular among students.

Projects devoted to the professional and personal growth of students continued to be the least popular. This is due to the specificity of such projects and the difficulties associated with implementing them.

Distribution of projects by category, 2013–2014



In July 2014, CAF monitored the implementation process of projects that were recognised as being winners. Meetings with regional partners and the participants of project teams were held in Novokuznetsk, Irkutsk and Chita.

Regional partners are actively working to promote projects. Thus a regional partner in Novokuznetsk (ANO Social partnership) put forward two projects for the award of the Governor of the Kemerovo region: the project My nationality is a student! and the project Student recruitment Agency Perspective, which received support in 2013 under ‘Student initiatives’. These projects were included in the top 100 projects of the Kemerovo region and received the Governor’s award while their leaders were presented with a trip to the United Arab Emirates.

Individual achievements
The purpose of this competition is to create the conditions to facilitate students’ self-development and to encourage them to engage in socially useful activities.

The students of specialised and non-specialised educational institutions can take part in this competition. Those who earn the most points in terms of personal achievements realised by them within a year receive respective awards.

The students provide information about their personal achievements through the ‘Student initiative’ programme internet page (http://rabota.polyusgold.com/dlya-studentov-i-vypusknikov/grant_competition_student/) and social networks (http://vk.com/public44187577).

In 2014, the competition became more popular among specialised and non-specialised educational institutions. In 2013, only 18 people took part in the competition, but in 2013–2014 the number of participants increased almost tenfold, to 112.

The rise in the number of points earned by participants appears to confirm students’ increased enthusiasm towards the programme. Last year the most active students could score only 45 points, while in 2014, a record of 280 points was set. The majority of participants in the current competition sent more than ten personal achievements compared to 5–6 last year.

2.10 Communities continued

2.10.2 Youth outreach continued
The leading position in the competition belongs to students of Irkutsk State Technical University. During this calendar year, 13 students took part in the competition. Most personal achievements relate to their scientific activities.

Polyus of Achievements Club
This Club consists of winners of the individual achievements competition and students who played an active role in implementing projects in the team achievements competition.

Club members can claim travel expenses related to participation in activities. Financial support per trip is up to $1,300.

Today the Club consists of 143 people. According to the regulations of the Polyus of Achievements Club, the following activities were supported for trips in 2014:
- Workshops and forums for students' professional growth;
- Trainings and master classes devoted to youth activism; and
- Art and sporting activities.

During the period from March to August 2014, 26 student trips were supported. Information about the Club's activities, including students' impressions, trips and financial support, is regularly updated on the Club's social network page (http://vk.com/club67595579).

2.11 GRI Content Index

General standard disclosures

General standard disclosures	Disclosure	Page number (or link)	Comment	Omission	External assurance
Strategy and analysis					
G4-1	Statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and its strategy	Chairman's Statement, 7 1. Message from the Chairman of the HSEC Committee, 52			–
G4-2	Description of key impacts, risks and opportunities	1.6 Principal risks and uncertainties, 14 Message from the Chairman of the HSEC Committee, 52 2.2. Sustainability approach, 56 2.4. Sustainability governance, 62 2.5. Materiality assessment, 64 2.7. Health and Safety, 67 2.8. Environmental Stewardship, 71 2.9. Employees, 77 2.10. Communities, 84 4.9 Audit Committee report, 116 4.10 Risk Committee report, 121			–
Organisational profile					
G4-3	Name of the organisation	2.1 About this Report, 53			–
G4-4	Primary brands, products, and/or services	Who we are, 2			–
G4-5	Location of organisation's headquarters		The Group is headquartered in London, United Kingdom		–
G4-6	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	Who we are, 2 2.1 About this Report, 53			–
G4-7	Nature of ownership and legal form	Who we are, 2			–
G4-8	Markets served	Who we are, 2			–
G4-9	Scale of the reporting organisation	2.1 About this Report: Report boundaries, 53; 2.9. Employees, 77 Who we are, 2 6. Financial statements, 136	In 2014 the average headcount of the Group was 17,656		–
G4-10	Total workforce by employment type, employment contract, and region, broken down by gender	2.9. Employees: 2.9.3 Performance results, 80			Independent assurance statement, 60-63
G4-11	Percentage of employees covered by collective bargaining agreements		In 2014, 97% of employees are covered by collective bargaining agreements		–
G4-12	The organisation's supply chain	2.2.2 Supply chain management, 57			–

2.11 GRI Content Index continued

General standard disclosures	Disclosure	Page number (or link)	Comment	Omission	External assurance
Organisational profile (continued)					
G4-13	Significant changes during the reporting period regarding size, structure, or ownership	2.1 About this Report, 53			–
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation		In the reporting period the Groups did not apply the precautionary approach to identify, monitor and manage risks		–
G4-15	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses	2.1 About this Report, 53			–
G4-16	Memberships of associations (such as industry associations) and/or national/international advocacy organisations	2.2.3 Commitments to external initiatives, 58			–
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G4-17	Entities included in the organisation's consolidated financial statements or equivalent documents	2.1 About this Report: Report boundaries, 54			–
G4-18	The process for defining the report content and the Aspect Boundaries	2.1 About this Report: Report content, 54			–
G4-19	Material Aspects identified in the process for defining report content	2.5 Materiality assessment, 65			–
G4-20	Materials Aspects' Boundary within the organisation	2.5 Materiality assessment, 65			–
G4-21	Materials Aspects' Boundary outside the organisation	2.5 Materiality assessment, 65			–
G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements	2.1 About this Report: Restatements and significant changes, 55			–
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	2.5 Materiality assessment, 65			–
Stakeholder engagement					
G4-24	List of stakeholder groups engaged by the organisation	2.2.1 Stakeholder engagement, 57			–
G4-25	The basis for identification and selection of stakeholders with whom to engage	2.2.1 Stakeholder engagement, 56			–
G4-26	The organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process	2.2.1 Stakeholder engagement, 57			–

General standard disclosures	Disclosure	Page number (or link)	Comment	Omission	External assurance
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting	2.2.1 Stakeholder engagement, 57			–

Report profile

G4-28	Reporting period for information provided	2.1 About this Report, 53			–
G4-29	Date of most recent previous report	2.1 About this Report, 53			–
G4-30	Reporting cycle	2.1 About this Report, 53			–
G4-31	Contact point for questions regarding the report or its contents	2.1 About this Report: Contact information, 55			–
G4-32	The 'in accordance' option the organisation has chosen and the GRI Content Index for the chosen option	2.1 About this Report: Guidelines and standards, 53			–
G4-33	Policy and current practice with regard to seeking external assurance for the report	2.1 About this Report: Assurance, 55			–

Governance

G4-34	The governance structure of the organisation, including committees of the highest governance body	2.4 Sustainability governance, 62 4. Corporate governance report, 107			–
G4-35	The process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees	2.4 Sustainability governance, 62 4.12 HSEC Committee report, 125			–
G4-36	Whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics	2.4 Sustainability governance, 62			–
G4-37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics	4. Corporate governance report, 107 2.2.1 Stakeholder engagement, 56			–
G4-38	The composition of the highest governance body and its committees	4.3 Diversity policy, 114			–
G4-39	Whether the Chair of the highest governance body is also an Executive Officer	Board of Directors composition, 114			–
G4-40	The nomination and selection processes for the highest governance body and its committees	4.11 Nomination Committee report, 123			–
G4-41	Process for the highest governance body to ensure conflicts of interest are avoided and managed	Code of Corporate Ethics, Relationship agreements: www.polyusgold.com/company/corporate_governance/relationship_agreements/ Lists of affiliated persons: www.polyusgold.com/investors/ojsc_polyus_gold/lists_of_affiliated_persons/			–

2.11 GRI Content Index continued

General standard disclosures	Disclosure	Page number (or link)	Comment	Omission	External assurance
Governance (continued)					
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G4-44	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	4. Corporate governance report, Board evaluation, 108 4.12 HSEC Committee report, 125			–
G4-45	The highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities	2.4 Sustainability governance, 62 4.12 HSEC Committee report, 125			–
G4-46	The highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics	2.5 Materiality assessment, 64 4.10 Risk Committee report, 121			–
G4-47	The frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities	2.4 Sustainability governance, 62 4.12 HSEC Committee report, 125 4.10 Risk Committee report, 121			–
G4-48	The highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material aspects are covered	2.4 Sustainability governance, 62 4.12 HSEC Committee report, 125			–
G4-49	The process for communicating critical concerns to the highest governance body	2.4 Sustainability governance, 62 4.12 HSEC Committee report, 125			–
G4-50	The nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them	4.12 HSEC Committee report, 125			–
G4-51	The remuneration policies for the highest governance body and senior executives	5.4 Remuneration report, 127			–
G4-52	The process for determining remuneration	5.4 Remuneration report, 127			–
G4-53	How stakeholders' views are sought and taken into account regarding remuneration	5.4 Remuneration report, 127			–
G4-54	The ratio of the annual total compensation for the organisation's highest paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country	5.4 Remuneration report, 127			–

General standard disclosures	Disclosure	Page number (or link)	Comment	Omission	External assurance
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Ethics and integrity					
G4-56	The organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	Mission Code of Ethics Human Rights Policy Diversity Policy Stakeholder Engagement, 56			–
G4-57	The internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity, such as helplines or advice lines	4.7 Anti-corruption efforts, 115			–
G4-58	The internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organisational integrity	4.7 Anti-corruption efforts, 115 2.2.1 Stakeholder engagement, 56			–

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DMA and Indicators	Disclosure	Page number (or link)	Comment	Omissions	External assurance
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Material aspect: Economic performance					
G4-DMA		1.5 Strategy, 12 1.4 Business model, 11			–
G4-EC1	Direct economic value generated and distributed	Financial highlights 2014, 1 6. Financial statements, 140			–
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	2.8. Environmental stewardship, 71 1.6 Principal risks and uncertainties, 14 4.10 Risk Committee report, 121	Natalka ESIA assessed risks for the Natalka project due to climate change		–
G4-EC3	Coverage of the organisation's defined benefit plan obligations		The Groups fully complies with Russian laws by paying contributions to the pension fund		–
G4-EC4	Financial assistance received from government		No financial assistance was received from the government during the reporting period		–

2.11 GRI Content Index continued

DMA and Indicators	Disclosure	Page number (or link)	Comment	Omissions	External assurance
Category: Economic (continued)					
Material aspect: Market presence					–
G4-DMA		2.9 Employees, 77			–
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	2.9.3 Employees: Performance results, 81	The Groups does not allow any forms of discrimination, thus all employees, regardless of their gender or any other diversity factors, receive equal wages for the same scope, quantity and quality of labour		Independent assurance statement, 60-63
G4-EC6	Proportion of senior management hired from the local community at significant locations of operation	2.9.3 Employees: Performance results, 83			–
Material aspect: Indirect economic impacts					
G4-DMA		2.10. Communities, 84			
G4-EC7	Development and impact of infrastructure investments and services supported	2.10. Communities, 84			Independent assurance statement, 60-63
G4-EC8	Significant indirect economic impacts, including the extent of impacts	2.10. Communities, 84 2.2.2 Supply chain management, 57			–
Material aspect: Procurement practices					
G4-DMA		2.2.2 Supply chain management, 57			–
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	2.2.2 Supply chain management, 58			–
Category: Environmental					
Material aspect: Energy					
G4-DMA		2.8. Environmental stewardship, 71			–
G4-EN3	Energy consumption within the organisation	2.8. Environmental stewardship, 72			Independent assurance statement, 60-63
G4-EN4	Energy consumption outside of the organisation		The data is not aggregated within the current reporting system		Independent assurance statement, 60-63

DMA and Indicators	Disclosure	Page number (or link)	Comment	Omissions	External assurance
G4-EN5	Energy intensity		Energy intensity ratio – 0.95. The ratio denominator: ore processed t. Data on energy consumed within the organisation was used. Energy types included: fuel, electricity, heating		Independent assurance statement, 60-63
G4-EN6	Reduction of energy consumption	2.8. Environmental stewardship, 73			Independent assurance statement, 60-63
G4-EN7	Reductions in energy requirements of products and services	n\a	Due to the nature of the product		–

Material aspect: Water

G4-DMA		2.8. Environmental stewardship, 71			
G4-EN8	Total water withdrawal by source	2.8. Environmental stewardship, 74			Independent assurance statement, 60-63
G4-EN9	Water sources significantly affected by withdrawal of water	2.8. Environmental stewardship, 74	There are 23 water bodies significantly affected by the organisation's withdrawal at Irkutsk alluvial BU and 2 at Irkutsk ore BU, 1 at Yakutia BU (Kuranakh), and 1 at Magadan BU		Independent assurance statement, 60-63
G4-EN10	Percentage and total volume of water recycled and reused	2.8. Environmental stewardship, 75			Independent assurance statement, 60-63

Material aspect: Emissions

G4-DMA		2.8. Environmental stewardship, 71			
G4-EN15	Direct greenhouse gas (GHG) emissions (scope 1)	2.8. Environmental stewardship, 73		The data for 2012–2013 were amended to reflect changes to accounting methodology	Independent assurance statement, 60-63
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (scope 2)	2.8. Environmental stewardship, 74		The data for 2012–2013 were amended to reflect changes to accounting methodology	Independent assurance statement, 60-63

2.11 GRI Content Index continued

DMA and Indicators	Disclosure	Page number (or link)	Comment	Omissions	External assurance
Category: Environmental (continued)					
Material aspect: Emissions (continued)					
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)		The data are not aggregated within the current reporting system		–
G4-EN18	Greenhouse gas (GHG) emissions intensity		GHG intensity ratio: 50. GHG intensity is measured in thousand tonnes of CO_2-e per million cubic metres of rock moved GHG emissions included: direct (Scope 1), indirect (Scope 2). Gases included in the calculation: CO_2, NH4, N2O	The data for 2012–2013 were amended to reflect changes to accounting methodology	–
G4-EN19	Reduction of greenhouse gas (GHG) emissions	2.8. Environmental stewardship, 73			–
G4-EN20	Emissions of ozone-depleting substances (ODS)		No significant emissions of ozone-depleting substances were identified in the reporting period		–
G4-EN21	NOX, SOX, and other significant air emissions	2.8. Environmental stewardship, 73			Independent assurance statement, 60-63
Material aspect: Effluents and waste					
G4-DMA		2.8. Environmental stewardship, 71			
G4-EN22	Total water discharge by quality and destination	2.8. Environmental stewardship, 74	Discharges are not reused by other organisations		–
G4-EN23	Total weight of waste by type and disposal method	2.8. Environmental stewardship, 75	Other methods of waste disposal are not used		Independent assurance statement, 60-63
G4-EN24	Total number and volume of significant spills		The Groups has implemented a programme and plans to report data on significant spills shortly. During 2014 there were no significant spills (reportable environmental incidents)		Independent assurance statement, 60-63

DMA and Indicators	Disclosure	Page number (or link)	Comment	Omissions	External assurance
G4-EN25	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII, and percentage of transported waste shipped internationally	n/a	The Group is not involved in transportation, import, export, or treatment of waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII		–
G4-EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and run-off		There are four water bodies significantly affected by the organisation's discharges of water and runoff at Krasnoyarsk BU and 21 at Irkutsk alluvial BU. All water bodies fall into different commercial fishing importance categories		–

Material aspect: Compliance

G4-DMA		2.8. Environmental stewardship, 71			–
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	2.8. Environmental stewardship, 76			Independent assurance statement, 60-63

Material aspect: Overall

G4-DMA		2.8. Environmental stewardship, 71			–
G4-EN31	Total environmental protection expenditures and investments by type	2.8. Environmental stewardship, 76			–

Material aspect: Environmental grievance mechanisms

G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms		In the reporting period through formal grievance mechanisms zero grievances were addressed, and one was resolved at Magadan BU		Independent assurance statement, 60-63

Material aspect: Closure planning

G4-MM10	Number and percentage of operations with closure plans	2.8. Environmental stewardship, 71			–

2.11 GRI Content Index continued

DMA and Indicators	Disclosure	Page number (or link)	Comment	Omissions	External assurance
Category: Social					
Sub-category: Labour practices and decent work					
Material aspect: Employment					
G4-DMA		2.9.1 Attracting and retaining personnel, 77			–
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region	2.9.3 Employees: Performance results, 83	5,945 employees, or 34% of total headcount, were hired in 2014. Turnover remained more or less at the previous year's level	Turnover by age group and gender. No such data are available within current reporting system	Independent assurance statement, 60-63
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation		The Groups provides the same benefits to all employees, except for additional medical insurance which is not provided to part-time employees		–
G4-LA3	Return to work and retention rates after parental leave, by gender		All employees who are entitled by law to go on leave for child care/parental leave, are free to use it		–
Material aspect: Occupational health and safety					
G4-DMA		2.7 Health and Safety, 67			
G4-LA5	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programmes	2.4 Sustainability Governance, 62	The HSEC Committee operating at the Board level is the key body responsible for the health and safety issues in the Group. A separate management–worker health and safety committee also operates at Olimpiada, Polyus Logistics, Alluvials, Natalka	Percentage of total workforce represented in formal joint management. No such data available within current reporting system	–

