PJSC Polyus

Interim Management Report

30 September 2016

November 8, 2016

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Cautionary statement

30 September 2016 – PJSC Polyus (Polyus) issues this Interim Management Report (IMR) to summarise recent operational activities and to provide trading guidance in respect of the condensed consolidated interim financial statement for the three and nine months ended 30 September 2016. The information contained herein has not been audited.

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

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

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

Responsibility statement

Directors of Public Joint Stock Company "Polyus" (the "Company") and its subsidiaries (the "Group") are responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of the Group as of 30 September 2016, and the results of its operations, cash flows and changes in equity for the three and nine months then ended, in compliance with International Accounting Standard ("IAS") 34 Interim Financial Information.

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

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- compliance with the requirements of IAS 34 Interim Financial Information and providing additional disclosures when compliance with the specific requirements in International Financial Reporting Standards ("IFRS") are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Directors are also responsible for:

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

The condensed consolidated interim financial statements of the Group for the three and nine months ended 30 September 2016 were approved by the Board of Directors on 7 November 2016.By order of the Board,

Chief Executive Officer and Director

Pavel Grachev

Management Discussion and Analysis

3Q & 9M 2016

Highlights

$ mln (if not mentioned otherwise)	3Q 2016	3Q 2015	y-o-y chng	9M 2016	9M 2015	y-o-y chng	FY 2015
Gold production (koz)	555	514	8%	1,395	1,298	7%	1,763
Gold sold (koz)	527	522	1%	1,365	1,321	3%	1,768
Average realised refined gold price (excl. effect of Strategic Price Protection Programme[1]) ($/oz)	1,335	1,138	17%	1,265	1,177	7%	1,155
Average realised refined gold price (incl. effect of Strategic Price Protection Programme) ($/oz)	1,344	1,203	12%	1,302	1,237	5%	1,221
Total revenue	706	634	11%	1,788	1,653	8%	2,188
Operating profit	401	373	8%	1,019	908	12%	1,164
Operating profit margin (%)	57%	55%	2 ppts	57%	59%	(2) ppts	53%
Profit/ for the period	390	217	80%	889	811	10%	1,021
Earnings per share – basic and diluted ($)	2.82	1.02	177%	5.92	4.12	44%	5.18
Adjusted net profit[2]	295	285	4%	700	728	(4%)	937
Adjusted net profit margin (%)	42%	45%	(3) ppts	39%	44%	(5) ppts	43%
Cash and cash equivalents and bank deposits	1,710	1,954	(12%)	1,710	1,954	(12%)	1,825
Net cash inflow from operations	393	391	1%	872	909	(4%)	1,103
Capital expenditure[3]	109	76	43%	295	172	72%	268
Adjusted EBITDA[4]	444	393	13%	1,135	986	15%	1,278
Adjusted EBITDA margin (%)	63%	62%	1 ppts	63%	60%	3 ppts	58
Net debt[5]	3,240	204	n.m.	3,240	204	n.m.	364
Net debt/adjusted EBITDA (last 12 months)(x)	2.27	0.15	n.m	2.27	0.15	n.m	0.28
Total cash cost (TCC) per ounce sold ($/oz)[6]	406	401	1%	387	422	(8%)	424
All-in sustaining cash cost (AISC) per ounce sold ($/oz)[7]	560	538	4%	557	582	(4%)	596

[1] The Strategic Price Protection Programme comprises a series of zero-cost Asian gold collars ("revenue stabiliser") covering 200 koz in 3Q 2016.

[2] Adjusted Net Profit is defined by the Group as a net profit adjusted for reversal of impairment losses, impact from derivative financial instruments, effect from disposal of subsidiary and subsequent accounting at equity method and foreign exchange gain/loss and associated income tax related to one-off items.

[3] Capital expenditure figures are presented on an accrual basis.

[4] Adjusted EBITDA is defined by the Group as profit before finance costs, income tax, income/(losses) from investments (including derivatives), depreciation, amortisation and interest paid, and adjusted for one-off items. The Group has made these adjustments in calculating Adjusted EBITDA to provide a clearer view of the performance of its underlying business operations and to generate a metric that it believes will give greater comparability over time with peers in its industry. The Group believes that Adjusted EBITDA is a meaningful indicator of its profitability and performance. This measure should not be considered as an alternative to profit for the period and operating cash flows based on IFRS, and should not necessarily be construed as a comprehensive indicator of the Group's measure of profitability or liquidity.

[5] Net debt is defined as short- and long-term debt, less cash and cash equivalents and short-term bank deposits. Short-term bank deposits with an original maturity of more than three months can be withdrawn on demand and therefore have the same liquidity as cash and cash equivalents. Net debt excludes derivative financial instrument assets/liabilities, site restoration and environmental obligations, deferred tax and other non-current liabilities. Net debt should not be considered as an alternative to current and non-current loans and borrowings, and should not necessarily be construed as a comprehensive indicator of the Group's overall of liquidity.

[6] For a definition and calculation of total cash costs per ounce sold, see the section Total cash costs.

[7] For a definition and calculation of all-in-sustaining costs per ounce sold, see the section All-in-sustaining costs.