DMA and Indicators	Disclosure	Page number (or link)	Comment	Omissions	External assurance
G4-LA6	Type of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	2.7 Health and Safety, 67-70		No data available for contractors on occupational diseases rate, lost day rate and absentee rate within current reporting system	Independent assurance statement
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation		The Group has no operations in areas with a high risk of serious diseases		–
G4-LA8	Health and safety topics covered in formal agreements with trade unions		The cooperation in the field of H&S with the trade unions is carried out at Yakutia BU (Kuranakh)		–

Material aspect: Training and education

DMA and Indicators	Disclosure	Page number (or link)	Comment	Omissions	External assurance
G4-DMA		2.9.2 Employee development and maintaining the talent pool, 79			
G4-LA9	Average hours of training per year per employee by gender, and by employee category	2.9.3 Employees: Performance results, 82		Training per year per employee by gender. No such data are available within current reporting system	Independent assurance statement, 60-63
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	2.9.3 Employees, 79, 82			Independent assurance statement, 60-63
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	2.9.1 Attracting and retaining personnel: Motivation, 78 SR2012: Employees, Motivation, Financial incentives, 28-29	All employees undergo performance reviews on the basis of a functional and individual KPI system		–

2.11 GRI Content Index continued

DMA and Indicators	Disclosure	Page number (or link)	Comment	Omissions	External assurance
Category: Social (continued)					
Sub-category: Society					
Material aspect: Local communities					
G4-DMA		2.10. Communities, 84			–
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	2.10. Communities, 84			Independent assurance statement, 60-63
G4-SO2	Operations with significant actual and potential negative impacts on local communities		An ESIA was conducted for the Yakutia BU (Nezhdanenskoye). The adopted Stakeholder Engagement Policy includes a development stakeholder engagement plan. The plan's framework was agreed with the BUs. The Groups plans to continue efforts in this field in the following years		Independent assurance statement, 60-63
G4-MM6	Number and description of significant disputes relating to land use, customary rights of local communities and indigenous peoples	Sustainability Report 2012: Indigenous people settlements, 44	In the reporting year there were no disputes relating to land use, customary rights or local communities and Indigenous Peoples		Independent assurance statement, 60-63
G4-MM7	The extent to which grievance mechanisms were used to resolve disputes relating to land use, customary rights of local communities and indigenous peoples, and the outcomes	Sustainability Report 2012: Indigenous people settlements, 44	In the reporting year there were no disputes relating to land use, customary rights or local communities and Indigenous Peoples		Independent assurance statement, 60-63

DMA and Indicators	Disclosure	Page number (or link)	Comment	Omissions	External assurance
Material aspect: Anti-corruption					
G4-DMA		4.7 Anti-corruption efforts, 115			–
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	4.7 Anti-corruption efforts, 115			–
G4-SO4	Communication and training on anti-corruption policies and procedures	4.7 Anti-corruption efforts, 115		Groups does not aggregate data broken down by governance body members and region	–
G4-SO5	Confirmed incidents of corruption and actions taken	4.7 Anti-corruption efforts, 115			–

3. Directors' report

Board of Directors

The Board remain committed to guiding the strategic and entrepreneurial development of the group and support the principle of collective responsibility for the success of the Group.

Ilya Yuzhanov
Chairman of the Board

- Chairman of the Board
- Chairman of the Nomination Committee

Bruce Buck
independent non-executive Director

- Independent non-executive Director
- Chairman of the Remuneration Committee
- Member of the Nomination Committee
- Member of the Health, Safety, Environment and Community Committee

Adrian Coates
Senior independent non-executive Director

- Senior independent non-executive Director
- Chairman of the Risk Committee
- Member of the Audit Committee
- Member of the Nomination Committee
- Member of the Remuneration Committee

Edward Dowling
independent non-executive Director

- Independent non-executive Director
- Chairman of the Health, Safety, Environment and Community Committee
- Member of the Audit Committee
- Member of the Risk Committee
- Member of the Nomination Committee

Anastasia Galochkina
Non-executive Director

- Non-executive Director
- Member of the Risk Committee

Igor Gorin
Non-executive Director

- Non-executive Director
- Member of the Risk Committee
- Member of the Health, Safety, Environment and Community Committee

Pavel Grachev
Executive Director
(Chief Executive Officer)

- Executive Director
- Chief Executive Officer
- Member of the Nomination Committee

Kobus Moolman
independent
non-executive Director

- Independent non-executive Director
- Chairman of the Audit Committee
- Member of the Risk Committee
- Member of the Remuneration Committee

3. Directors' report continued

Fair, balanced and understandable

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

- clear guidance and instruction is given to all contributors;
- revisions to regulatory requirements, including the UK Corporate Governance Code, are monitored on an ongoing basis;
- early warning meetings are conducted between management and the auditors in advance of the year end reporting process;
- input is provided by Top Management and corporate functions;
- further reviews are conducted by Top Management;
- a meeting of the Audit Committee is held to review and consider the draft Annual Report and accounts in advance of the final sign-off; and
- final sign-off is provided by the Board of Directors.

Principal activity

The principal activity of the Group is the production and sale of gold. In order to maintain its operations, the Group is also engaged in exploration, construction and research activities. A review of the Group's business is presented in detail in the Strategic report on pages 2 to 13. The Group's principal risks and uncertainties are disclosed on pages 14 to 19.

Research and development

Polyus carries out exploration as well as research and development in support of its activities. The Group's exploration expenses in FY 2014 amounted to $6 million, compared to $26 million in FY 2013. Research and development costs were $2.2 million (2013: $3.2 million).

Greenhouse gas emissions

In 2014, the Group's total greenhouse gas (GHG) emissions totalled 3.33 million tonnes of CO_2e, 1% above the 2013 level. 62% of the Group's GHG emissions came from the direct combustion of fossil fuels (petrol, diesel, coal etc.) at the operating mines and 38% came from indirect emissions (such as purchased electricity). Higher GHG emissions were attributable to an overall increase in the volume of ore mined and processed. For more details on GHG emissions, including a breakdown by gases and sources of emission, calculation methodology, as well as the Group's GHG policy and targets for the reduction of GHG emissions see section 2.8 'Environmental stewardship' of the Sustainability report on pages 71 to 76.

Corporate governance statement

As a Group with a premium listing on the London Stock Exchange, Polyus Gold International Limited confirms its compliance with the UK Corporate Governance Code as required by the UK Listing Authority (the code is publicly available at: https://www.frc.org.uk/corporate/ukcgcode.cfm).

Dividends

The dividend policy is described in section 4.6 'Dividend policy' in the Corporate Governance Report on page 115. The dividends for the year ended 31 December 2014 are subject to review and approval by the Board or shareholders. The Group did not pay dividends for 2013.

On 12 December 2014 the Board of Directors approved the payment of a special dividend of 16.49 US cents per ordinary share, or $500 million in total. The decision to pay a special dividend was a reflection of the ongoing strong underlying financial performance of the Group and its exceptionally robust liquidity position.

Directors and Directors' interests

The configuration of the Board of Directors is presented in section 4.3 'Board of Directors composition' of the Corporate governance report on pages 111 to 113. As of 31 December 2014, two Directors held shares in the Group.

Director	**Number of shares as at 31 Dec 2014**	**% Issued share capital**	Number of shares as at 31 Dec 2013	% Issued share capital
Adrian Coates	**33,000**	**0.001**	33,000	0.001
Kobus Moolman	**39,579**	**0.001**	39,579	0.001

Directors' indemnity

In 2013 the Board reviewed and approved qualifying third-party indemnity provisions for the Directors.

Share capital

The Group has 3,600,000,000 authorised shares, of which 3,032,149,962 were issued as at 31 December 2014. Information relating to the Group's share capital structure is set out in note 24 on page 177 to the consolidated financial statements for the year ended 31 December 2014. The Group has one class of ordinary shares, which carry no right to fixed income. Each share carries the right to one vote at general meetings of shareholders of the Group.

Pursuant to the authority granted to them by the shareholders at the Group's Annual General Meeting held on 30 May 2014, the Directors have the authority to allot shares up to a maximum amount of £15,160.74. The Directors have not exercised this authority. The authority expires on 30 May 2019, unless renewed, varied or revoked.

On 22 December 2014 ordinary shares of the Group were included in the Level 1 Quotation List of the Moscow Exchange. As a result, the Group obtained a secondary listing of its shares on the Moscow Exchange in addition to a premium listing on the main market of the London Stock Exchange, where its shares have been traded since 19 June 2012.

The Group has no employee share option schemes.

Registration and domicile

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

Political contributions

No donations to political parties were made and no political expenditure was incurred during the year.

Charitable donations

During the year the Group made charitable donations of $6.2 million (2013: $1.9 million), principally to local charities serving the communities in which the Group operates. Key messages are described in the section 2.10 'Communities' of the Sustainability report on page 103.

Substantial shareholdings

Information provided to the Group pursuant to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules (DTRs) is published in a Regulatory Information Service and on the Group's website (http://www.polyusgold.com/media/regulatory_disclosure/). As at 31 December 2014, the Group had been notified of the following holdings of voting rights in the Group:

- Wandle Holdings Limited, where the beneficiary is the Suleyman Kerimov Foundation (40.22%);
- Receza Limited and Wamika Trading Limited, where the beneficiary is Gavriil Yushvaev (19.28%);
- Lizarazu Limited, where the beneficiary is Oleg Mkrtchyan (18.50%);
- Chengdong Investment Corporation, a wholly owned subsidiary of CIC International Co Limited (4.99%); and
- JSC VTB Bank (3.65%).

There were no changes to significant shareholder holdings as of 12 March 2015.

Auditor

Each of the Directors confirms that:

- so far as the Director is aware, there is no relevant audit information about which the Group's auditor is not informed;
- each Director has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of such information; and
- the Group meets the requirements of listing rule 9.8.4R. The following table gives references to where information required by rule 9.8.4R is disclosed.

3. Directors' report continued

Auditor continued

Listing rule requirement	
A statement of the amount of interest capitalised by the company during the period under review with an indication of the amount and treatment of any related tax relief.	note 11/page 166
Any information required by LR 9.2.18 R (Publication of unaudited financial information).	Not applicable
Details of any long-term incentive schemes as required by LR 9.4.3 R.	Directors' remuneration report page 131
Details of any arrangement under which a Director of the company has waived or agreed to waive any emoluments from the company or any subsidiary undertaking. Where a Director has agreed to waive future emoluments, details of such waiver together with those related to emoluments which are waived during the period under review.	No such waivers
Details required in the case of any allotment for cash of equity securities made during the period under review other than to the holders of the company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the company's shareholders.	No such share allotments
Where a listed company has listed shares in issue and is a subsidiary understanding of another company details of the participation by the parent undertaking in any placing made during the period under review.	Not applicable
Details of any contract of significance existing during the period under review: (a) to which the listed company, or one of its subsidiary undertakings, is a party and in which a Director of the listed company is or was materially interested. (b) between the listed company, or one of its subsidiary undertakings, and a controlling shareholder.	No such contracts
Details of contracts for the provision of services undertaken by the controlling shareholder to the company or any of its subsidiaries.	No such contracts
Details of any arrangement under which a shareholder has waived or agreed to waive any dividends, where a shareholder has agreed to waive future dividends, details of such waiver, together with those relating to dividends which are payable during the period under review.	No such arrangements
Board statement in respect of the relationship agreement with the controlling shareholder.	http://www.polyusgold.com/company/corporate_governance/relationship_agreements/

By order of the Board

Pavel Grachev
Chief Executive Officer
London, 12 March 2015

4. Corporate governance report

4.1 Chairman's statement

It is my pleasure to state that here at Polyus we have always made the introduction and maintenance of leading global corporate governance standards our highest priority. We strive to apply global best practices in all activities and aim to comply with the requirements of the UK Governance Code, as well as with all applicable laws and regulations. We continuously develop, adopt and update our policies and procedures in order to achieve these objectives. As part of our efforts to be a transparent company, we pay close attention to the quality of our information disclosures.

Compliance with UK Corporate Governance Code

I confirm that during 2014, the Board maintained the highest standards of corporate governance, and as a premium UK-listed company, the Group complied with the UK Code of Corporate Governance. Please also see the Corporate Governance report on page 114.

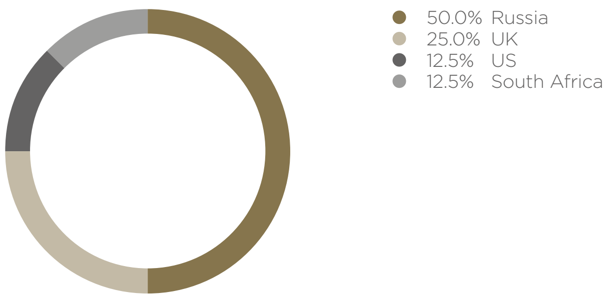
Board composition

The Board currently has seven non-executive Directors, and one executive Director, Pavel Grachev, who is also the Chief Executive Officer of the Group. The Board includes experts in all important areas, such as mining, finance, audit, legal and government.

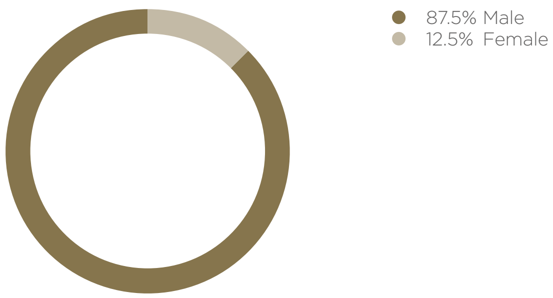
Polyus complies with the UK Corporate Governance Code provision related to the number of independent non-executive Directors on the Board. Half of the Board, excluding the Chairman is made up of independent non-executives Directors.

We pursue a diverse Board composition in all aspects. 50% of the Group's Board is represented by Russia, while the other 50% is from the UK, the US and South Africa. The Board has had a female representative since obtaining a premium listing in 2012.

Nationality of BoD members



Gender of BoD members



Leadership

The Polyus Board is collectively responsible for the long-term success of the Group. As required under the UK Governance Code, there is a clear division of responsibilities between the Board and the Top Management team, and no one individual has unfettered powers of decision. The Board is primarily responsible for evaluating and setting business strategies; it monitors and reviews the implementation of the strategy by the Group's management. The Chairman of the Board is responsible for the leadership of the Board and ensures its effectiveness in all aspects of its role. As part of their role as members of a unitary board, the Non-Executive play the most important part in developing proposals on, as well as constructively challenging, the Group's strategy.

Effectiveness

The Board and its Committees have an appropriate balance of skills, experience, independence and knowledge of the Group in order to enable them to effectively discharge their respective duties and responsibilities.

All Directors allocate sufficient time to the Group in order to carry out their responsibilities effectively.

There is a formal, rigorous and transparent procedure for appointing new Directors to the Board. Upon joining the Board, all Directors go through an induction process and regularly update and refresh their skills and knowledge. Directors are supplied with all the required information on time in an appropriate form and quality to enable them to discharge their duties. See the section 3.11 'Nomination Committee Report' on pages 123 to 124 for further details.

In 2014 the Board undertook a formal and rigorous annual evaluation of its own performance and the performance of its Committees and individual Directors, which is more thoroughly discussed in the paragraph 'Board evaluation' in the section overleaf.

All Directors are subject for re-election annually and their re-appointment is subject to their continued satisfactory performance.

4. Corporate governance report continued

4.1 Chairman's statement continued

Accountability

The Board presents a fair, balanced and understandable assessment of the Group's position and prospects.

The Board determines the nature and extent of the principal risks it is willing to take to achieve its strategic objectives. The Board maintains sound risk management and internal control systems. A more detailed discussion is provided in the Section 4.10 on pages 121 and 122.

The Board has established formal and transparent arrangements for considering how to apply corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Group's auditors. See the section 4.9 on pages 116 to 120 for more information.

Remuneration

The remuneration of executive Directors is designed to promote the long-term success of the Group. Performance-related elements are transparent, stretching, and rigorously applied.

There is a formal and transparent procedure for the development of the executive remuneration policy. Detailed information is provided in the Section 5.2 on page 128.

Shareholder engagement

The Board's commitment to top-quality governance is expressed through the Polyus approach to engagement and communication with shareholders.

Regular communication with shareholders is based on a mutual understanding of objectives. The Annual General Meeting (AGM) is used by the Board to maintain dialogue with investors and encourage their participation. The Directors attended the AGM held on 30 May 2014. Committee chairmen were also present and were available to answer questions from those in attendance.

Polyus maintains an active engagement with its key financial constituencies, including current shareholders and sell-side analysts, as well as potential shareholders. The Investor Relations (IR) department manages communication with these parties and sets up regular conference calls, which take place when operating results and interim and annual financial results are released as well as over the course of the year in the case of significant events. Site visits to the Group's assets are regularly organised. An active communication programme with potential shareholders is also maintained via regular participation in major investor conferences and events.