3Q 2016 – Key highlights

1. Gold sales remained largely flat y-o-y at 527 koz.
2. Revenue amounted to $706 million, as compared to $634 million in 3Q 2015, mainly due to a higher realised gold price.
3. The Group’s TCC and AISC increased 1% y-o-y to $406/oz and 4% y-o-y to $560/oz, respectively. Strong operational performance and efficiency improvement initiatives continued to support the Company’s cost profile.
4. Adjusted EBITDA increased 13% y-o-y to $444 million as modest growth in SG&A and cash operating costs was fully offset by the higher realised gold price. The adjusted EBITDA margin expanded 1 ppts y-o-y to 63%.
5. Profit for the period totalled $390 million (up 80% y-o-y) partially reflecting the impact of non-cash items, including a Foreign Exchange (“FX”) gain and gain on derivatives. Adjusted net profit increased 4% y-o-y to $295 million.
6. Net cash inflow from operations of $393 million was broadly in line with 3Q 2015.
7. Capex was $109 million, up 43% y-o-y, as Natalka and brownfield development projects entered an active phase of investment.
8. Cash and cash equivalents and bank deposits at the end of 3Q 2016 amounted to $1,710 million.
9. Net debt declined to $3,240 million as of the end of 3Q 2016 as compared to $3,469 million as of the end of 1H 2016 due to a robust free cash flow generation during 3Q 2016.
10. Net debt / adjusted EBITDA (last 12 months) as of the end of 3Q 2016 stood at 2.3x, down from 2.5x as of the end of 1H 2016.

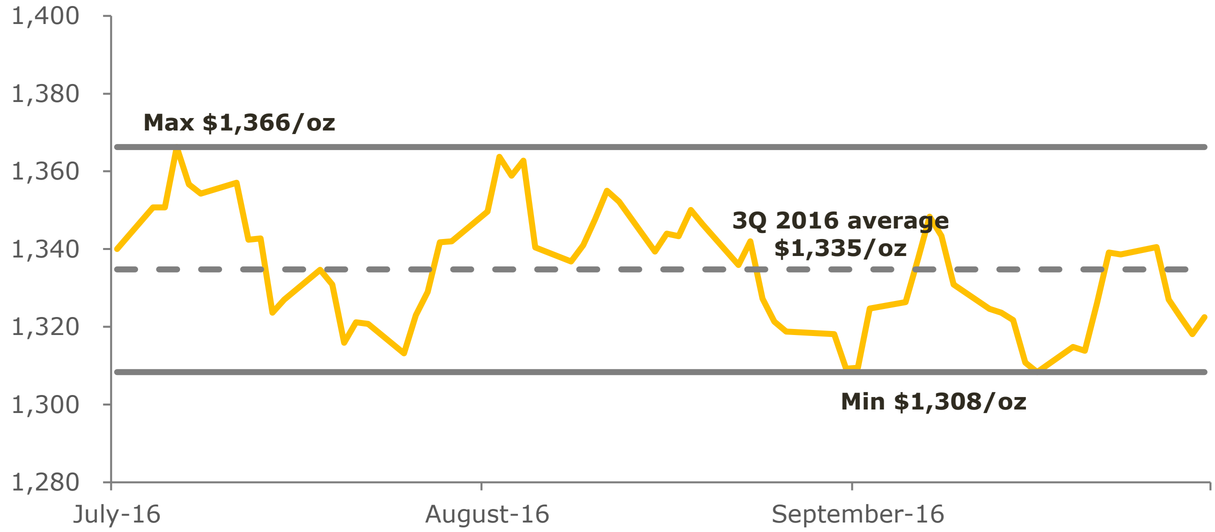
Review of external factors

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

Gold price dynamics

The market price of gold is a significant factor that influences the Group’s profitability and operating cash flow generation. In 3Q 2016, the average London Bullion Market Association (LBMA) gold price was $1,335/oz, 19% above the 3Q 2015 average of $1,124/oz.