The investment community can contact the Group at any time through the Investor Relations team, whose contact details are available on our website: www.polyusgold.com. Feedback from shareholders is regularly reported to the Board, which provides a robust mechanism for ensuring that Directors are aware of issues raised and have a good understanding of current shareholder views.

The Group adheres to all disclosure requirements for its premium listing on the LSE. Polyus strives to deliver transparency in its reporting to ensure equal access of all interested parties to price-sensitive information.

Board evaluation

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

In order to continue the programme of maintaining highly competitive operations and a strong record of production from existing operations, and to continue to develop and expand one of the industry's most lucrative portfolios, a decision was taken in 2014 to review the composition, structure and performance of the Board externally, so that the contribution of the Board may continue to add value and to ensure the Group's success in the future.

The Board Effectiveness Review for Polyus Gold International Limited has been performed by Heidrick and Struggles, an independent advisor (for details see page 124). The focus of the Board Review Programme was to assist the Group in the evolution of the Board – moving beyond compliance to being a world-class Board.

Ilya Yuzhanov
Chairman of the Board

4.2 The Board

Role of the Board

The Board is accountable to the Shareholders for the success of the Group.

The Board's role is to create and deliver value through the effective governance of the Group. This role requires a high-performing Board, with all Directors contributing to the Board's collective decision-making processes.

The Board:

- is responsible for setting the Group's strategy and for the management, direction and performance of our businesses;
- is accountable to the shareholders for the proper conduct of the business;
- is responsible for the long-term success of the Group, having regard for the interests of all stakeholders; and
- is responsible for ensuring the effectiveness of and reporting on the system of corporate governance.

Experience and attributes required

The Board believes that a diversity of skills, backgrounds, knowledge, experience, geographic location, nationalities and gender is required in order to effectively govern the business. The Board and its Nomination Committee work to ensure that the Board continues to have the right balance of skills, experience, independence and industry knowledge necessary to effectively discharge its responsibilities in accordance with the highest standards of governance.

In order to govern the Group effectively, the Non-executive Directors must have a clear understanding of the Group's overall strategy, together with knowledge about the Group and the industry in which it operates.

Non-executive Directors must be sufficiently familiar with the Group's core business to be effective contributors to the development of a strategy and to monitor performance. Part of the required understanding of the strategy and the core business is the requirement to understand the risks that the Group faces and the processes in place to mitigate and manage those risks.

According to the Schedule of Matters, the purpose of the Board is to:

- monitor and review the performance of management;
- evaluate business strategies and monitor their implementation;
- monitor the performance of the existing asset portfolio and new business initiatives;
- provide accountability to shareholders through appropriate reporting and regulatory compliance;
- monitor the auditing and internal control mechanisms;
- understand and ensure the management of operational business and financial risks to which the Group is exposed;
- observe and ensure compliance with Health, Safety, Environment and Community policy; and
- safeguard the Group's reputation, values, ethics, culture and assets, including knowledge.

The Chairman

Ilya Yuzhanov is Chairman of the Board. The role of the Chairman is to provide the necessary leadership to the Board in order to promote the success of the Group and to create value for shareholders in the long term, while ensuring that sound effective corporate governance practices are embedded in the Group and in its decision-making processes.

In particular, he is responsible for:

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

4. Corporate governance report continued

4.2 The Board continued

Senior Independent Director
Adrian Coates is the Senior Independent Director.

The Senior Independent Director is responsible for:
- acting as a sounding board for the Chairman;
- serving as an intermediary for the other Directors;
- being available to shareholders if they have concerns which they have not been able to resolve through the normal channels of the Chairman, Chief Executive or other executive Directors or for which such contact is inappropriate.

Chief Executive Officer
Pavel Grachev is CEO of the Group. The role of CEO is to manage the day-to-day operations of the Group and to ensure that all operations are consistent with the policies developed by the Board of Directors and are carried out in such a way that they meet production, financial and legal requirements.

He is responsible for:
- management of the Group's business;
- implementing the Group's strategy and policies; and
- maintaining a close working relationship with the Chairman.

Non-Executive Directors
The Non-Executive Directors are responsible for bringing independence and objective scrutiny to all matters before the Board and its Committees, using their substantial and wide-ranging experience. The Non-Executive Directors meet periodically with the Chairman without the Executives being present.

Information flow
Before each Board meeting the Directors receive detailed information on operational and financial performance, activities of the Board Committees, investor relations and projects that are being progressed by the executives. The Board receives presentations and verbal updates from the executives at Board meetings as appropriate.

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

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

Board activity
Board activities are structured to assist the Board in achieving its goal to support and advise the executive management on the delivery of the Group's strategy within a transparent governance framework.

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

In 2014 27 meetings were held, including five face-to-face meetings, nine conference calls, and 13 meetings held by means of passing a written resolution. One meeting was held at the Natalka site in Magadan Region and the Board inspected the site.

4.3 Board of Directors composition

The Board of Directors is made up of eight members:

- the Non-Executive Chairman (Ilya Yuzhanov)
- four Independent Non-Executive Directors (Bruce Buck, Adrian Coates, Edward Dowling, and Kobus Moolman)
- two Non-Independent Non-Executive Directors representing specific shareholder interests (Anastasia Galochkina, Igor Gorin)
- Executive Director, Chief Executive Officer (Pavel Grachev)

In compliance with the UK Corporate Governance Code half the board, excluding the Chairman Ilya Yuzhanov[39], are independent Directors (Bruce Buck, Kobus Moolman, Adrian Coates and Edward Dowling). The terms and conditions of appointment of non-executive Directors are available for inspection by any person at the Group's registered office during normal business hours and at each Annual General Meeting.

Ilya Yuzhanov, 55
Chairman of the Board

From 1997 to 1998 Ilya Yuzhanov chaired the State Land Resources Committee of the Russian Federation, in 1998 he was the Minister on Land Resources, Construction and Housing of the Russian Federation, from 1999 till 2004 – the Minister on Antimonopoly Policies and Support for Enterpreneurship of the Russian Federation. From 2000 till 2003 Ilya Yuzhanov served on the Board of Directors of OJSC Gazprom. From 2000 till the end of restructuring process he was a member of the Board of OJSC RAO UES of Russia.

In 2003 and 2004 Ilya was a Board member of OJSC Russian Railways. From 2004 till 2013 served on and, during a two-year period, chaired the Supervisory Board of OJSC NOMOS-BANK. From June 2004 till November 2006 Ilya was a member of the Board and Chairman of Corporate Governance and Compensation Committee of OJSC Novatek. From June 2006 till June 2011 Mr Yuzhanov served on Board of OJSC Uralkaliy, being a member of the Audit and Remuneration Committees. From September 2008 till March 2012 Ilya chaired the Board of Directors and was a member of Remuneration Committee of OJSC Polymetal.

From June 2009 to June 2011 Ilya Yuzhanov was a member of the Supervisory Board of AK ALROSA, a member of the Audit Committee, and a member of the Personnel and Remuneration Committee. Since July 2011 to the present he has been Chairman of the Supervisory Board of AK ALROSA. From 2012 to March 2014 he was a member of the Board of Directors of OAO Financial Corporation Otkritie, Chairman of the Personnel and Remuneration Committee. Since 2012 he has been a member of the Audit Committee of the Board of Directors of OAO ROSNANO.

Mr Yuzhanov is a member of the Russian Association of Independent Directors, and since 2011 has been a member of the Supervisory Board of the Russian Association of Independent Directors. He is a member of the National Register of Professional Corporate Directors. From 2012 to 2013 he completed the IoD Chartered Director programme at the Institute of Directors, UK.

Mr Yuzhanov graduated with honours from St. Petersburg (Leningrad) State University in 1982, obtained a PhD in economics in 1989, and is an honoured economist of the Russian Federation since 2000.

Chairman of the Nomination Committee

Adrian Coates, 57
Independent Non-executive Director, Senior Independent Director

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

Mr Coates graduated from Cambridge University with a masters' degree in economics, and he also has an MBA from London Business School.

Chairman of the Risk Committee
Member of the Audit Committee (reappointed 22 August 2014)
Member of the Nomination Committee
Member of the Remuneration Committee

39. A.3.1. of UK CGC states that the Chairman should, on appointment, meet independence criteria, but that thereafter the test of independence is not appropriate in relation to the Chairman.

4. Corporate governance report continued

4.3 Board of Directors composition continued

Bruce Buck, 69 Independent Non-executive Director	Bruce Buck is Managing Partner for Europe at Skadden Arps Slate Meagher & Flom, an international law firm. A registered foreign lawyer in England and Wales, he has practised law in Europe for more than 25 years and specialises in financing transactions, as well as mergers and acquisitions. Mr Buck is Chairman of Chelsea FC plc and its operating subsidiary Chelsea Football Club Limited. He is also on the Audit Committee of the FA Premier League, the top-tier football league in England. Mr Buck is a trustee and a member of the Audit Committee of Orbis UK, a charity devoted to eradicating curable blindness in the developing world. *Mr Buck graduated from Columbia University School of Law in New York.* *Chairman of the Remuneration Committee* *Member of the Nomination Committee* *Member of the Health, Safety, Environment and Community Committee*
Anastasia Galochkina, 37 Non-Executive Director (appointed to the Board on 22 August 2014)	Anastasia Galochkina is Managing Director of Nafta Moskva. Prior to joining Nafta Moskva, from 2004 to 2011, she worked for Vostok Nafta Investment Ltd, a Swedish investment company. From 2006 to 2008 she also served on the board of Kontakt East Holding AB. Prior to joining Vostok Nafta, Ms Galochkina worked at Ernst&Young's consultancy group in Moscow. Ms Galochkina is a qualified Chartered Financial Analyst. She graduated from the National Research University of Electronic Technology in Moscow with a degree in economics. *Member of the Risk Committee (appointed on 22 August 2014)*
Kobus Moolman, 62 Independent Non-executive Director	Kobus Moolman is a qualified chartered accountant with more than 35 years' experience with international audit and accounting firms. He is Chief Audit Executive at the Saudi Arabian Mining Company, Ma'aden. Prior to this, he served as a Senior Audit Partner and Leader of the Mining Industry Group at Deloitte & Touche CIS and Senior Audit Partner at Ernst & Young in South Africa. Mr Moolman is a member of the Independent Regulatory Board for Auditors in South Africa and The South African Institute of Chartered Accountants. Mr Moolman graduated from Rand Afrikaans University in Johannesburg with an honours degree in accounting, and he has a master's degree in financial accounting from North Western University in Potchefstroom and a higher diploma in tax law from Witwatersrand University in Johannesburg. During 2014, Mr Moolman successfully completed the INSEAD International Directors Programme in Fontainebleau. *Chairman of the Audit Committee (reappointed 22 August 2014)* *Member of the Risk Committee* *Member of the Remuneration Committee*
Igor Gorin, 36 Non-executive Director	Igor Gorin is an advisory professional with extensive experience in investment and corporate banking. From 2005 to 2013, he worked at Raiffeisenbank in Moscow where he held a number of senior positions including, from 2010 to 2013, Managing Director of Raiffeisen Investment, the investment banking arm of Raiffeisenbank, with responsibility for client coverage in respect of equity capital markets and M&A. Prior to joining Raiffeisenbank, Mr Gorin worked at VTB and Commerzbank. Mr Gorin graduated from the State Finance Academy in Moscow in 2000 and obtained his PhD in economics in 2003. *Member of the Risk Committee* *Member of the Health, Safety, Environment and Community Committee*

Edward Dowling, 59 **Independent Non-executive Director**	Mr Dowling is Chairman of the Board of Alacer Gold, where he served as President and CEO between 1998 and 2012 and a member of the Board since 1998. Since 2012, he has served as a Director of Teck Resources Limited. From 2011 to 2014 Mr Dowling served as a Director of Victoria Gold Corp. From 1993 to 1998, he served as Senior Vice President at Cyprus Amax Minerals, with primary responsibility for process management and engineering. From 2006 to 2008, he was President and CEO of Meridian Gold Inc. Mr Dowling sits on the Executive Committee of the US Society for Mining, Metallurgy and Exploration and is a member of the US National Mining Association, the US Minerals, Metals and Materials Society, the Mining and Metallurgical Society of America and the University Advisory Board of Colorado School of Mines. Mr Dowling graduated from the Pennsylvania State University in 1982 with degrees in mining engineering and mineral processing. He obtained his Master's and PhD degrees in mineral processing from Pennsylvania State University in 1987 and 1998, respectively. *Chairman of the Health, Safety, Environment and Community Committee* *Member of the Audit Committee* *Member of the Risk Committee* *Member of the Nomination Committee*
Pavel Grachev, 42 **Executive Director, Chief Executive Officer (appointed as permanent CEO on 11 November 2014)**	Pavel Grachev joined the Board and management team of Polyus Gold International in November 2013. From 2009 to 2011 he served on the Board of OJSC Polyus Gold. From 2013 to 2014, he served as a Member of the Board of Directors of JSC Federal Grid Company. In the past, he served on the boards of OJSC Uralkali (from 2010 to 2012), PIK Group (from 2009 to 2011, including as Chairman from 2010 to 2011) and OJSC Polymetal (from 2006 to 2008). From January to September 2013, Mr Grachev was General Director of OJSC Far East and Baikal Region Development Fund. From 2011 to 2013, he headed the Moscow representative office of Alpina Capital A.C.L. Limited (Cyprus). From 2010 to 2011, Mr Grachev was General Director of OJSC Uralkali. From 2006 to 2008, he headed the Legal Department at LLC Nafta Moskva. Mr Grachev graduated from the Saint Petersburg State University and the University of Trieste (Italy) with degrees in law. *Member of the Nomination Committee*
Anna Kolonchina, 43 **Non-Executive Director (resigned from the Board on 18 August 2014)**	On 18 August 2014 the Board received notice from Anna Kolonchina about her resignation. Before her resignation Ms Kolonchina was a Member of the Risk Committee.

Board meetings attendance

Director	Board (27 meetings)[40]	Remuneration Committee (5 meetings)	Nomination Committee (5 meetings)	Audit Committee (8 meetings)	Risk Committee (5 meetings)	HSEC Committee (7 meetings)
Chairman Ilya Yuzhanov	23/27		5/5			
Senior Independent Director Adrian Coates	25/27	5/5	5/5	8/8	5/5	
Independent Non-executive Directors Kobus Moolman	26/27	5/5		8/8	5/5	
Edward Dowling	26/27		4/5	8/8	5/5	7/7
Bruce Buck	26/27	5/5	5/5			7/7
Executive Director Pavel Grachev[41]	22/27		5/5			
Non-executive Directors Anna Kolonchina[42]	12/17				3/3	
Igor Gorin	26/27				5/5	7/7
Anastasia Galochkina[43]	7/8				1/2	

40. Include meeting in a form of conference calls and written resolutions.
41. Appointed permanent CEO on 11 November 2014.
42. Resigned on 18 August 2014.
43. Appointed to the Board on 22 August 2014.

4. Corporate governance report continued

4.3 Board of Directors composition continued

Compliance with the UK Corporate Governance Code
As a company with a premium listing on the London Stock Exchange, Polyus Gold International Limited is required by the UK Listing Authority to disclose its compliance with the UK Corporate Governance Code.

For the period from its admission to the premium listing until December 2014 the Group was in compliance with the provisions set forth in the UK Corporate Governance Code. Each respective section of this Corporate Governance Report Statement explains how the Principles of the Code have been applied by the Group and confirms the Board's assessment that the Group has complied with the provisions of the code throughout 2014.

4.4 Diversity policy

In December 2013 the Board approved the Diversity policy under a recommendation of the Nomination committee.

The Board recognises the benefits that come from diversity.

Diversity is a core consideration in ensuring that the Board and its committees have the right balance of skills, experience, independence and Group knowledge necessary to discharge their responsibilities. A truly diverse Board will include and make good use of, the differences between, and other qualities of its Directors. Notwithstanding the foregoing, all Board appointments will always be made on merit, in the context of the skills and experience the Board as a whole requires to be effective.

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

The Nomination Committee of the Board reviews and assesses the composition of the Board (including skills, knowledge, experience and diversity) and makes recommendations to the Board regarding any changes and the appointment of new Directors. The Nomination Committee also keeps under review the leadership needs of the Group, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace and overseas.

In reviewing the composition of the Board and before any appointment is made, the Nomination Committee will consider, in accordance with and as stated in its Terms of Reference, the balance of skills, knowledge, experience and diversity on the Board.

In identifying suitable candidates for appointment to the Board, the Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board.

The Board has due regard for the benefits of diversity in its membership, including gender, and strives to maintain the right balance. It comprises individuals with extensive knowledge and experience in core and diverse business sectors in local, international and global markets, who bring a wide range of perspectives to the business.

By the end of FY 2014, women represented 17% (female: 2,960; male: 14,695) of the Group's total workforce and there was one woman among the top managers. The Board has had a female representative (1 person) since obtaining a premium listing in 2012.

4.5 Human rights policy

The Group and its subsidiaries recognise that all companies have a responsibility to respect human rights when conducting business.