LBMA gold price dynamics in 3Q 2016, $/oz

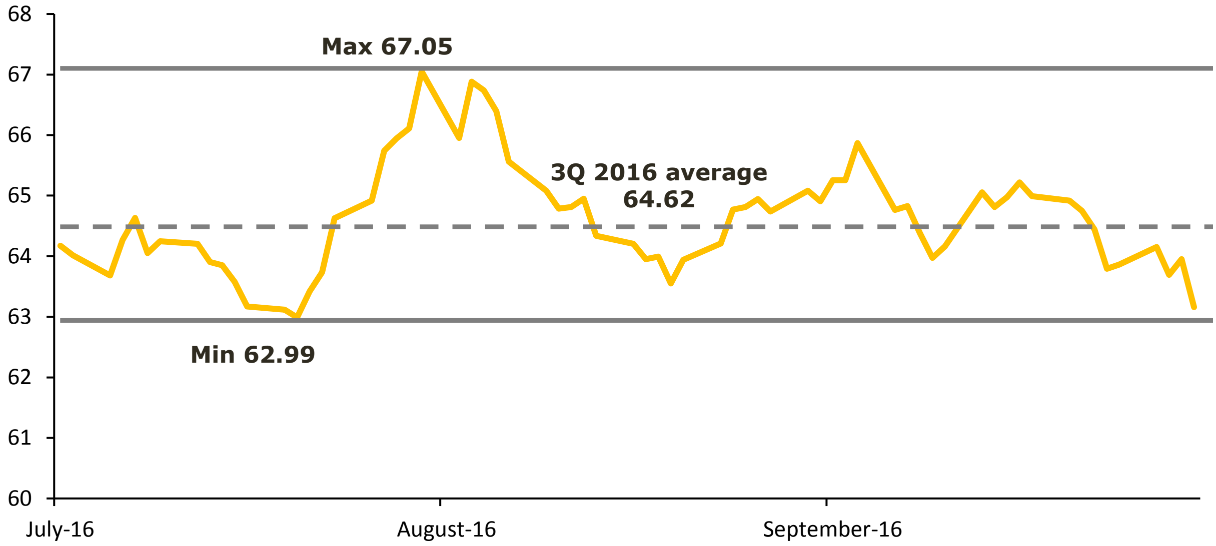


Source: London Bullion Market Association

Rouble exchange rate dynamics

The Group's revenue from gold sales is linked to the US dollar (USD), whereas most of the Group’s operating expenses are denominated in Russian roubles (RUB). The strengthening of the RUB against the USD can negatively impact the Group’s margins by increasing the USD value of its RUB-denominated costs, while a weaker RUB positively affects its margins as it reduces the USD value of the Group’s RUB-denominated costs. In 3Q 2016, the average RUB/USD exchange rate was 64.62, 3% devaluation y-o-y from 62.98 in 3Q 2015. The main reason for the depreciation of the Russian currency was further oil price softening ($46/bbl Brent in 3Q 2016, vs. $51/bbl Brent in 3Q 2015). As shown in the following section, the RUB devaluation positively impacted the Group’s operating margins in 3Q 2016, due to the majority of its costs being RUB-denominated, and the USD being the presentational currency.

RUB/USD dynamics, 3Q 2016



Inflationary trends

All of the Group's operations are located in Russia. The rouble-based Russian Consumer Price Index (CPI), calculated by the Federal State Statistics Service, was at 6.4% in 3Q 2016, compared to 15.7% in 3Q 2015. Inflation increases production costs, thus negatively affecting mining operations.

Financial review

Condensed consolidated income statement review

Revenue analysis

	3Q 2016	3Q 2015	y-o-y chng	9M 2016	9M 2015	y-o-y chng
Gold sales (koz)	527	522	1%	1,365	1,321	3%
Average realised refined gold price (excl. effect of Strategic Price Protection Programme, SPPP) ($/oz)	1,335	1,138	17%	1,265	1,177	7%
Average realised refined gold price (incl. effect of SPPP) ($/oz)	1,344	1,203	12%	1,302	1,237	5%
Average afternoon gold LBMA price fixing ($/oz)	1,335	1,124	19%	1,260	1,178	7%
Premium of av. selling price (incl. effect of SPPP) over/ average LBMA price fixing ($/oz)	9	80	(89%)	42	59	(29%)
Gold sales ($ mln)	700	628	11%	1,769	1,633	8%
Other sales ($ mln)	6	6	–	19	20	(5%)
Total revenue ($ mln)	**706**	**634**	**11%**	**1,788**	**1,653**	**8%**

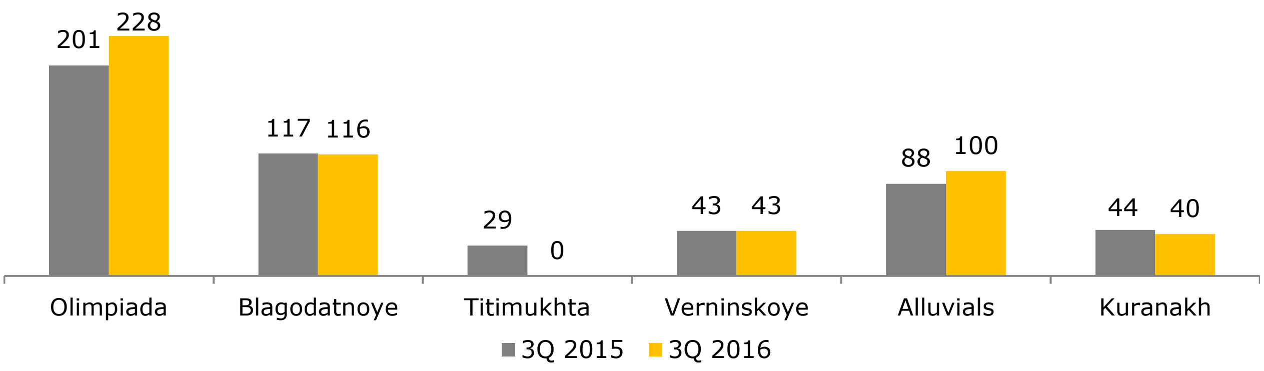
In 3Q 2016, the Group's revenue from gold sales increased 11% y-o-y to $700 million mainly driven by a higher average realised gold price and stable gold sales volumes. The average realised gold price increased 12% y-o-y to $1,344/oz in 3Q 2016, while gold sales amounted to 527 koz, up 1% y-o-y. Gold prices increased substantially during the period with the average LBMA price rising 19% y-o-y to $1,335/oz. The Company's Strategic Price Protection Programme (SPPP) further supported revenue generation, enhancing the 3Q 2016 average selling price by $9/oz (compared to a premium of $79/oz in 3Q 2015). The programme covered 200 koz of gold sold in 3Q 2016.

In line with the completion of the Mill-1 reconfiguration project in September 2016, mining and processing activities at Titimukhta have been idled in favour of treating Olimpiada ores in 3Q 2016.

Revenue breakdown by mine, 3Q 2016

$ mln	Olimpiada	Blagodatnoye	Titimukhta	Verninskoye	Alluvials	Kuranakh	Other
Gold sales	310	147	-	58	132	53	-
Other sales	3	-	-	-	-	-	3
Total sales	**313**	**147**	**-**	**58**	**132**	**53**	**3**

Gold sold by mine, koz[8]



Cash costs analysis

Cost of sales breakdown

	3Q 2016	3Q 2015	y-o-y chng	9M 2016	9M 2015	y-o-y chng
Cash operating costs	**217**	**201**	**8%**	**549**	**554**	**(1%)**
Depreciation and amortisation (D&A) of operating assets	42	30	40%	107	94	14%
Total cost of production	**259**	**231**	**12%**	**656**	**648**	**1%**
Increase in gold-in-process and refined gold inventories	(6)	11	n.a.	(24)	–	n.a.
Cost of gold sales	**253**	**242**	**5%**	**632**	**648**	**(2%)**

During 3Q 2016, the Group's cash operating costs increased 8% y-o-y, to $217 million, mainly due to higher consumption norms and consumables and spare parts expenses on the back of inflation. This was partially mitigated by rouble devaluation and reduced electricity costs. Operational optimization initiatives under the Total Operational Efficiency programme continued to have a positive impact on costs.

Cash operating costs – breakdown by item

$ mln	3Q 2016	3Q 2015	y-o-y chng	9M 2016	9M 2015	y-o-y chng
Consumables and spares	71	58	22%	183	152	20%
Labour	62	60	3%	158	170	(7%)
Tax on mining	39	38	3%	99	108	(8%)
Fuel	19	19	–	51	51	–
Power	3	8	(63%)	15	25	(40%)
Outsourced mining services	4	5	(20%)	8	8	–
Other	19	13	46%	35	40	(13%)
Total	**217**	**201**	**8%**	**549**	**554**	**(1%)**

[8] Sales volumes exclude gold produced from the Poputninskoye deposit, where trial mining was launched in FY 2015 and continued in 3Q 2016.

Consumables and spares expenses increased 22% y-o-y on the back of cost inflation and higher cyanide and other chemical agents consumption norms due to increased processing volumes. Meanwhile, the ongoing implementation of The Total Operational Efficiency programme helped to partially mitigate growth in variable costs. Additionally, spare parts expenses were slightly higher due to the management's efforts to improve procurement mechanisms and the scheduling of maintenance works. Compared with the previous year, in 2016, maintenance works and repairs are executed more evenly across the year.

Devaluation of the local currency partially offset the negative impact of annual salary indexation, with all of the Group's labour expenses being rouble denominated. The group saw only a marginal increase in labour costs in 3Q 2016 (up 3% y-o-y).

In the meantime, marginally higher Tax on mining ('Mineral Extraction Tax' or 'MET') payments purely reflect an impact of the y-o-y increase in the average realised gold price (excluding the effect of the SPPP).

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

In spite of the annual tariff indexation and higher production volumes, the Group saw a substantial decline in electricity costs (down 63% y-o-y), mainly reflecting a decline in the average tariff at Kuranakh, which entered the electricity wholesale market, and other factors.

Other costs increased 46% y-o-y largely due to higher transportation expenses.

Cash operating costs – breakdown by business unit

$ mln	Krasnoyarsk 3Q 2016	Krasnoyarsk 3Q 2015	Verninskoye 3Q 2016	Verninskoye 3Q 2015	Alluvials 3Q 2016	Alluvials 3Q 2015	Kuranakh 3Q 2016	Kuranakh 3Q 2015
Consumables and spares	49	41	8	9	10	6	5	6
Labour	24	21	6	6	17	19	6	5
Tax on mining	28	25	2	3	9	6	3	3
Fuel	7	9	–	2	7	7	1	3
Power	4	4	1	–	3	3	1	2
Outsourced mining services	–	–	–	–	4	5	–	1
Other	24	16	1	3	3	2	4	–
Total	**136**	**116**	**18**	**23**	**53**	**48**	**20**	**20**

Selling, general, and administrative expenses

The Group's selling, general, and administrative (SG&A) expenses increased 6% y-o-y, to $35 million, mostly on the back of the annual salary indexation positively impacted by a weaker rouble.

SG&A breakdown by item

$ mln	3Q 2016	3Q 2015	y-o-y chng	9M 2016	9M 2015	y-o-y chng
Salaries	24	22	9%	69	73	(5%)
Taxes other than mining and income taxes	3	3	–	8	9	(11%)
Professional services	3	4	(25%)	8	8	–
Amortisation and depreciation	–	1	(100%)	2	3	(33%)
Other	5	3	67%	11	10	10%
Total	**35**	**33**	**6%**	**98**	**103**	**(5%)**

Total cash costs (TCC)

TCC calculation

$ mln	3Q 2016	3Q 2015	y-o-y chng	9M 2016	9M 2015	y-o-y chng
Cost of gold sales	**253**	**242**	**5%**	**632**	**648**	**(2%)**
– property, plant and equipment depreciation	(41)	(31)	32%	(103)	(90)	14%
– provision for annual vacation payment	2	1	100%	2	2	–
– employee benefit obligations cost	–	–	n.a.	(1)	–	n.a.
– change in allowance for obsolescence of inventory	(1)	(2)	(50%)	(1)	(1)	–
- non-monetary changes in inventories	1	(1)	n.m.	1	(1)	n.m.
TCC	**214**	**209**	**2%**	**530**	**558**	**(5%)**
Gold sold (koz)	527	522	1%	1,365	1,321	3%
TCC per ounce sold ($/oz)	**406**	**401**	**1%**	**387**	**422**	**(8%)**

The Group's TCC remained largely flat y-o-y (up 1 %) at $406/oz. This was underpinned by strong operational performance of the Group's assets and efficiency improvement initiatives. All the hard rock operations demonstrated y-o-y cost improvements, except for the Group's largest mine, Olimpiada, which posted a temporary TCC/oz increase.