The Group supports and endorses the UN Guiding Principles on Business and Human Rights and the rights contained in:
- The Universal Declaration on Human Rights;
- The International Covenant on Civil and Political Rights;
- The International Covenant on Economic, Social and Cultural Rights;
- The International Labour Organisation's Declaration on Fundamental Principles and Rights at Work; and
- The Voluntary Principles on Security and Human Rights.

Polyus Gold is committed to conducting its operations in accordance with domestic legal requirements and internationally recognised human rights. In particular, it upholds the following principles:
- To treat all employees, staff and suppliers fairly and without discrimination and in a manner that respects their dignity;
- To respect the freedom of association and freedom of expression of all employees;
- To prohibit forced and child labour;
- To ensure fair working conditions and a safe and healthy work environment for its employees;
- To comply with applicable environmental, labour and industrial safety laws;
- To respect the rights, cultures and customs of the communities in the areas in which Polyus Gold operates; and
- To operate a zero-tolerance policy towards bribery.

The Health, Safety, Environment and Community Committee is responsible for overseeing the implementation of this Policy. This policy is informed by, and should be read in conjunction with, Polyus Gold's Diversity and Anti-Corruption Policies.

4.6 Dividend policy

In April 2012 the Board approved the Group's Dividend Policy. In accordance with the Policy, the Group aims to pay dividends in the aggregate amount of a minimum of 20% of its net profit calculated in accordance with International Financial Reporting Standards (IFRS) per annum.

In December 2014 the Group stated that the Board intends to review and amend the Group's existing Dividend Policy in a way which would achieve an optimal balance between the capital requirements of the Group and distributions to shareholders. The review will be accomplished and disclosed during 2015.

4.7 Anti-corruption efforts

The Group operates a zero-tolerance policy on bribery or any other form of corruption, at all levels.

Any evidence of violations of applicable anti-corruption laws will be investigated, as a result of which disciplinary measures may be taken.

The Group obeys the requirements of the national anti-corruption laws of the countries in which it does business.

Anti-Corruption Policy

In 2011 Polyus Gold International adopted and distributed to all its business units and professional services the Anti-Corruption Policy. The Group adheres to the Anti-Corruption Policy and internal anti-bribery procedures, which take into account the requirements of Russian anti-corruption legislation and The United Kingdom 2010 Bribery Act.

Tone from the top

The Group generates all anti-bribery initiatives and solutions with the direct participation of Top Management. Members of the Board of Directors and Top Management of the Group receive quarterly reports from the Security Division which is responsible for the compliance function, and discuss the issues and activities carried out in the area of anti-bribery and corruption.

Training

Polyus Gold seeks to have its anti-corruption policies and procedures be well understood and executable by its employees. This is implemented by a multi-stage system of training of each employee – from full-time primary instruction to training and certification through an e-learning course. The Group strives to have all personnel trained, tested and certified in compliance with anti-corruption legislation and internal policies. In 2014 over 90% of the Group's personnel went through training procedures and signed a personal pledge to comply with the applicable requirements.

Risk assessment, due diligence, monitoring

The Group develops and continuously improves its procedures for checking counterparties and third parties, and attracts new service providers to minimise current corruption and similar compliance risks. The Group conducts preliminary checks before approving all contracts and project agreements.

The Group pays special attention to control over projects in higher risk areas. There are special control and monitoring procedures in place for all projects related to charity, sponsorship and consulting services. In addition, the Group has implemented controls over hospitality expenses (gifts and entertainment).

Communication

All accessible communication systems have been introduced to support whistleblowing and speak-up schemes to report potential violations or 'red flags'.

In 2014 Polyus Gold paid significant attention to revising and improving its reporting procedures.

Each business unit uses the most effective communication mechanisms, which enables the most convenient use by employees, taking into account the local features of each company.

Compliance personnel regularly represent the Group at international conferences on combatting corruption in order to share their practical experience and to develop new compliance strategies.

Throughout 2014, neither the Group, nor any employees or officers of the Group were involved in court proceedings in connection with corrupt practices.

4. Corporate governance report continued

4.8 Top management

Name	Position	Date of appointment
Pavel Grachev	CEO	02 October 2014
Vladimir Polin	General Director of CJSC Polyus	04 August 2014
Mikhail Stiskin	CFO	02 December 2013
Sergey Zhuravlev	Vice-President for Government Relations	03 March 2014
Gleb Ermakov	Vice-President for HR	11 September 2014
Vyacheslav Dzyubenko	Vice-President for Internal Control	27 January 2014
Elena Zhavoronkova	Vice-President for Legal Affairs	13 October 2014
Andrey Timoshkin	Vice-President for Engineering	26 May 2014
Dmitry Ageev	Vice-President for Capital Construction	11 August 2014
Konstantin Gusev	Vice-President for Procurement	04 March 2013
Anatoly Barilyuk	Head of Krasnoyarsk Business Unit	02 June 2014
Oleg Dubnov	Director for Energy Supply	24 October 2011

4.9 Audit Committee report

The Audit Committee is a sub committee of the Board of Directors and working for the Board, it executes and performs the delegated responsibilities of the Board.

Current members

- Kobus Moolman, Independent Non-Executive Director and Chairman of the Audit Committee;
- Adrian Coates, Independent Non-Executive Director and Senior Independent Director, and
- Edward Dowling, Independent Non-Executive Director.

Kobus Moolman and Adrian Coates were both reappointed to the Audit Committee on August 22, 2014 having served three years on the Committee and having given notice of their desire to serve a further three years.

The Board believes that the current composition of the Audit Committee has the required level of experience to meet the standards imposed by the UK Corporate Governance Code (the 'Code'). In the event that any issues should arise which would be deemed outside the areas of expertise of the existing members, independent professional advice would be sought.

Key objectives

- to provide effective governance over the Group's external financial reporting and the adequacy and effectiveness of the Group's internal controls around the preparation of financial statements and internal financial and operational controls; and
- to oversee the performance and work of both the internal audit function (see page 119) and of the external auditor.

Committee responsibilities

A description of the Committee's role, responsibilities and terms of reference are available on the Group's website www.polyusgold.com/company/corporate_governance/audit_committee/

Meetings and discussions

The Audit Committee met eight times during the financial year. The Committee's agenda is linked to events in the Group's financial calendar and is predominantly cyclical, although each member has the right to call for reports on matters of interest.

Please refer to section 4.3 'Board of Directors composition' on pages 111 to 113 for details of members' attendance at Committee meetings.

Review of the Committee's work

The Audit Committee met with management and independently with both the internal and external auditors to ensure that management was fulfilling its financial reporting responsibilities to the Board of Directors, who ultimately approves the consolidated financial statements and the interim management statement. The Group's external auditors had unrestricted access to the Audit Committee to discuss:

- compliance with the disclosure requirements of the Financial Conduct Authority ('FCA'), Listing Rules ('LR'), the FCA's Disclosure and Transparency Rules ('DTR') and the UK Corporate Governance Code (the 'Code'),
- financial reporting issues,
- the scope of their audit and,
- the adequacy of internal controls.

Financial reporting and compliance

The Committee's business included:

- the review and approval of the Annual report the consolidated financial statements for the FY 2013 and the interim management report for H1 2014;
- appointment of the external auditor, approval of the auditor's fees for 2014 and monitoring of the audit timetable for 2014 as well as the overall timeline of 2014 Annual report preparation;
- review and approval of both the external and internal audit plans for 2014 and assurance that all significant audit risks are properly covered;
- approval of the external auditor's non-audit service provided during 2014 year in accordance with the approved Non-audit services policy;
- review and approval of key accounting policies, critical accounting judgments and estimates including complex derivative transactions and their disclosure in the consolidated financial statements;
- assessing the going concern basis for preparing the consolidated financial statements;
- advising and supporting to the Board in order to help assess that the Annual report is fair balanced and understandable;
- reviewing management's initiatives to improve the effectiveness of internal financial controls, management and financial reporting and the working capital optimisation program;
- reviewing and recommending the approval of the annual budget for 2015; and
- in conjunction with the Risk Committee, monitoring the implementation of the anti-corruption policy and the efficiency of the risk management systems.

Risk management and internal control

The Board has established a continuous process for identifying, evaluating and mitigating the significant risks the Group faces and for determining the nature and extent of the significant risks against the Board's risk appetite that it is willing to take in achieving its strategic objectives. The Board regularly reviews the risk mitigation process, which has been in place from the start of the year to the date of approval of this report. The Board is also responsible for the implementation of the Group's system of internal controls. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with the provision C.2.1 of the Code, the Board regularly reviews the effectiveness of the group's risk management and internal control systems. The Board's monitoring covers all material controls, including financial, operational and compliance controls. It is based principally on reviewing reports from management to consider whether significant risks have been identified, evaluated, managed and controlled and whether any significant weaknesses have been promptly remedied, and to indicate a need for more extensive monitoring. The Board has also performed a specific risk assessment for the purpose of preparing this Annual report. This assessment considers all significant aspects of risk management and internal control arising during the period covered by the report including the work of internal audit. The Audit and Risk committees assisted the Board in discharging its governance review responsibilities.

During the course of its reviews of the risk management and internal control systems, the Audit and Risk Committees have not identified nor been advised of any failings or weaknesses which it has determined to be significant.

Areas of focus

The Committee discussed with management the critical accounting judgements and key sources of estimation uncertainty outlined in note 4 of the 2014 consolidated financial statements.

4.9 Audit Committee report continued

The significant areas of focus from that discussion and how these were addressed, are outlined below:

Matter considered	Action
Depreciation method for mining assets Depreciation of mining assets is calculated using the straight line method. We review the depreciation periods applied to ensure they are appropriate. We also monitor the straight line approach and perform regular reviews to identify whether it may deviate significantly from the depreciation charge that would be derived should the units of production method be applied to the mining assets balance. The consistent results to date reflect that the relevant machinery broadly operate to capacity to the end of the licence period.	The depreciation periods applied were reviewed and considered appropriate. The Committee received a presentation from management setting out their assessment of the difference between straight line depreciation and unit of production depreciation for mining assets. No significant differences were identified between the methods and the Committee concluded that the straight line depreciation method remained appropriate for these assets for the 2014 year end.
Determination of functional currency The designated functional currency of the parent company is the US dollar, with all the operating companies in Russia having a functional currency of the rouble. There is a significant translation loss recorded as a result of the significant devaluation of the rouble in the second half of 2014.	The Committee received a presentation from management setting out their assessment that the functional currency of the operating companies in Russia should continue to be the rouble. This was actively discussed at the Audit Committee meeting with management and the external auditor and this conclusion was confirmed.
Derivative financial instruments During the year, the Group has entered into a number of different derivative financial instrument contracts to hedge exposure to gold price and currency fluctuations and reduce interest rate exposure. The financial statement positions of these derivatives as at 31 December 2014 are outlined in the table on pages 172 to 176.	The Audit Committee examined the criteria for hedge designation in accordance with IAS 39 and reviewed the valuation and disclosures in the consolidated financial statements and considered these to be appropriate.
Recoverability of the exploration and evaluation assets Management judgement is required in the determination of whether expenditure which has been capitalised as exploration and evaluation assets is appropriately classified and valued.	The Committee received management's presentation on the recoverability of the exploration and evaluation asset portfolio. This included an assessment that no IFRS 6 impairment indicators were present which was considered appropriate.
Impairment of the tangible assets The Committee ensured management considered if impairment indicators were present, or a reversal of a previous impairment was necessary, in respect of the carrying value of property, plant and equipment, mines under development, and capital construction-in-progress. In particular, management was tasked with performing a comprehensive impairment review of the Natalka mine under development and a reversal of impairment was also identified in respect of the Kuranakh mining asset.	The Committee received detailed reporting from management and challenged the appropriateness of the assumptions made on the Natalka impairment test. Areas of focus were the achievability of the updated mining plan, assumptions in relation to rouble to US dollar exchange rate, gold price and discount rate, which have been subject to volatility given the current macroeconomic conditions. This was a key area of focus and challenge from the external auditor, who provided detailed reporting on their work to the Committee including sensitivity testing. No impairment was identified and appropriate disclosure of the judgements involved was requested to be included in the Annual Report and accounts. The Committee also considered the indicators for impairment reversal, and concurred with management's assessment of the NPV calculation for Kuranakh. This resulted in a reversal of the impairment recognised previously.
Carrying value of stockpiles, gold in process and product inventories The Group has a significant stores and spares balance. There is a risk that some of the stores and spares inventory could be impaired through obsolescence due to potential changes in technology, physical erosion and items being no longer useful.	The Committee evaluated the application of an updated inventory obsolescence policy and management's assessment of slow moving stock requiring review, including the related provisioning recognised in the consolidated financial statements. The policy and approach adopted was considered satisfactory.

Internal audit
Among the Committee's key responsibilities are the monitoring of the effectiveness of the Group's internal audit function, approving the appointment of its head, the annual internal audit plan and reviewing the reports presented by the internal auditor. The Internal audit plan for 2014 was approved by the Committee on 12 December, 2013. The Audit Committee met with the head of internal audit on a regular basis to discuss the department's remit. The Audit Committee received progress reports by the head of the internal audit department on a quarterly basis. The Committee assesses the effectiveness of the internal audit function during the 2014 financial year as satisfactory.

External auditors
Deloitte LLP has been the Group's external auditor since the premium listing of the Company in 2012. The Audit Committee ensures that the Group complies with the disclosure requirements of the Code, their guidance in relation to audit tendering and took cognisance of the European Union's text on Audit Regulation and Directive and the UK Competition Commission's response to audit tendering. In particular, the Competition and Market Authority's Order 2014, which became effective on the 1 January 2015.

The Audit Committee acknowledges the importance of, and greater investor scrutiny in respect of, a tendering policy for the appointment of the external auditors, noting in particular the changes to the provisions of the Code and the recent findings of the UK Competition Commission. Polyus has adopted the new UK auditor tendering rules and accordingly the Company is required to conduct a tender for the external audit by not later than 2022. The performance of Deloitte LLP as the Group's external auditors is kept under annual review and, if satisfactory, the Committee will recommend the re-appointment of the audit firm.

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. The policy assigns oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee, and day to day responsibility to the Group CFO.

The policy also sets out the categories of other non-audit services which the external auditor will and will not be allowed to provide to the Group, including those that are pre-approved by the Audit Committee and those which require specific approval before they are contracted for, subject to de minimis levels. The types of other non-audit services the external auditors should not carry out to avoid compromising their independence (unless it can be clearly shown that no threat to auditor independence is created by the auditor undertaking such activity) include:
- work related to the maintenance of accounting records and the preparation of consolidated financial statements that will ultimately be subject to external audit;
- management of, or significant involvement in, internal audit services;
- financial information systems design and implementation;
- actuarial services;
- investment advice and banking services;
- secondments to management positions that involve any decision-making;
- advising the Remuneration Committee (other than general assistance relating to appropriate levels of disclosures and accounting advice);
- legal services;
- custody of assets;
- valuation services of a public nature; and
- any work where a mutuality of interest is created that could compromise the independence of the external auditor.

Engagements that fall within the Audit and Other Assurance Services classification of services, together with accounting advice, are considered to be pre-approved by the Audit Committee to a level of $250,000. Audit and other assurance services include statutory audits, interim reviews and other regulatory reviews, and reporting accountants work, all of which require that the firm conducting the work is independent. Audit and other assurance services engagements with expected fees in excess of this amount require approval by the Audit Committee.

Other services expenditure over $250,000 per engagement or $750,000 in aggregate requires approval by the Audit Committee. Where fees for other services in the year exceed $750,000 in aggregate, all permitted engagements may only be awarded to the external auditor with the prior approval of the Audit Committee before commencement of the work.

To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee reviewed:
- the external auditor's plan for the current year, noting the role of the recognised audit partner, who signs the audit report and who, in accordance with professional rules, has not held office for more than five consecutive years;
- the arrangements for the day-to-day management of the audit relationship; and
- the overall extent of other services provided by the external auditor, in addition to its case-by-case approval of the provision of other non-audit services by the external auditor.

4. Corporate governance report continued

4.9 Audit Committee report continued

External auditors continued
Total fees incurred during the financial year are disclosed in the table below. The Audit Committee monitors the ratio of other fees to Audit and Other assurance fees as set out below:

	$
Total audit fees	**830,000**
Total other assurance fees	**453,750**
– Audit-related assurance services – Interim review	350,000
– Sustainability assurance services	103,750
Total audit and other assurance fees	**1,283,750**
Total other fees	**536,800**
– Taxation compliance and advisory services	406,313
– Consulting services	220,387
– Accounting advisory services	30,000
– Other non-audit services	35,100
Ratio of other fees to audit and other assurance fees	**0.5:1**

The work undertaken by the external auditors during the year and the safeguards considered by the Audit Committee to ensure independence included the following:

- The auditors provide tax advice. The Audit Committee considered that certain tax compliance and advisory services, primarily related to international taxation, were most efficiently provided by the external auditor, as much of the information used in preparing the computations and returns are derived from audited information. Their audit objectivity and independence was safeguarded through the use of a separate tax partner;
- The Group is undertaking a finance transformation programme in order to significantly enhance its financial management systems and processes and accordingly a number of projects have been initiated with external advisors providing consulting services. Deloitte were successful in securing the tender on two of these projects where in the opinion of the Group it did not conflict with their position as auditors and where they had specific skills to bring to these projects. These related to the development of a centralised treasury model and optimisation of the investment management process all of which will continue into 2015. Their audit objectivity and independence was safeguarded through the use of a separate team and prior approval was granted by the Audit Committee;
- No services were provided pursuant to contingent fee arrangements; and
- The Audit Committee considered the ratio of other fees to audit and other assurance fees to be reasonable.