Olimpiada increased its TCC for the quarter 15% y-o-y, to $429/oz, which is partially attributable to processing of higher-cost 3rd party Veduga ore in order to sustain higher grades in ore processed during the period. The Company expects normalization of TCC per ounce at Olimpiada, as mining activity at the previously mothballed Zapadny pit has been re-commissioned and mined grades at Vostochny are expected to pick up. Additional negative impact came on the back of greater repair expenses and higher consumption norms.

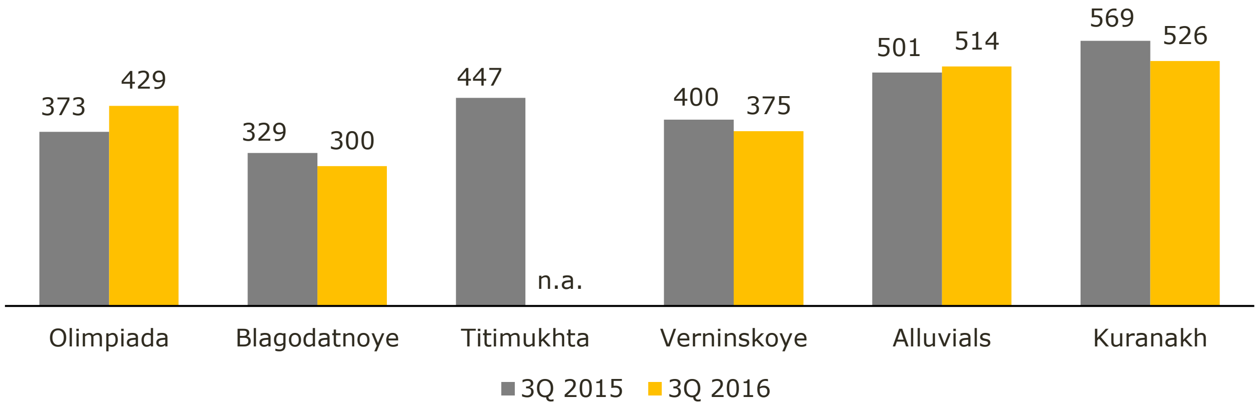
The most visible cost progress was achieved at Blagodatnoye where TCC for the quarter declined 9% y-o-y to $300/oz, primarily driven by improvements on the production side including higher grades and higher grinding circuit capacity. The use of the mining fleet temporarily reallocated from the Olimpiada mine's Vostochnyi pit resulted in elevated stripping activity and higher volumes of ore mined leading to a lower cost per tonne of ore mined.

Kuranakh reduced its TCC for the quarter 8% y-o-y to $526/oz. This was driven by operational improvements including increased ore processing volumes due to less-refractory quartz-pyrite ore in the Mill's feed and enhanced performance of the grinding circuits. In January 2016, Kuranakh entered the electricity wholesale market, which also had a significant impact on electricity costs.

Verninskoye reduced its TCC 6% y-o-y to $375/oz. This was mainly attributable to the progress on the production side, including an increase in recoveries, as improvements at the sorption and cyanidation circuits enabled the mill to surpass its 86% recovery design target.

In the meantime, at Alluvials, TCC for the quarter increased 3% y-o-y, to $514/oz. Local currency devaluation partially offset a modest growth in spares expenses and outsourced mining services costs.

TCC performance by mine, $/oz



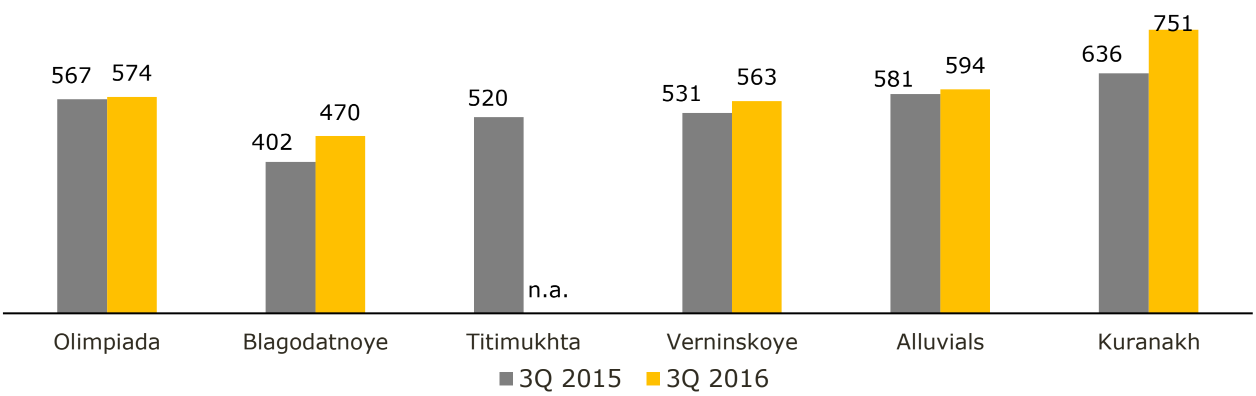
All-in sustaining costs (AISC)

The Group's AISC/oz recorded a 4% y-o-y increase to $560/oz in 3Q 2016 primarily due to an increase in capex reflecting a considerable investment in replaced equipment. This was partially mitigated by lower stripping expenses during the period.

All-in sustaining costs calculation

$ mln	3Q 2016	3Q 2015	y-o-y chng	9M 2016	9M 2015	y-o-y chng
Total TCC	**214**	**209**	**2%**	**530**	**558**	**(6%)**
+ selling, general and administrative expenses	35	33	6%	98	103	(5%)
- amortisation and depreciation	–	(1)	(100%)	(2)	(3)	(33%)
+ stripping activity asset additions	14	26	(46%)	44	83	(47%)
+ sustaining capital expenditure	33	11	200%	89	25	256%
+ unwinding of discounts on decommissioning liabilities	1	2	(50)%	2	4	(50)%
adding back expenses excluded from cost of gold sales						
+ provision for annual vacation payment	(2)	(1)	100%	(2)	(2)	–
+ employee benefit obligations cost	–	–	n.a.	1	–	n.a.
+ change in allowance for obsolescence of inventory	1	2	(50%)	1	1	–
Total all-in sustaining costs	**296**	**281**	**5%**	**761**	**769**	**(1%)**
Gold sold (koz)	527	522	1%	1,365	1,321	3%
All-in-sustaining cost ($/oz)	**560**	**538**	**4%**	**557**	**582**	**(4%)**

All-in sustaining costs by mine, $/oz



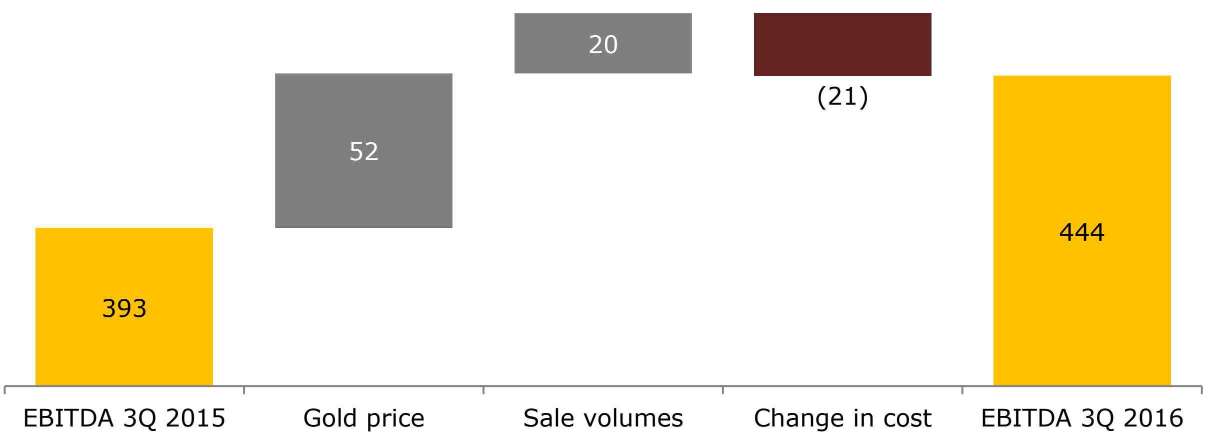
Adjusted EBITDA

The Group's adjusted EBITDA increased 13% y-o-y to $444 million in 3Q 2016, with the adjusted EBITDA margin expanding 1 ppts y-o-y to 63%.

Adjusted EBITDA calculation

$ mln	3Q 2016	3Q 2015	y-o-y chng	9M 2016	9M 2015	y-o-y chng
Profit for the period	**390**	**217**	**80%**	**889**	**811**	**10%**
Income tax	90	56	61%	269	132	104%
Foreign exchange gain, net	(34)	(99)	(66%)	(291)	(94)	210%
Depreciation and amortisation	41	32	28%	107	94	14%
Interest income on bank deposits and loan issued	(12)	(16)	(25%)	(30)	(51)	(41%)
Finance costs	32	6	433%	105	46	128%
(Gain) / loss on derivative financial instruments and investments	(65)	209	(131%)	77	64	20%
Reversal of impairment	(1)	(13)	(92%)	(2)	(17)	(88%)
Long Term Incentive Plan	4	3	33%	10	3	233%
Loss on PP&E disposal	3	–	n.a.	3	–	n.a.
Other	(4)	(2)	100%	(2)	(2)	-
Adjusted EBITDA	**444**	**393**	**13%**	**1,135**	**986**	**15%**
Adjusted EBITDA margin (%)	63%	62%	1 ppts	63%	60%	3 ppts

Adjusted EBITDA bridge, $ mln



Olimpiada and Blagodatnoye remained the main contributors to the Group's earnings. Olimpiada made substantial progress in terms of EBITDA growth largely due to higher sales volumes and despite an increase in TCC/oz during the same period. EBITDA at Blagodatnoye remained largely flat y-o-y reflecting a modest increase in production supported by higher ore processing volumes, which offset a temporary decline in recoveries due to a reduced cycle time at flotation curcuit. EBITDA at Alluvials improved 43% y-o-y predominantly as a result of the higher grades in sands washed. All of the Group's operational assets contributed to the overall EBITDA growth.