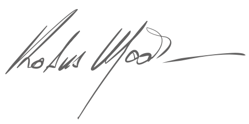
Discharge of responsibilities
According to provision C.3.8 of the Code, the Audit Committee reports on how it discharges its responsibilities on the significant issues reviewed by the Committee. The Audit Committee invites the CFO, as well as other executive managers and external consultants, to attend meetings. The Audit Committee discharges financial and corporate reporting, budgeting and planning to management. Independent assurance and audit is provided by the external auditor.

Audit Committee statement
Having discussed the information received from management, the internal and external auditors and our consultants, the Audit Committee believes that the Group's procedures and financial records can be relied upon for the preparation of the consolidated annual financial statements.

The Audit Committee considers that the Annual report is balanced and in compliance with the FCA disclosure and transparency rules. The Audit Committee considers that the consolidated annual financial statements are in compliance with IFRS and the annual report is fair balanced and understandable.

The Audit Committee has therefore recommended to the Board of Directors that the Annual report be approved.

Approved by the Audit Committee and signed on its behalf by:



Kobus Moolman
Chairman of the Audit Committee
London, 12 March 2015

4.10. Risk Committee report

Membership

Current members

- Adrian Coates, Independent Non-Executive Director, Chairman of the Risk Committee;
- Kobus Moolman, Independent Non-Executive Director;
- Igor Gorin, Non-Executive Director;
- Edward Dowling, Independent Non-Executive Director; and
- Anastasia Galochkina, Director of the Company, nominated by Wandle Holdings Limited.[44]

Former members

Anna Kolonchina, Director of the Company, nominated by Wandle Holdings Limited.[45]

Key objectives

- To ensure effective oversight of business risks and their mitigation; and
- To monitor internal control procedures and processes and related compliance activities.

Committee responsibilities

A full description of the Committee's role and responsibilities is available on the Group's website: www.polyusgold.com/company/corporate_governance/risk_committee/

Meetings and discussions

See section 4.3 'Board of Directors composition' on page 113 for information on attendance of the Committee.

Review of the Committee's work

The Committee continued with its ongoing work of the regular analysis of the company-wide Risk Management System, financial risk management initiatives and quarterly review of the Production Risk Management Reports, as well as its oversight of internal risk management and the ongoing monitoring of the most significant risks. The Board, Group's management and the Committee have placed a special focus on internal and external factors that may have a negative impact on the Group's strategic objectives, including recent changes in Russian legislation, EU sanctions imposed against Russia, development of the most significant projects such as Natalka, the availability of external funding, the management of gold price risk, and other financial exposures. Various proposals to mitigate risk and improve the Group's efficiency were reviewed and passed to the Board for final approval.

The Committee is authorised to seek any information it requires from any employee of the Group in order to perform its duties and to obtain at the Group's expense an external legal or other professional advice on any matter within its Terms of Reference, and to call any employee to be questioned at a meeting of the Committee, as and when required.

Risk management

The Risk Committee reviews the consolidated risk position and commissions management reports on strategic business risks and other issues described on pages 14 to 19[46]. It also reviews the Production Risk management reports on current production risks on a quarterly basis, which include a factor analysis of current risks, the most significant technical and production risks, and the status of programmes aimed at mitigating these risks.

In addition, a summary on accidents and technical failures recorded at the Group's operations was provided to the Committee, providing details of each incident along with the root cause and possible consequences.

Financial risk management

Despite unstable market conditions, the world gold price was relatively stable during the year. However, the potential risk of a gold price fall still exists. To reduce the Group's exposure to volatile macroeconomic factors, the Committee considered and approved the purchase and sale of a number of financial instruments. Aiming to protect future cash flow, the Group initiated its Strategic Price Protection Programme comprising a series of zero-cost gold collars and gold forward contracts. The Group also entered into currency collars and cross-currency swaps to reduce the adverse effects of exchange currency rates.

The Committee requires management on a regular basis to update the Financial risk management report, including the progress report on approved transactions, as well as providing information on established credit ratings (potential for revisions by rating agencies), credit possibilities and other related information.

Debt management

Despite unfavourable credit market conditions due to the Russian economic environment, the Group managed to optimise its credit portfolio and strengthen its liquidity opportunities. New long-term and low-cost credit facilities, including a RUB 36 billion credit line from Sberbank and several lines from international banks, were established on favourable terms. As the revenue of the Group is effectively linked to USD, it was decided to enter into RUB/USD cross-currency swaps related to the aforementioned RUB 36 billion credit line.

44. Appointed to the Committee on 22 August 2014.
45. Resigned from the Committee on 18 August 2014.
46. Provision in accordance with Enterprise Risk Management (ERM) adopted in compliance with ISO31000 Risk management – Principles and guidelines.

4.10. Risk Committee report continued

Debt management continued
The Group also entered into an interest rate swap agreement to increase the share of floating rate debt and to allow the Group to limit current interest expense. The credit ratings from S&P and Fitch were maintained at BB+ and BBB- respectively, reflecting the Group's strong financial standing. The debt maturity schedule was managed carefully, to ensure minimal repayments until 2019 – 2020. Available cash resources were put into deposits with attractive rates at a diversified pool of banks with strong credit quality. To limit the effect of potential rouble devaluations, the Group limited the amount of cash held in roubles at any time. The Group's net debt was consistently decreasing throughout the reported period due to strong operational cash flows and stringent working capital management.

The Risk Committee reviews and approves on a regular basis policy on debt portfolio management. In terms of debt portfolio management the Risk Committee oversees and advise on sources of debt capital, currency, maturities as well as options to deposit available funds. Moreover, the Risk Committee considers exchange rate risks, interest rate risks and credit limits for banks under debt portfolio management.

Business Continuity Management (BCM)
Back in 2013, the Committee approved the engagement of external consultants to implement Business Continuity Management at all business units and corporate headquarters. Throughout 2014, the Group continued to work under the supervision of the Internal Audit and of the Operating Unit to bring the existing system into compliance with the ISO22301 international standard. A number of disaster scenario simulations were performed within 2014 at Krasnoyarsk and corporate headquarters to test BCM improvements and to ensure the uninterrupted operation of the Group if an adverse event occurs. The results of this ongoing work were reviewed by the Committee and the members noted that the development of the project had been beneficial to the Group.

EU sanctions
The Group is not directly subject to sectorial or any other sanctions imposed by the EU on Russia, but as a Jersey incorporated entity it has to ensure compliance with applicable sanctions law. A summary of the impact of the sanctions on the Group's business and its Directors was presented by its legal advisers for the Committee's consideration. After due consideration of the possible implications for the Group of the sanctions, the Committee tasked management, with assistance of an external consultant, to prepare appropriate policies and procedures to ensure compliance with the requirements of the sanctions, for further presentation to the Risk Committee and subsequently to the Board of Directors.

Deoffshorisation and redomiciliation
The Committee continues to actively monitor the potential risks from the Russian Government's evolving 'deoffshorisation' initiatives, as well as implications and mitigation measures. The Committee received a comprehensive legal memorandum on the subject. The issue was considered from a number of different perspectives, including possible legal, tax and market implications. The Committee resolved to establish a deoffshorisation subcommittee to consider the deoffshorisation issue and to assess all associated risks.

Mergers and acquisitions
As part of the Group's development strategy, the Committee monitors potential investment opportunities in the gold mining industry, both in Russia and overseas. A number of options and opportunities were considered using different criteria for evaluating the attractiveness of potential M&A targets. The Committee will continue to monitor the ongoing situation in the market from the perspective of a possible expansion of the Group's business.

A more comprehensive review of individual risks faced is included in Section 1.6 on pages 14 to 19, together with the measures taken by the Group to mitigate these risks.

Despite the Group's efforts to mitigate risk throughout its operations, the Committee remains mindful of the fact that mining activities in remote locations and in extreme weather conditions will continue to pose significant risks and that these risks are compounded by geopolitical and regulatory risks as well as a volatile world market for gold. The Committee will continue to closely monitor the situation in the year to come.

Adrian Coates
Chairman of the Risk Committee
London, 12 March 2015

4.11 Nomination Committee report

Membership

The Nomination Committee comprises five members:
- Ilya Yuzhanov (Chairman), Non-Executive Director and Chairman of the Board;
- Bruce Buck, Independent Non-Executive Director;
- Adrian Coates, Independent Non-Executive Director and Senior Independent Director;
- Pavel Grachev, Chief Executive Officer; and
- Edward Dowling, Independent Non-Executive Director.

The majority of members of the Nomination committee are independent non-executive Directors.

Key objectives
- To ensure that the Board has an appropriate balance of knowledge, skills, experience, independence and diversity to enable it to effectively discharge its responsibilities in accordance with the highest standards of governance;
- To be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- To recommend to the Board the membership and chairmanship of the Audit, Remuneration, Risk and Health, Safety and Environment committees; and
- To give full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Group, and the skills and expertise needed on the Board in the future.

Committee responsibilities

The Nomination Committee is required to assist the Board in ensuring that the Board is comprised of high-calibre individuals whose background, skills, experience and personal characteristics will augment the present Board and meet its future needs and diversity aspirations.

The Nomination Committee oversees the composition of the Board in terms of the diversity and capacity required to oversee the delivery of the Group's strategy.

A detailed description of the committee's role and responsibilities is available on the Group's website:

http://www.polyusgold.com/company/corporate_governance/nomination_committee/

Review of the Committee's work

The Committee met formally five times in 2014 to make effective, relevant recommendations to the Board.

During the first eight months of 2014 the committee continued its intensive search to recruit a new Chief Executive, initiated in late 2013. The committee instituted a comprehensive compliance programme, requiring detailed information gathering and background checks for all candidates. In addition to formal meetings, the Committee members met informally to interview certain prospective CEO candidates to form a reasoned opinion.

At its September meeting, the Committee made a recommendation to the Board that the role of permanent CEO of the Group should be offered to Pavel Grachev, who served as Interim CEO after the resignation of German Pikhoya in November 2013. The Board, after careful consideration of the issue, announced the appointment of Pavel Grachev as permanent CEO on 17 November 2014.

Following the announcement by Anna Kolonchina that she intended to step down as member of the Board, the Group received a letter from Wandle Holdings Limited nominating Anastasia Galochkina to the Board, pursuant to the existing Relationship Agreement. The Nomination Committee is responsible for identifying and nominating for approval of the Board candidates to fill Board vacancies as and when they arise, and before any appointment is made by the Board, to consider candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender, and ensuring that appointees have sufficient time available to devote to the position. After consideration, the Nomination Committee recommended Anastasia Galochkina to be appointed as a Non-Executive Director of the Group. The Committee in addition ensured that Anastasia, as a new member of the Board, was informed of all premium listing disclosure requirements and the necessity to disclose related-party information. She also undergoes training sessions. As Anastasia was nominated from Wandle Holdings Limited, no search consultants were involved.

The Nomination Committee is responsible for leading the Board's evaluation process, which is designed to provide Directors with an opportunity each year to examine how the Board is operating, and to make suggestions for improvement. In 2012 and 2013 the Board and committees conducted internal self-assessment, the results of which were reported to the Nominations Committee and the full Board and the Group made a statement of compliance with the UK Corporate Governance Code in its respective Annual Reports.

4.11 Nomination Committee report continued

Review of the Committee's work continued

The UK Corporate Governance Code requires that the Group, as a premium-listed entity, undertakes an externally facilitated Board evaluation every three years. In 2014 the Board Effectiveness Review for Polyus Gold International Limited was performed by Heidrick and Struggles, an independent advisor which has no connection with the Group.

In order to continue Polyus Gold's program of maintaining highly competitive operations and a strong record of production from existing operations, a decision has been taken to review the composition, structure and performance of the board so that the contribution of the board may continue to add value and ensure the company's success in the future.

As part of this process Heidrick & Struggles was tasked to review both Board composition and fit relative to your business strategy and to facilitate strong Board performance, informing a progressive agenda for Board development.

The evaluation process took place in the autumn and winter of 2014 and involved in-depth interviews with the Chairman, each Board member, and the Chief Executive Officer (who frequently interacts with the Board or its committees), desk reviews, a Board effectiveness questionnaire and silent observation of the Board and committee meetings.

The consultant sought to delve into the following aspects of the Board's interactions and endeavoured to identify themes, trends and potential areas for improvement, based on a thorough analysis of the following:

- The structure and composition of the Board;
- The development direction of the Board;
- Core processes;
- Engagement with Group issues; and
- The personal contribution of each Director.

The effectiveness review showed that the Group's Board of Directors is strong and functional, and has a good blend of individuals with complimentary executive and functional backgrounds. Despite recent changes in the CEO, executive team and the board, strong progress has been made in terms of over all leadership and governance of the company. In particular, Heidrick and Struggles highlighted the Board's strengths with respect to the area of efficiency of core Board processes. The Financial performance review was seen as strong. The Board members also rated the management team's contribution, the Board's attentiveness to Corporate reputation, meeting agenda and outcomes, and experience and competence to probe on major investment decisions highly.

Overall, the Board's performance was seen to be good; however, the adviser identified some specific areas for consideration and improvement in order to become more effective, leverage the strengths of individual members of the board and more closely aligned with stakeholder and long-term strategic issues.

The Board considered the findings from its performance review and agreed the actions arising. The Nomination Committee agreed to elaborate a development programme which would address all areas for improvement, and to will continue to review its procedures, effectiveness and development in the financial year ahead.

In the coming year, the Committee will address all suggested potential enhancements to the Board and its committees and monitor relevant developments in corporate governance with emphasis on development and succession planning for top management, providing updates and trainings for Directors.

Ilya Yuzhanov
Chairman of the Nomination Committee
London, 12 March 2015

4.12 Health, safety environment and community Committee report

Membership
Current members:
- Edward Dowling, Independent Non-Executive Director, Chairman of the Committee;
- Bruce Buck, Independent Non-Executive Director; and
- Igor Gorin, Non-Executive Director.

Key objectives
- To provide effective governance over the Group's policies and procedures related to health, safety, the environment, community issues and human rights; and
- To promote best practices and to encourage a positive approach across the Group's operations.

Committee responsibilities
A description of the committee's role and responsibilities is available on the Group's website:
www.polyusgold.com/company/corporate_governance/environment_and_community/

Meetings and discussions
See the 'Corporate Governance report' on page 113 for information on attendance at committee meetings.

Review of the Committee's work
In discharging its responsibilities, the Committee works closely with the other Board committees, particularly in relation to risk assessment.

The Committee arranges for periodic reviews of its own performance and, at least once a year, reviews its constitution and Terms of Reference to ensure that it is operating effectively, and it recommends any changes it considers necessary to the Board for approval.

Health and safety
In 2014, regrettably, the Group reported four work-related fatalities (compared with three in 2013), two of which took place at the alluvial operations in the Irkutsk Region and two at Polyus Logistics in the Krasnoyarsk Region. The Group considers any fatality completely unacceptable and a detailed root-cause analysis of the accidents are being conducted to ensure that effective mitigating plans are introduced. For the reported year for the Group, the lost time injury frequency rate was 0.09, a 19% improvement on 0.11 in 2013. Despite this progress, the committee remains resolute on eliminating all workplace accidents.

The Committee oversaw the introduction of the Wellness initiatives, which were rolled out at the Krasnoyarsk BU and Verninskoye during the year and focus on enforcing medical screening, introducing cardiovascular screening for the early detection and prevention of cardiovascular disease. The Committee considers cardiovascular disease and risks to employee health, as well as medical problems associated with this disease, material for the Group.

The safety of the Group's employees and stakeholders is of paramount importance to the Board. Therefore, the committee approved the implementation of the DuPont Safety Leadership training programme at the Krasnoyarsk BU in 2014 and regularly reviewed the progress of the programme's execution. The Committee emphasised the importance of focusing on safety behavioural changes and supported the further extended implementation of the programme across the Group to ensure a unified health and safety approach at all operations.

The Committee also undertook a quarterly review of management's response to the most serious health and safety incidents, root-cause analysis results, and the efficiency of the corrective actions.

Sustainability
The Committee reviewed and approved the 2013 Sustainability Report prepared in accordance with the comprehensive GRI G4 requirements and independent assurance of CSR performance data, which was conducted by Deloitte CIS.

In compliance with its Stakeholder Engagement Policy the Group set up a number of meetings with local stakeholders and communities at the KBU, Irkutsk, and Magadan sites, to discuss the status of relevant projects. The Committee monitors such Group activity and insists on the further implementation of stakeholder engagement practices within the Group.

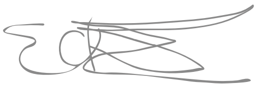
4. Corporate governance report continued

4.12 Health, safety environment and community Committee report continued

Sustainability continued

In addition to its watchdog role, this year the Committee has overseen and led the Polyus Gold application membership process to the International Council on Mining and Metals, an industry body founded in 2001 to improve sustainable development performance in the mining and metals industry. As part of this application for membership, an independent consultant (ERM) carried out a strategic review of the policies and practices of the Group to analyse and assess the degree of current alignment with ICMM principles, position statements and reporting/assurance requirements. The Committee regularly checks the status of the gap analysis process and reviewed and approved the Polyus Gold 2015–2016 ICMM Road Map, which sets out the key actions required in the coming two years to address cases of Partial Alignment and to catalyse Broad Alignment with each element of the ICMM SD Framework. The Committee took responsibility to coordinate the Group's application review process with the ICMM Review Panel.

See the Sustainability report on pages 52 to 88 for more information on the Group's activities in this area.



Edward Dowling
Chairman of the Health, safety environment and community Committee
London, 12 March 2015

5. Remuneration report

5.1. Statement from the Chairman of the Remuneration Committee

On behalf of the Board I am pleased to present the Directors' Remuneration Report for 2014.

Last year's Directors' Remuneration Report received a vote in favour of 99.26% of votes cast at the 2014 Annual General Meeting and I thank shareholders for their support.

Although it is incorporated in Jersey, for this report, in addition to compliance with the FRC UK Corporate Governance Code as a UK listed company, the Committee has agreed that where appropriate the Group should further its best-practice approach to disclosure and voluntarily enhance the structure and content of the Report in line with 'The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013' for UK incorporated companies. These additional voluntary disclosures provide shareholders with further information on the structure, alignment and focus of Directors Remuneration.

The Directors' Remuneration Report has been split into three sections:

- The Remuneration Committee Report describes the main Committee activities during the year under review (see Section 5.2 on page 128);
- The Directors' Remuneration Policy Report describes our remuneration policy and its alignment with our business strategy, including a summary of the key elements of pay (see Section 5.3 on pages 128 to 132); and
- The Directors' Remuneration Report explains how Polyus Gold's remuneration policy has been implemented and details the compensation paid to executive and non-executive Directors in respect of the 2014 financial year (see Section 5.4 on pages 132 to 134).

The review of the remuneration policy for the Top Management (the 12 most senior executives of the Group, including the current CEO) at the beginning of 2014 enabled us both to ensure a competitive level of rewards and to strengthen the link between short-term performance and rewards.

A further step in developing our remuneration strategy in 2014 has been dedicated to a long-term incentive plan ('LTIP') for top management. The LTIP is intended to incentivise our top management to achieve sustainable long-term growth of both financial and operational results in order to constantly increase shareholder value. Subject to approval at the 2015 AGM we intend to implement the proposed LTIP in the forthcoming year.

Bruce Buck
Chairman of the Remuneration Committee
London, 12 March 2015

5. Remuneration report continued

5.2 Remuneration Committee report

Committee Membership

The members of the Remuneration Committee are independent Non-Executive Directors. The current Remuneration Committee was formed by a resolution of the Board of Directors acting on the recommendation of the Nomination Committee. From 13 November 2013 the Committee has been chaired by Mr Bruce Buck and has been made up of the following members:

- Bruce Buck, Independent Non-Executive Director;
- Adrian Coates, Senior Independent Non-Executive Director; and
- Kobus Moolman, Independent Non-Executive Director.

Key objectives

- To ensure that members of the Group's executive management are provided with appropriate incentives to encourage enhanced performance and are rewarded in a fair and responsible manner for their individual contributions to the Group's success; and
- To control the effectiveness and competitiveness of the Group's remuneration policy.

Committee responsibilities

The description of the Committee's role and responsibilities and its full Terms of Reference can be found on the Company's website –www.polyusgold.com/company/corporate_governance/remuneration_committee.

None of the Committee members has any personal financial interest (other than as a shareholder), conflict of interest, cross-directorships or day-to-day involvement in the running of the business. The Terms of Reference of the Remuneration Committee restrict membership to an initial period of three years, after which time membership may be extended by the Board for a further three years, provided that the appointees still meet the membership criteria.

Meetings and discussions

The Remuneration Committee met four times over the course of the financial year. In addition, a number of working-group meetings and conference calls between Committee members and the Group's remuneration advisors were held. See Section 4.3 'Board of Directors composition' on page 113 for details of members' attendance at the Committee meetings.

Review of the Committee work

During the year the Committee

- reviewed performance of top management against 2013 short-term incentive plan targets and approved the annual bonus pool for 2013;
- set corporate and individual targets (KPIs) for top management for 2014 short-term incentive plan;
- reviewed proposals on a long-term incentive plan for top management; and
- considered miscellaneous minor remuneration issues ensuring that the Group's business interests comply with local labour law.

Advisors to the Committee

During the year the Remuneration Committee was advised by specialist consultants, Towers Watson, who were appointed by the Committee in June 2012 to provide independent advice on matters under consideration by the Committee on an ongoing basis. Towers Watson's fees for this work amounted to $167,471. The Remuneration Committee is satisfied that the advice provided on executive remuneration is objective and independent and that no conflict of interest arises as a result of these services.

Since stepping down from the Board Lord Clanwilliam remained an advisor to the Committee until May 2014 on matters relating to senior executive pay. Lord Clanwilliam's fees for 2014 amounted to $125,000 and he did not provide any other services to the Group or its subsidiaries.

5.3. Directors' Remuneration Policy report

Introduction

The Remuneration Committee presents the Directors' Remuneration Policy Report, which sets out Polyus Gold's forward-looking remuneration policy for all Executive Directors. As set out in the Chairman's letter, since the Company is not incorporated in the UK, this section voluntarily provides shareholders with more information on the structure and content of executive remuneration, as far as appropriate.

The Director's Remuneration Policy Report, which is broken down into the following sections:

- Remuneration policy for Executive Directors, which sets out details of our annual remuneration elements;
- Remuneration policy for recruitment/promotion relating to Executive Directors;
- Remuneration policy for Non-Executive Directors; and
- Termination policy relating to Executive and Non-Executive Directors.

Remuneration policy for Executive Directors

	Operation	Maximum opportunity
Base salary To maintain package competitiveness and reflect individual skills and experience.	Reviewed annually, with any change taking effect from 1 April and taking into account: • Individual and business performance • Level of experience • Scope of responsibility including any changes during the year • External comparisons to the international gold mining, UK and local Russian markets	Executive Directors are eligible to receive an increase in base salary each year. The Committee will assess pay increase levels with reference to those factors described in this table but do not operate a limit on the level of increase that can be provided.
Other benefits To be market competitive for the purposes of alignment with prevalent business practices	The Executive Directors are entitled only to standard benefits stipulated by the Russian labour law. The Committee retains the discretion to provide additional benefits as may be reasonably required to reflect changed circumstances in relation to existing or new Executive Directors.	The Committee has not set a limit on the maximum level of benefits that can be provided to Executive Directors. In providing additional benefits the Committee will ensure that costs to the Company are reasonable.
Short-Term Incentive Plan (STIP) To incentivise executive Directors to achieve specific and stretching pre-determined goals over a short-term period	Annual payments under the STIP are based on performance conditions calibrated and set by the Committee at the start of each financial year. Performance is measured over the preceding financial year. Targets under the STIP reflect the Company's annual plan, which in turn reflects the strategic priorities of the Group. The Company currently employs the following categories of STIP performance measures for Executive Directors: 1. **Corporate KPIs:** 1.1. Adjusted EBITDA 1.2. Gold production volume 1.3. Total Cash Cost per ounce of gold sold 1.4. Lost-Time Injury Frequency Rate (LTIFR) 2. **Personal performance assessment,** which is performed by the Remuneration Committee at its discretion. Each of the corporate KPIs has predetermined 'minimum', 'target' and 'maximum' values, against which the actual results are assessed. Achieving 'target' results will equate to on-target STIP payment. 'Minimum' and 'maximum' results are rewarded correspondingly in accordance with the predetermined numerical scale for each KPI. The Committee retains the discretion to assess and change the plan and performance measures each year in line with business needs. In addition, the Committee has discretion to adjust the final payment to ensure the payments reflect the underlying financial performance and value – 'malus'.	On-target STIP opportunity is set at 100% of annual base salary for Executive Directors. The maximum opportunity is calculated individually for each KPI, but typically does not exceed 120% of the annual base salary for exceptional performance.

Notes to the table:

1. *Each year the Board meets to set the budget for the year ahead. The Remuneration Committee uses the budget, external forecasts for macroeconomic parameters, such as gold price, inflation rate, exchange rate and business strategy to appropriately calibrate annual targets for the year. Budgets are set to be stretching to ensure a strong link between pay, performance and business strategy.*

2. *Pay arrangements for Executive Directors are similar in structure to those provided to the wider Top Management team and corporate head office. However, the Committee feels that, given that all operating locations are in Russia with talent sourced locally, the pay structure applied to roles below the top management team should naturally differ in size.*

3. *Polyus Gold has avoided, where possible, including unnecessary discretions in the policy table. However, exceptional or genuinely unforeseen circumstances may arise in the future and in those circumstances it may be in shareholders' interests for Polyus Gold to put in place remuneration arrangements that are outside the terms of the policy set out in this report. If this happens, Polyus Gold will be permitted to implement remuneration arrangements that it considers appropriate in the circumstances.*

4. *Lost-Time Injury Frequency Rate (LTIFR) is a standard measure used globally in the mining industry to assess the efficiency of occupational health and safety. The Group calculates it as follows:*

Number of lost-time injuries in the accounting period/Total hours worked in the accounting period x 200,000 hours.

5. Remuneration report continued

5.3. Directors' Remuneration Policy report continued

Remuneration policy for Executive Directors continued

	Operation	Maximum opportunity
Long-Term Incentive Plan (LTIP) The long-term incentive plan is intended to align the interests of the executive Directors and shareholders through the creation of shareholder value over the long term. **LTIP is subject to shareholder approval at the 2015 AGM.**	Executive directors may receive contingent share awards which have the ability to vest after rolling three-year periods based on the achievement of specified performance targets. The Committee will determine the performance measures and targets at the beginning of each performance period to ensure continuing alignment with strategy. Performance targets may relate to both financial and non-financial measures linked to the company's long-term business strategy, including: • Adjusted EBITDA • Absolute Total Shareholder's Return ('TSR') • Gold Production • Lost-time injury frequency rate ('LTIFR') Threshold performance will result in vesting under the plan of one third of maximum. Maximum performance will result in full vesting. At the end of the performance period, the Committee will have discretion to determine the extent to which the awards will vest on account of underlying Group performance. Malus and clawback provisions will apply to awards made under the plan.	On-target LTIP opportunity is set at 300% of annual base salary for Executive Directors. The LTIP may vest at up to 150% of the target award, subject to performance, with a maximum cap of 450% of annual base salary. The maximum award would only vest for exceptional performance. The Committee retains the discretion to adjust the level of LTIP awarded, either up or down, in exceptional circumstances, within the limits of the plan rules.

Note to the table:

The long-term incentive plan is being put forward to shareholders for approval at the 2015 AGM. Implementation of the above LTIP policy is therefore subject to receiving shareholder approval.

Recruitment/promotion for Executive Directors
Polyus Gold operates in an international talent market and, as such, the Company's recruitment policy reflects the need to offer market competitive remuneration packages, both in terms of opportunity level and structure. The table below outlines the Committee's approach to the recruitment and promotion of new Executive Directors.

Base salary	**The base salary for new appointees will be set as described in the main policy table. Upon promotion a Director may be granted a higher than normal pay increase to align pay with the role's new responsibilities and accountabilities.**
Variable pay	New appointees will be eligible to participate in the Group's incentive schemes on the same basis as described in the main policy table.
Buy-out of existing awards from previous employers	The Committee will assess the value of previous awards that a prospective employee may forfeit upon leaving their previous employer. In doing so the Committee may seek independent advice and/or valuation services. It is the intention of the Committee that any buy-out awards will be made on a value neutral basis, or lower, to the prospective incumbent, will not be excessive and will be provided at an acceptable cost to the Group. Awards will mimic the vehicle of the forfeited award where possible with payment made in cash or shares. Where awards are subject to performance conditions the Committee will make awards of a similar expected value as the forfeited awards.
Appointment awards	Where necessary, to aid the recruitment of key/critical talent, the Committee may use its discretion to grant additional recruitment awards, in cash or shares, in the year of appointment.

Remuneration Policy for Non-Executive Directors

Fees To attract and retain high-calibre, experienced Non-Executive Directors by offering globally competitive fee levels	Non-Executive Director's fees are fixed in the contract with each Non-Executive Director. An additional fee is stipulated for Audit Committee membership. Fees are reviewed annually and the competitiveness of total fees is assessed against those in companies of a similar size, complexity and industry. The amount of fees is as set out in the table below:
Benefits	Non-Executive Directors receive reimbursement of expenses that are incurred in the performance of their duties as Non-Executive Directors. The Company retains the discretion to provide further benefits to Non-Executive Directors in line with standard practice in the market.

Role	Fees, $
Chairman	450,000
Basic fees	350,000
Audit Committee additional fee	30,000

Note to the table:
Non-Executive Directors Anna Kolonchina (resigned from the Board in August 2014), Anastasia Galochkina (appointed in August 2014) and Igor Gorin each represent a major shareholder and hence are not deemed to be independent. Neither Anna Kolonchina, Anastasia Galochkina nor Igor Gorin received a fee from the Group for their directorships. It is the Committee's intention that this policy will continue for all non-independent Non-Executive Directors.

Termination of remuneration policy for Executive and Non-Executive Directors
The Group's policy does not allow for any payment to Executive Directors upon exiting the Group beyond that to which they are contractually entitled.

5. Remuneration report continued

5.3. Directors' Remuneration Policy report continued

Interim Chief Executive Officer

Pavel Grachev	
Date of appointment	27 November 2013
Notice period	Not less than 2 weeks
Termination remuneration	None

Chief Executive Officer

Pavel Grachev	
Date of appointment	11 November 2014
Notice period	Not less than 2 weeks
Termination remuneration	None[47]

Non-Executive Directors

Name	Date of appointment	Notice period	Termination remuneration
Adrian Coates	17/03/2010	None	None
Kobus Moolman	26/07/2011	None	None
Bruce Buck	26/07/2011	None	None
Anna Kolonchina	26/07/2011	None	None
Igor Gorin	21/03/2013	1 month	None
Edward Dowling	04/10/2013	1 month	None
Ilya Yuzhanov	04/10//2013	1 month	None

5.4. Directors' remuneration report

In this section of the Report we explain how Polyus Gold's remuneration policy has been implemented during the 2014 financial year.

Executive Directors' Remuneration

On 27 November 2013 Pavel Grachev was appointed Interim CEO. In 2013 Mr Grachev did not receive any remuneration for his services. On 15 May 2014 the Board approved Executive Service Agreement between the Company and Pavel Grachev with remuneration to the same level as Independent Non-Executive Directors ($350,000 per annum) to be applicable retroactively from 27 November 2013. On 11 November 2014 Pavel Grachev was appointed Chief Executive Officer with remuneration effective from 02 October 2014 to be split for payment between the Company and its subsidiaries OJSC Polyus Gold, where Pavel Grachev keeps an executive role, and CJSC Polyus with a non-executive position, as deemed appropriate.

Base salary

The base salary of the Chief Executive Officer is determined taking into account competitiveness assessed against appropriate peers in businesses in a similar sector and of a similar size and complexity. The base salary may be reviewed annually based primarily on corporate and individual performance.

Benefits and allowances

Pavel Grachev did not receive any benefits during the financial year.

Under the current remuneration policy no Director receives pension contributions. This reflects local Russian market practice.

2014 Annual bonus

Under his contract as Interim CEO Pavel Grachev was not eligible for an annual bonus. Under his contract as permanent CEO Pavel Grachev awarded an annual bonus for the 2014 financial year on a pro rata basis for three months taking into account the annual performance measured by the achievement of the following financial and non-financial targets.

47. Since 2 October 2014 Pavel Grachev has been additionally appointed Chief Executive Officer of OJSC Polyus Gold, one of the Group's subsidiaries in Russia, with remuneration being included in the Single Total Figure Table of the present Directors' Remuneration Report. Under Russian law in the event of premature termination of a CEO's contract he is entitled to three monthly average salaries paid by this legal entity. The calculation of average salary for the purposes of the termination payment is defined by Russian law and includes bonuses paid during the 12 consecutive months preceding the termination date.

The table below outlines 2014 Corporate KPIs and their achievement during the 2014 financial year:

Indicators	Below target (% achievement)	On target (% achievement)	Better Than target (% achievement)
Adjusted EBITDA, $ million			157%
Gold production volume, tonnes			104%
TCC, $/oz			117%
LTIFR			123%

Outside appointments for the Chief Executive Officer

To broaden the experience of the Chief Executive Officer, he may hold positions in other companies as a non-executive Director, provided that permission is sought in advance from the Senior Independent Director. Any external appointment must not conflict with the CEO's duties and commitments to the Group.