3Q 2016 adjusted EBITDA breakdown by mine, $ mln

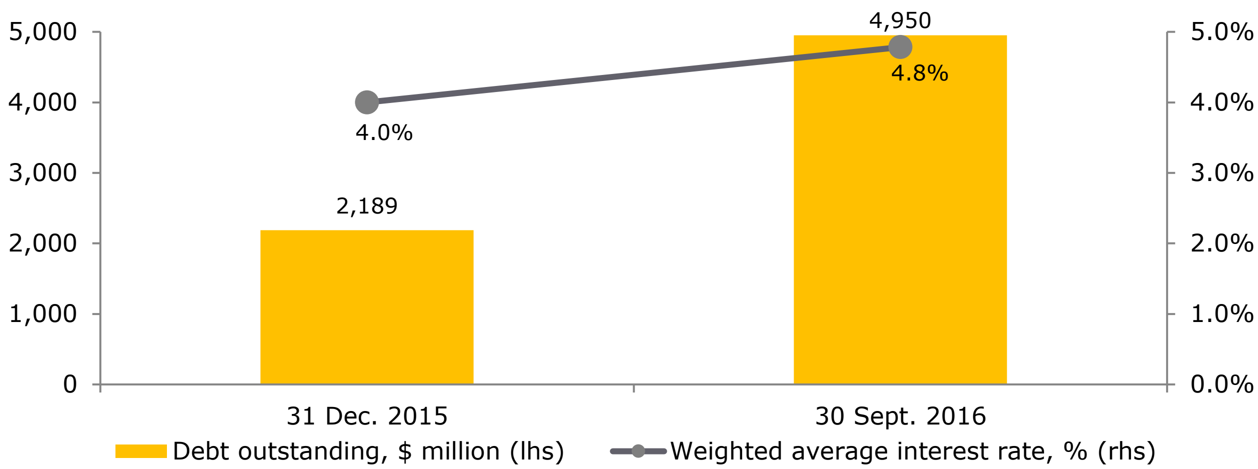
$ mln	3Q 2016	3Q 2015	y-o-y chng	9M 2016	9M 2015	y-o-y chng
Olimpiada	205	167	23%	491	454	8%
Blagodatnoye	104	101	3%	326	263	24%
Titimukhta	n.a.	21	n.a.	36	64	(44%)
Verninskoye	37	32	16%	111	90	23%
Alluvials	70	49	43%	83	59	41%
Kuranakh	31	24	29%	85	57	49%
Other	(3)	(1)	200%	3	(1)	n.m.
Total	**444**	**393**	**13%**	**1,135**	**986**	**15%**

Finance cost analysis

$ mln	3Q 2016	3Q 2015	y-o-y chng	9M 2016	9M 2015	y-o-y chng
Interest on borrowings	67	33	103%	198	95	108%
Gain on exchange of interest payments under cross currency swap	(12)	(9)	33%	(23)	(27)	(15%)
Gain on exchange of interest payments under interest rate swaps	–	–	n.a.	(5)	(6)	(17%)
Unwinding of discounts on decommissioning liabilities	1	2	(50%)	2	4	(50%)
Other	–	–	n.a.	1	–	n.a.
Sub-total finance cost	**56**	**26**	**115%**	**173**	**66**	**162%**
Interest capitalised in the cost of mine under development and capital construction-in-progress	(24)	(20)	20%	(68)	(20)	240%
Total finance cost expensed	**32**	**6**	**n.m.**	**105**	**46**	**128%**

The Group's total finance costs in 3Q 2016 amounted to $32 million, compared to $6 million in 3Q 2015. The Company continued interest capitalisation in regards to the Natalka development project, with the construction works ramping up further. Capitalised interest related to the Natalka project and Razdolinskaya-Tayga grid amounted to $24 million, up 20% y-o-y. Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps), totalled $55 million in 3Q 2016, compared to $24 million in 3Q 2015. Higher gross debt as well as an increase in the average interest rate to 4.8% were the reasons behind the pickup in interest payments. To recap, in January 2016 the Company entered into a $2.5 billion 7-year credit facility with PJSC Sberbank in order to finance the share buyback.

Weighted average interest rate dynamics



Foreign exchange gain and derivatives

The Group's foreign exchange gain in 3Q 2016 amounted to $34 million, as compared to $99 million gain in 3Q 2015, which reflects the revaluation of USD-denominated bank deposits and USD-denominated liabilities as of the end of 3Q 2016 on the back of FX rate fluctuation.

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

$ mln	Asset	Liability	Fair value recorded in the statement of financial position	3Q 2016 Profit & loss income/(expense)	3Q 2016 Other comprehensive income / (loss)
Revenue stabiliser	14	(169)	(155)	64	(30)
Cross-currency swaps	–	(445)	(445)	23	–
Interest rate swaps	21		21	(7)	–
Total	**35**	**(614)**	**(579)**	**80**	**(30)**

Revenue stabiliser[9]

For the three months ended 30 September 2016, $26 million of loss from Tranches 1 and 2 under revenue stabiliser program was recognised in the cash flow hedge revaluation reserve within equity, while the remaining change in fair value $9 million gain recognised in profit or loss within note 9 of the condensed consolidated interim financial statement. Following the sale of the hedged volume of gold and the exercise of certain options, $4 million were

[9] For additional information on revenue stabiliser, see Note 11 of the condensed consolidated interim statement of profit or loss.

subsequently reclassified to gold sales within the condensed consolidated interim income statement.

During the three months ended 30 September 2016, gain resulted from the change in the fair value of Tranches 3 and 4 totalled $51 million and is presented within the note 9 of the condensed consolidated interim income statement.

In 3Q 2016 the positive effect from the revenue stabiliser programme amounted to $4 million.

Cross-currency and interest rate swaps[10]

In 3Q 2016 the overall positive effect from cross-currency and interest rate swaps on finance costs amounted to $12 million. This was recorded within the note 8 of the condensed consolidated interim financial statement as a realised gain on the exchange of interest payments under interest rate and cross currency swaps.