Until 27 June 2014 Pavel Grachev was a Non-Executive Director of JSC Federal Grid Company, and did not receive any fees related to this position in the financial year.

Auditable section

Single total figure table

Director	Financial year	Total salary/fees $	Annual bonus $	Fees paid to third parties $	Total remuneration $
Executive					
Pavel Grachev[1,2]	2014	746,131	487,632		1,233,763
	2013	–	–	–	–
Independent, non-executive					
Ilya Yuzhanov	2014	450,000	–	–	450,000
	2013	112,500	–	–	112,500
Adrian Coates	2014	380,000	–	–	380,000
	2013	380,000	–	–	380,000
Bruce Buck[3]	2014	–		350,000	350,000
	2013	–	–	350,000	350,000
Edward Dowling	2014	380,000	–	–	380,000
	2013	90,000	–	–	90,000
Kobus Moolman	2014	380,000	–	–	380,000
	2013	380,000	–	–	380,000

Notes accompanying the total single figure table

1. *Figures of total salary and annual bonus of Pavel Grachev for 2014 include all payments made to him by PGIL, OJSC Polyus Gold and CJSC Polyus.*
2. *Total salary comprise:*
   a) $33,056 for services rendered as Interim CEO in 2013
   b) $291,670 for services rendered as Interim CEO in 2014
   c) $421,405 for services rendered as permanent CEO effective from 02 October 2014. This amount as well as the annual bonus amount were paid out in Russian rubles and are shown here in US dollars converted at the actual average exchange rate of the Bank of Russia for the 4th quarter of 2014.
3. *Fees for services provided by Bruce Buck are paid to the law firm of Skadden, Arps, Slate, Meagher & Flom (UK) LLP, of which Mr Buck is a partner. The fees shown in the table are net of VAT.*
4. *In 2014 there were three non-independent Non-Executive Directors: Igor Gorin, Anna Kolonchina, who resigned from the Board in July 2014, and Anastasia Galochkina, who was appointed in August 2014. None of these non-independent Non-Executive Directors received remuneration for their services to the Company in 2013 or 2014.*

5.4. Directors' remuneration report continued

Directors' shareholdings
There is no formal requirement for Directors' to own shares in the Company. Information on Directors' shareholdings is presented in section 2. 'Directors' report' on page 104.

There are no disclosures in this Annual Report on Remuneration in the following sections, as the regulations would normally require, as there is no salient information to report for the 2014 financial year. The sections are:

- Further details on pension arrangements – Directors do not receive pension benefits; and
- Chief Executive Officer's percentage change in pay versus other employees – the change of status from the interim CEO to the permanent CEO during the year does not make this comparison feasible or reflective of normal practice.

Should such events occur going forward, full disclosure will be provided in line with regulatory requirements.

Statement of consideration of employment conditions elsewhere in the Group
The Remuneration Committee will take into account the pay and employment conditions of other employees of the Group when determining base salary increases. The Committee will also obtain information on the remuneration paid for comparable roles at other companies to provide a reference point for determining remuneration policy.

Statement of consideration of shareholder views
Representatives of two of the three major shareholders (with 78% combined ownership), Wandle Holdings Limited (Anastasia Galochkina) and Wamika Trading Limited (Igor Gorin), sit on the Board. Consequently, the Committee regularly obtains immediate feedback and views from them on the remuneration arrangements for Executive Directors from the majority shareholder group. In addition, we regularly communicate and engage with our broader shareholder base, which allows us to consider and respond to the needs and concerns of all our shareholders throughout the year.

Bruce Buck
Chairman of the Remuneration Committee
London, 12 March 2015

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare consolidated financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The consolidated financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

International Accounting Standard 1 requires that consolidated financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the consolidated financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We confirm that to the best of our knowledge:

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

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

On behalf of the Board of Directors:

Pavel Grachev
Chief Executive Officer
London, 12 March 2015.

Independent auditor's report
to the Members of Polyus Gold International Limited

Opinion on consolidated financial statements of Polyus Gold International Limited
In our opinion the consolidated financial statements:
- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the Companies (Jersey) Law 1991.

The consolidated financial statements comprise the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is the applicable laws and IFRSs as adopted by the European Union.

Going concern
We have reviewed the Directors' statement on page 50 that the Group is a going concern. We confirm that:
- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement
The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk

Potential impairment of fixed assets
Given the risk that the carrying value of the mining assets, capital construction in progress and mine under development described in notes 14, 15 and 16 to the consolidated financial statements may not be recoverable, management has performed a review for indicators of impairment across the portfolio of assets held.

As a consequence of the operational performance in the period and the depreciation of the Russian rouble no indicators of impairment or impairment reversals were identified with the exception of:
- An indicator of impairment reversal was identified at the Kuranakh mines within the Yakutia Kuranakh business unit where the carrying value following an impairment provision of $138 million at 31 December 2013 was $72 million. This follows the improved results and the depreciation of the rouble. Following a detailed impairment test, management recorded a reversal of the previous impairment valued at $66 million as disclosed in note 10. The value of the reversal is lower than the original impairment due to the depreciation of the rouble in the period.
- An indicator of impairment at the Natalka mine under development within the Magadan business unit was identified. This follows the downgrading of the estimate of reserves announced on 13 November 2014 and the temporary reduction of construction activity pending the finalisation of the resequencing of the project. The carrying value at 31 December 2014 was $1,216 million after the depreciation in the rouble in the period having reduced the value by $743 million through translation losses.

How the scope of our audit responded to the risk

We challenged the underlying assumptions used in the Kuranakh model and we considered whether there were indicators of impairment associated with the other operating mines.

We challenged management's significant assumptions regarding the Natalka impairment test by:
- visiting the Natalka project with our internal mining specialists to review the plans with operational management;
- using our internal mining specialists to perform a high level review of the mine plan for Natalka including the operating and capital expenditure and the recovery from the declared ore reserves;
- assessing the screening and photometric separation techniques with our internal mining specialists and discussing these assumptions with the independent experts used by Management;
- reviewing the accuracy of key assumptions used in the model;
- assessing the long term gold price forecast methodology and benchmarking the long term gold price forecasts to other external forecasts;
- considering the discount rates used with the involvement of our valuation specialists by recalculation and comparison to other gold producers;
- running a range of sensitivities to confirm that no impairment was required if a range of less optimistic assumptions were adopted particularly including the year end exchange rate of USD/RUB 56.6 instead of the forecast rate and the discount rate applied;
- discussing the plans with the Board and Senior Operational Management to confirm the plans and obtaining representations that these are considered management's best estimates of the key assumptions at the time of publishing the annual report; and
- assessing whether the accounts disclose the key judgements taken so that a reader of the accounts is aware of the impact on the financial statements of changes to key assumptions that may lead to impairment.

Risk	How the scope of our audit responded to the risk
Potential impairment of fixed assets continued Management has completed a value in use calculation based on a life of mine model, and using specialist input on key operational assumptions, which determined a discounted cash flow value significantly higher than the carrying value, and accordingly no impairment was recorded. The operational plans for the mining asset have been refined following the change in reserves identified. The revised approach reflects operational decisions to include screening and photometric separation techniques to deliver an enhanced ore grade for processing. It also reflects key financial assumptions including a forecast gold price of $1,294 per oz converted at the forecast dollar exchange rate of 67.8 roubles to the US dollar to derive the expected rouble revenue cash flows and a discount rate of approximately 9%. The calculated net present value is highly sensitive to these assumptions.	
Valuation and hedge accounting for financial instruments During the year, the Group has entered into a number of different derivatives contracts to mitigate exposure to gold price, currency fluctuations and reduce interest rate exposure. These are summarised in note 18. The most complex of these new transactions is a commodity hedge known as the 'Revenue Stabiliser' to hedge the gold price. This is a 'cap-collar' instrument with a 'knock-in, knock-out' feature. In addition there are forward contracts to fix the price of gold over 310 koz of forecast production over a two year period. There is risk that the financial instrument accounting for these instruments with a mark-to-market value of $142 million and the associated hedge accounting applied by management is not in line with IFRS. In addition there have been losses on the currency and associated interest rate derivative financial instruments of $934 million in the period which are not hedge accounted. The valuation of these, which reflect debit valuation adjustments in respect of own credit risk required by the relevant accounting standards, involve the application of management judgement.	We: • involved our financial instruments specialists to perform an independent valuation on a sample of these derivatives, including the process for deriving the gold price and exchange rate applied; • reviewed management's methodology for assessment of credit risk against the requirements set out in IFRS 13; • assessed the appropriateness of applying hedge accounting to the revenue stabiliser and forward contracts for gold on a sample basis; • assessed the allocation of changes in fair values of derivatives between equity or the income statement, as appropriate; and • reviewed the disclosures required by IFRS 7 in the Group accounts as appropriate.
Potential impairment of exploration and evaluation ('E&E') assets The Group capitalises E&E expenditure in line with IFRS 6: Exploration for and Evaluation of Mineral Resources. The assessment of each asset's future prospectivity requires significant judgement, management's accounting policy on E&E assets is set out in note 3. There is a risk that amounts are capitalised which no longer meet the recognition criteria of IFRS 6. Management has performed a review of the E&E portfolio of assets with a value of $110 million. As set out in note 17 to the consolidated financial statements no significant impairment was recognised in the year.	We: • held discussions with key operational and finance staff to understand the exploration and appraisal activities; • reviewed and evaluated management's assessment of the existence of impairment indicators in the portfolio of E&E assets by assessing the appropriateness of management's assumptions and estimates; • reviewed the exploration licence conditions for any potential breaches; and • reviewed management's approved exploration budgets for 2015 in order to check that exploration projects were ongoing and committed.
Potential obsolescence of stores and spares inventory Inventory, as set out in note 19 to the consolidated financial statements, is required to be carried at the lower of its cost and net realisable value. The high stores and spares inventory balance of $292 million reflects the need for key spares to be available on site given the logistical complexity and delays in obtaining spares in the event of mechanical failure. The significance of the balance and the difficulty in extracting management information on inventory ageing could result in a heightened risk of obsolescence. During 2014, management undertook a comprehensive review of stores and spares as part of an on-going optimisation programme with updates made to the provision required.	We: • held meetings with business unit and head office management to understand the procedures undertaken as part of the stores and spares inventory review; • reviewed management's assessment of slow moving stock and corresponding provision for obsolescence to assess whether they are valued appropriately; • attended inventory counts at the Krasnoyarsk, Irkutsk Ore and Natalka business units; • performed an analysis of slow moving stock; and • reviewed the analysis of stores and spares throughput.

Independent auditor's report

to the Members of Polyus Gold International Limited continued

Our assessment of risks of material misstatement continued
The risks described above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 118. In the prior year audit report we included a risk focussed on the net realisable value of gold in circuit and ore stockpiles. This matter was not considered necessary to be included in the Audit Report in the current year following the depreciation of the rouble and corresponding reduction in the remaining cost of production and a relatively stable gold price.

Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the consolidated financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality
We define materiality as the magnitude of misstatement in the consolidated financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be US$25 million (2013 $30 million). We continue to adopt an approach focussed on 5% of the Group's profit before tax adjusted for derivatives, impairments and foreign exchange gains. These items have been added back because of their nature and/or the expected infrequency of the underlying events are not considered immediately indicative of continuing operations of the Group and which if included, would distort materiality year on year.

There was a significant increase in profitability in the second half of 2014, particularly in the final quarter, principally as a consequence of the significant devaluation of the rouble against the US dollar. We did not adjust our materiality assessment to reflect this increased profitability.

Lower materiality levels of between $12.5 million and $20 million (2013: $15 million to $24 million) have been applied for the component audits.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $500,000 (2013: $600,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the consolidated financial statements.

An overview of the scope of our audit
In assessing our Group audit scope we continued to build upon our understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on our continuing assessment, we focused our Group audit scope primarily on the audit work at Krasnoyarsk and Irkutsk Ore business units which were subject to a full scope audit, and the Magadan and Capital construction business units, where we performed a full audit of capital construction in progress ('CCIP') and mine under development additions.

The components subject to a full scope or full audit account for 81% of the Group's gold sales revenue (2013: 84%), 81% of the Group's production (2013: 86%), 92% of the Group's operating profit before impairment charges (2013: 99%), 83% of the Group's fixed assets (2013: 86%) and 98% of the Group's CCIP and mine under development additions (2013: 94%). In addition, other business units (Irkutsk Alluvial, Yakutia Kuranakh and Exploration) were subject to specified audit procedures to address the risks of material misstatement identified above.

At the parent entity level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit or audit of specified account balances.

The Group audit engagement team also continued to perform site visits on a cyclical basis. This year the Group audit partner visited the Natalka site in addition to regular visits with his team to the headquarters in Moscow. At the direction of the Group audit team the component audit team in Russia also visited the Krasnoyarsk, Irkutsk and Magadan business units during the year.

Matters on which we are required to report by exception
Adequacy of explanations received and accounting records
Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the consolidated financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Corporate governance statement
Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:
- materially inconsistent with the information in the audited consolidated financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Other matter – Directors' remuneration
In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the provisions of the UK Companies Act 2006 as if that Act had applied to the Company.

Respective responsibilities of Directors and auditor
As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and/or those further matters we have expressly agreed to report to them on in our engagement letter and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the consolidated financial statements
An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:
- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the consolidated financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited consolidated financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Douglas King FCA
for and on behalf of Deloitte LLP
Chartered Accountants and Recognised Auditor
London, United Kingdom
12 March 2015

Financial statements

Consolidated financial statements
for the year ended 31 December 2014

Consolidated statement of profit or loss

for the year ended 31 December
(in millions of US dollars, except for earnings per share data)

	Notes	2014	2013
Continuing operations			
Gold sales		**2,197**	2,259
Other sales	6	**42**	70
Total revenue		**2,239**	2,329
Cost of gold sales	7	**(1,174)**	(1,347)
Cost of other sales		**(33)**	(47)
Gross profit		**1,032**	935
Selling, general and administrative expenses	8	**(183)**	(226)
Other expenses, net	9	**(20)**	(15)
Reversal of impairment/(impairment losses)	10	**17**	(472)
Operating profit		**846**	222
Finance costs	11	**(26)**	(14)
Interest income on bank deposits		**31**	27
Loss on derivative financial instruments and investments, net	12	**(934)**	(5)
Foreign exchange gain		**123**	4
Profit from continuing operations before income tax		**40**	234
Income tax expense	13	**(222)**	(91)
(Loss)/profit from continuing operations		**(182)**	143
Profit from discontinued operations	5	**–**	6
(Loss)/profit for the year		**(182)**	149
(Loss)/profit for the year from continuing operations attributable to:			
Shareholders of the Company		**(164)**	134
Non-controlling interests		**(18)**	9
		(182)	143
Profit for the year from discontinued operations attributable to:			
Shareholders of the Company		**–**	6
Non-controlling interests		**–**	–
		–	6
Number of ordinary shares in issue during the year (million)		**3,032**	3,032
(Loss)/earnings per share (US Cents) from continuing operations, basic and diluted[48]		**(5)**	4
Earnings per share (US Cents) from discontinued operations, basic and diluted[48]		**–**	–

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

Consolidated statement of comprehensive income

for the year ended 31 December
(in millions of US dollars)

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

Consolidated statement of financial position

at 31 December
(in millions of US dollars)

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

Consolidated statement of changes in equity

for the year ended 31 December (in millions of US dollars)

	Notes	Number of outstanding shares, (million)	Equity attributable to shareholders of the Company: Share capital	Additional paid-in capital
Balance at 31 December 2012		3,032	1	2,152
Profit for the year		–	–	–
Other comprehensive (loss)/income		–	–	–
Total comprehensive income		–	–	–
Effect of disposal of subsidiaries		–	–	–
Dividends declared and paid to shareholders of the Company	24	–	–	–
Dividends declared and paid to shareholders of non-controlling interests		–	–	–
Balance at 31 December 2013		3,032	1	2,152
Profit for the year		**–**	**–**	**–**
Increase in cash flow hedge revaluation reserve		**–**	**–**	**–**
Other comprehensive loss[49]		**–**	**–**	**–**
Total comprehensive income		**–**	**–**	**–**
Dividends declared and paid to shareholders of the Company	24	**–**	**–**	**–**
Dividends declared and paid to shareholders of non-controlling interests		**–**	**–**	**–**
Balance at 31 December 2014		**3,032**	**1**	**2,152**

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

	Equity attributable to shareholders of the Company					
	Cash flow hedge revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
	–	(77)	2,111	4,187	282	4,469
	–	–	140	140	9	149
	–	(319)	–	(319)	–	(319)
	–	(319)	140	(179)	9	(170)
	–	–	(9)	(9)	9	–
	–	–	(320)	(320)	–	(320)
	–	–	–	–	(25)	(25)
	–	(396)	1,922	3,679	275	3,954
	–	**–**	**(164)**	**(164)**	**(18)**	**(182)**
	108	**–**	**–**	**108**	**–**	**108**
	–	**(1,649)**	**–**	**(1,649)**	**(102)**	**(1,751)**
	108	**(1,649)**	**(164)**	**(1,705)**	**(120)**	**(1,825)**
	–	**–**	**(500)**	**(500)**	**–**	**(500)**
	–	**–**	**–**	**–**	**(9)**	**(9)**
	108	**(2,045)**	**1,258**	**1,474**	**146**	**1,620**

Consolidated statement of cash flows

for the year ended 31 December (in millions of US dollars)

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

	Notes	2014	2013
Financing activities			
Dividends paid to shareholders of the Company	24	**(500)**	(320)
Dividends paid to non-controlling interests		**(10)**	(43)
Proceeds from borrowings	26	**1,254**	1,092
Repayment of borrowings	26	**(294)**	(236)
Net cash generated from continuing operations		**450**	493
Net cash utilised in discontinued operations		**–**	–
Net cash generated from financing activities		**450**	493
Net increase/(decrease) in cash and cash equivalents		**485**	(108)
Cash and cash equivalents at beginning of the year	23	**809**	960
Effect of foreign exchange rate changes on cash and cash equivalents		**(77)**	(43)
Cash and cash equivalents at end of the year	23	**1,217**	809

Notes to the consolidated financial statements

for the year ended 31 December 2014
(in millions of US dollars)

1. General

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

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

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

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

2. Basis of preparation and presentation

Going concern

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

Compliance with the international financial reporting standards

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

Basis of presentation

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements

for the year ended 31 December 2014
(in millions of US dollars) continued

3. Significant accounting policies

3.1 Basis of consolidation

Subsidiaries

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

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

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

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

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

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

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

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

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

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

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

Functional currency

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

3.2 Presentation currency

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

- all assets, liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting date;
- all income and expenses are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of such transactions. The average exchange rate is derived by taking an average of the daily exchange rate over the course of the year;

- resulting exchange differences are included in equity and presented as Effect of translation to presentation currency within the Translation reserve (on disposal of such entities this Translation reserve is reclassified into the consolidated statement of profit or loss); and
- in the statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of the transaction.

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

	2014	2013	2012
Russian rouble/US dollar			
Year end rate	**56.26**	32.73	30.37
Average for the year	**38.42**	**31.85**	**31.09**

3.3 Foreign currencies

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

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

3.4 Revenue recognition

Gold sales revenue

Revenue from the sale of refined gold and other gold-bearing products is recognised when:
- the risks and rewards of ownership are transferred to the buyer;
- the Group retains neither a continuing degree of involvement or control over the goods sold;
- the amount of revenue can be measured reliably; and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

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

Other revenue

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

3.5 Income tax

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

Current tax

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

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements of the separate legal entities and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the consolidated financial statements

for the year ended 31 December 2014
(in millions of US dollars) continued

3. Significant accounting policies continued

3.5 Income tax continued

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

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

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

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

Current and deferred tax for the year

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

3.6 Operating leases

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

3.7 Dividends

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

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

3.8 Property, plant and equipment

Mineral rights

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

Mining assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital construction-in-progress is not depreciated.

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

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

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

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

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

Notes to the consolidated financial statements

for the year ended 31 December 2014
(in millions of US dollars) continued

3. Significant accounting policies continued

3.12 Impairment of long-lived tangible assets (property, plant and equipment, capital construction-in-progress and mine under development)

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

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

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

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

3.13 Exploration and evaluation assets

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

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

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

Impairment of exploration and evaluation assets

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

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

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

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

3.14 Financial instruments

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

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

Financial assets

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

The Group's financial assets are classified into the following categories:
- financial assets at FVTPL;
- held-to-maturity investments; and
- loans and receivables.

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

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

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

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

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:
- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

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

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

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

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

Notes to the consolidated financial statements
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3. Significant accounting policies continued

3.14 Financial instruments continued

Derecognition of financial assets

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

Effective interest method

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

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

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

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

Derecognition of financial liabilities

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

Derivative financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2014
(in millions of US dollars) continued

3. Significant accounting policies continued

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

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

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

Ongoing restoration costs are expensed when incurred.

4. Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying accounting policies
The following critical judgements have been applied when selecting the appropriate accounting policies:
- justification of the economic useful lives of property, plant and equipment;
- depreciation method for property, plant and equipment;
- determination of functional currency; and
- cash flow hedge designation.

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

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

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

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

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

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

Determination of functional currency

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

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

Cash flow hedge designation

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

Key sources of estimation uncertainty

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

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

Exploration and evaluation assets

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

Impairment of tangible assets

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

Factors which could impact the underlying cash flows include:

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

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

Stripping activity asset

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

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

Notes to the consolidated financial statements

for the year ended 31 December 2014
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4. Critical accounting judgements and key sources of estimation uncertainty continued

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

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

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

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

Although the quantities of recoverable gold are reconciled by comparing the grades of ore to the quantities of gold actually recovered (metallurgical balancing), the nature of the process inherently limits the ability to monitor precisely recoverability levels. As a result, the metallurgical balancing process is constantly monitored and engineering estimates are refined based on actual results over time.

Variations between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realisable value are accounted for on a prospective basis.

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

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

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

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

5. Discontinued operations and disposal of subsidiaries

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

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

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

6. Segment information

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

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

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

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

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

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

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

Notes to the consolidated financial statements

for the year ended 31 December 2014 (in millions of US dollars) continued

6. Segment information continued

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

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

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

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

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

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

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

7. Cost of gold sales

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

Notes to the consolidated financial statements
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8. Selling, general and administrative expenses

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

9. Other expenses, net

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

10. Reversal of impairment/(impairment losses)

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

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

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

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

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

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

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

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

The key long term assumptions that were used in the impairment testing were a weighted average long term gold price of $1,294 per ounce, exchange rate of 68 RUB for 1 USD and a post-tax discount rate of approximately 9%. The assumptions are provided in real terms. The impairment test is particularly sensitive to the assumption for the RUB to USD exchange rate, gold price and discount rate. An impairment would be required:
- if the rouble strengthened to above 55 RUB for 1 US dollar; or
- if the gold price decreased below US dollar 1,114 per oz; or
- if the discount rate increased above 14%.

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

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11. Finance costs

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

12. Loss on derivative financial instruments and investments, net

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

13. Income tax expense

	Year ended 31 December	
	2014	2013
Current tax expense	**220**	132
Deferred tax expense/(benefit)	**2**	(41)
Total	**222**	91
The corporate income tax rates in the countries where the Group has a taxable presence vary from 0% (British Virgin Islands) to 20% (in the United Kingdom and in the Russian Federation).		
A reconciliation of Russian Federation statutory income tax, the location of the Group's major production entities and operations, to the income tax expense recorded in the consolidated statement of profit or loss is as follows:		
Profit from continuing operations before income tax	**40**	234
Income tax at statutory rate applicable to principal entities (20%)	**8**	47
Allowance for deferred tax assets on derivative financial instruments (note 27)	**185**	–
Tax effect of non-deductible expenses and other permanent differences	**23**	6
Unrecognised deferred tax assets and write-off of losses carried forward resulted from impairments	**19**	47
Income tax effect of impairment reversals	**(6)**	–
Other	**(7)**	(9)
Income tax expense	**222**	91

14. Property, plant and equipment

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

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

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14. Property, plant and equipment continued
The carrying values of mineral rights included in mining assets were as follows:

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

Amortisation and depreciation charge is allocated as follows:

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

15. Capital construction-in-progress

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

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

16. Mine under development

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

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

	31 December	
	2014	2013
Mineral rights	**37**	63

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

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

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

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

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17. Exploration and evaluation assets

	Chertovo Korito	Razdolinskoye	Panimba	Olympiada
Balance at 31 December 2012	**47**	**27**	**29**	**24**
Additions	4	5	–	3
Change in site restoration, decommissioning and environmental obligations (note 25)	–	–	–	–
Impairment (notes 10)	–	–	–	–
Disposals of subsidiaries	–	–	–	–
Effect of translation to presentation currency	(3)	(2)	(2)	(2)
Balance at 31 December 2013	**48**	**30**	**27**	**25**
Additions	**4**	**–**	**–**	**2**
Impairment (notes 10)	**(1)**	**–**	**–**	**–**
Effect of translation to presentation currency	**(21)**	**(12)**	**(12)**	**(11)**
Balance at 31 December 2014	**30**	**18**	**15**	**16**

Bamsky	Smezhny	Medvezhy Zapadny	Blagodatnoye	Other	Nezhdaninskoye	Degdekanskoye	Total
22	**10**	**5**	**–**	**40**	**263**	**52**	**519**
1	6	–	5	2	7	–	33
–	–	–	–	–	(3)	–	(3)
–	–	–	–	(21)	(248)	(48)	(317)
–	–	–	–	(19)	–	–	(19)
(2)	(1)	–	(1)	(2)	(19)	(4)	(38)
21	**15**	**5**	**4**	**–**	**–**	**–**	**175**
–	**–**	**1**	**4**	**1**	**–**	**–**	**12**
–	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**
(9)	**(7)**	**(2)**	**(2)**	**–**	**–**	**–**	**(76)**
12	**8**	**4**	**6**	**1**	**–**	**–**	**110**

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18. Derivative financial instruments and investments

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

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

Under the Programme, the Group has entered into a series of price protection arrangements comprised of two components:
- zero cost Asian gold collars ('revenue stabiliser'); and
- gold forward contracts.

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

	Years ended 31 December 2014	2015	2016	2017		2018
Revenue stabiliser volumes under put and call option agreements (thousand ounces)						
Tranche 1 (covering the period 1 April 2014 – 30 March 2018)						
Total as per options agreements	**225**	300	300	75	675	225
Exercised	**(225)**	–	–	–	–	–
Outstanding as of 31 December 2014	**–**	300	300	75	675	225
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)						
Total as per options agreements	**60**	120	120	60	180	180
Exercised	**(60)**	–	–	–	–	–
Outstanding as of 31 December 2014	**–**	120	120	60	180	180
Total outstanding as of 31 December 2014 under Tranches 1 and 2	**–**	**420**	**420**	**135**	**855**	**405**

	Years ended 31 December					
	2014	2015	2016	2017		2018
Weighted average strikes and barriers as per put and call option agreements (USD per ounces)						
Tranche 1 (covering the period 1 April 2014 – 30 March 2018)						
First three years (put)						
Strike	**1,383**	1,383	1,383	1,383	–	–
Knock-out barrier	**950**	950	950	950	–	–
First three years (call)						
Strike	**1,518**	1,518	1,518	1,518	–	–
Knock-in barrier	**1,662**	1,662	1,662	1,662	–	–
Fourth year (put)						
Strike	**–**	–	–	–	1,037	1,037
Knock-out barrier	**–**	–	–	–	907	907
Fourth year (call)						
Strike	**–**	–	–	–	1,559	1,559
Knock-in barrier	**–**	–	–	–	1,748	1,748
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)						
First three years (put)						
Strike	**1,359**	1,359	1,359	1,359	–	–
Knock-out barrier	**950**	950	950	950	–	–
First three years (call)						
Strike	**1,425**	1,425	1,425	1,425	–	–
Knock-in barrier	**1,525**	1,525	1,525	1,525	–	–
Fourth year (put)						
Strike	**–**	–	–	–	1,100	1,100
Knock-out barrier	**–**	–	–	–	900	900
Fourth year (call)						
Strike	**–**	–	–	–	1,500	1,500
Knock-in barrier	**–**	–	–	–	1,650	1,650
Weighted average strikes and barriers for Tranches 1 and 2						
First three years (put)						
Strike	**1,377**	1,377	1,377	1,373	–	–
Knock-out barrier	**950**	950	950	950	–	–
First three years (call)						
Strike	**1,491**	1,491	1,491	1,476	–	–
Knock-in barrier	**1,623**	1,623	1,623	1,601	–	–
Fourth year (put)						
Strike	**–**	–	–	–	1,050	1,065
Knock-out barrier	**–**	–	–	–	905	903
Fourth year (call)						
Strike	**–**	–	–	–	1,546	1,533
Knock-in barrier	**–**	–	–	–	1,728	1,705

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18. Derivatives and investments continued

Strategic Price Protection Programme continued

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

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

The revenue stabiliser options are exercised quarterly in equal amounts.

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

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

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

Gold forward

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

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

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

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

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

Currency collars

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

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

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

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

Cross currency swaps

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

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

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

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

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

Interest rate swaps

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

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

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

Maturity profile of undiscounted contractual payments on derivative financial instruments

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2014
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18. Derivatives and investments continued

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

19. Inventories

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

20. Other receivables

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

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

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

21. Taxes receivable

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

22. Bank deposits

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

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

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

23. Cash and cash equivalents

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

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

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

24. Share capital

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

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

Dividends to shareholders of the Company

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

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

Notes to the consolidated financial statements

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25. Site restoration, decommissioning and environmental obligations

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

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

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

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

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

26. Borrowings

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

Summary of borrowing agreements

(i) Notes due in 2020 (Eurobonds)

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

(ii) Sberbank

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

Notes to the consolidated financial statements
for the year ended 31 December 2014
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26. Borrowings continued

(iii) Unicredit Bank

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

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

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

(iv) Société Générale

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

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

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

(v) Deutsche Bank

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

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

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

(vi) VTB Bank

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

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

(vii) Rosbank

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

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

(viii) HSBC

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

Unused credit facilities

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

Other matters

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

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

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

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

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

27. Deferred tax liabilities

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

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

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

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

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27. Deferred tax liabilities continued

Unrecognised deferred tax asset

	31 December 2014	31 December 2013
Unrecognised deferred tax asset resulting from losses on derivative financial instruments	**185**	–
Unrecognised deferred tax assets resulted from impairments	**38**	50
Unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit	**22**	38
Total	**245**	**88**

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

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

Unrecognised deferred tax liability

	31 December 2014	31 December 2013
The unrecognised deferred tax liability for taxable temporary differences associated with investments in subsidiaries	**63**	26

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

28. Trade, other payables and accrued expenses

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

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

29. Taxes payable

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

30. Related parties

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

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

Entities under common ownership

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

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

Transactions with entities under common control:

	Year ended 31 December	
	2014	2013
Interest income	**–**	1

Key management personnel		
Short-term compensation of key management personnel	**31**	48
including termination benefits to the former key management personnel	**8**	12

31. Commitments and contingencies

Commitments

Capital commitments

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

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

Operating leases: Group as a lessee

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

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

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

Contingencies

Litigations

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

Insurance

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

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31. Commitments and contingencies continued

Contingencies continued

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

Taxation contingencies in the Russian Federation

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

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

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

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

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

Environmental matters

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

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

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

Operating environment

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

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

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

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

32. Financial instruments risk management activities

Capital risk management

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

Major categories of financial instruments

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

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

Derivative financial instruments are carried at fair value.

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

Gold price risk

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

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

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

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

Interest rate risk

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

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

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32. Financial instruments risk management activities continued

Interest rate risk continued

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

Foreign currency exchange rate risk

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

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

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

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

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

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

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

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

Credit risk

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

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

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

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

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

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

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

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

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

Liquidity risk

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

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

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

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

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2014
(in millions of US dollars) continued

32. Financial instruments risk management activities continued

Liquidity risk continued

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

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

33. Events after the reporting date

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

34. Investments in significant subsidiaries

34.1 Information about significant subsidiaries of the group

Subsidiaries	Nature of business	Effective % held[50] at 31 December 2014	2013
Incorporated in Russian Federation			
OJSC 'Polyus Gold'[51]	Management company	**95**	95
CJSC 'Gold Mining Company Polyus'	Mining (open pit)	**95**	95
OJSC 'Aldanzoloto GRK'	Mining (open pit)	**95**	95
OJSC 'Lenzoloto'	Market agent	**61**	61
CJSC 'ZDK Lenzoloto'	Mining (alluvial)	**63**	63
CJSC 'Lensib'[52]	Mining (alluvial)	**38**	38
CJSC 'Svetliy'	Mining (alluvial)	**53**	53
CJSC 'Marakan'	Mining (alluvial)	**53**	53
CJSC 'Dalnaya Taiga'	Mining (alluvial)	**52**	52
CJSC 'Sevzoto'[52]	Mining (alluvial)	**41**	41
OJSC 'Matrosova Mine'	Mining (development stage)	**95**	95
CJSC 'Tonoda'	Mining (exploration stage)	**95**	95
OJSC 'Pervenets'	Mining (open pit)	**95**	95
OJSC 'South-Verkhoyansk Mining Company'	Mining (exploration stage)	**95**	95
LLC 'Polyus Stroy'	Construction	**95**	95
Incorporated in British Virgin Islands			
Polyus Exploration Limited	Geological research	**98**	95
Jenington International Incorporated	Market agent	**95**	95

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

34.2 Summarised financial information of each of the group's subsidiary that have a material non-controlling interest
The summarised financial information below represents amounts before intragroup eliminations.

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

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

Photographs in the booklet and on pages 3, 23, 29 and 30
of this Annual Report were taken by Denis Kurenkov.

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