Income taxes

The Group's overall income tax amounted to $90 million in 3Q 2016, up 61% y-o-y. Meanwhile, the current income tax expense increased 11% y-o-y, despite a 76% y-o-y increase in profit before income tax. Specifically, in 3Q 2016 profit before tax was positively impacted by gain on derivative financial instruments and investments, which are not subject to tax, and positively affected by FX gain.

Net profit

The Group's 3Q 2016 net profit totalled $390 million, up 80%, compared with $217 million in 3Q 2015. The result mainly reflects an impact of one-off non-cash items on both profit before tax and current income tax expense as per described above. Adjusting for those items (see the reconciliation below), the Group's adjusted net profit for 3Q 2016 stood at $295 million.

Adjusted net profit calculation

$ mln	3Q 2016	3Q 2015	y-o-y chng	9M 2016	9M 2015	y-o-y chng
Net profit	**390**	**217**	**80%**	**889**	**811**	**10%**
+ reversal of impairment losses	(1)	(13)	(92%)	(2)	(17)	(88%)
+ Loss / (gain) on derivative financial instruments and investments	(65)	209	n.m.	77	64	n.m.
+ impact from forex	(34)	(99)	(66%)	(291)	(94)	210%
+ income tax related to one-off items	5	(29)	n.m.	27	(36)	n.m.
Adjusted net profit	**295**	**285**	**4%**	**700**	**728**	**(4%)**

[10] For additional information on cross-currency and interest rate swaps, see Note 11 of the condensed consolidated interim financial statement.

Statement of financial position review

Debt

As of 30 September 2016, the Group's gross debt amounted to $4,950 million, marginally higher comparing to $4,851 million at the end of 1H 2016. 96% of gross debt remains long term, with only $193 million due in the following 12-month period.

Due to a sharp increase in bank loans (up 212% since the end of 2015) following the credit facility from Sberbank obtained in January 2016, the share of the $750 million Eurobond 2020 in gross debt decreased to 15% as of the end of 3Q 2016. The overall share of public debt decreased to 20% as of the end of respective period.

Debt breakdown by type

$ mln	3Q 2016	1H 2016	FY 2015
Eurobonds	750	750	750
RUB bonds	243	155	137
Deferred payments under letters of credit	7	29	38
Lease liabilities	7	5	-
Bank loans	3,943	3,912	1,264
Total	**4,950**	**4,851**	**2,189**

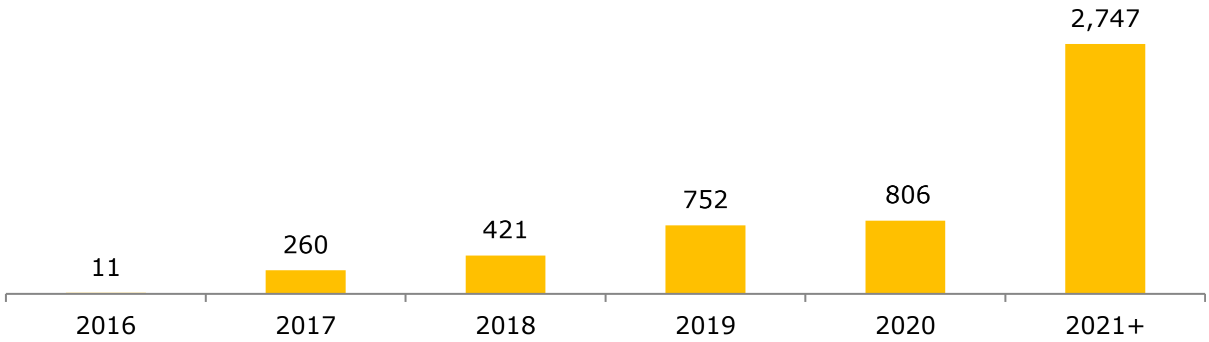
Currency-wise, the Group's debt portfolio remains dominated by US dollar denominated instruments. Their share increased further to 83% as of the end of 3Q 2016 (12 ppts growth as compared to the structure as of the end of 2015) as the Company entered into a 7-year credit facility with Sberbank in January 2016.

Debt breakdown by currency

	3Q 2016		1H 2016		FY 2015	
	$ mln	% of total	$ mln	% of total	$ mln	% of total
EUR	7	0%	-	-	13	1%
RUB	823	17%	716	15%	616	28%
USD	4,120	83%	4,125	85%	1,560	71%
Total	**4,950**		**4,851**		**2,189**	

The majority of the maturities due after or during the 2021 comprises of the 7-year $2.5 billion credit facility from Sberbank and the six-year RUB bonds. The RUB36 billion credit facility from Sberbank is due in 2019 and the Eurobond issue is due in 2020. Existing cash balances combined with $666 million of unused committed credit lines cover a substantial portion of debt repayments up to 2020, totaling ca. $2.4 billion. Meanwhile, short-term debt is $193 million.

Debt maturity schedule[11], $ mln



Cash and cash equivalents and bank deposits

The Group's cash and cash equivalents and bank deposits were $1,710 million, down 6% from the end of 2015 and up 24% from the end of 1H 2016. This reflects both the buyback of PJSC Polyus' ordinary shares through the Company's subsidiary Polyus-Invest in 2Q 2016 as well as robust free cash flow generation, which was made possible by the Company's strong underlying performance and favourable market conditions during 9M 2016. The Group's cash position is primarily denominated in USD, as revenue is fully linked to the USD-quoted gold price, while the RUB exchange rate is subject to significant volatility.

Cash, cash equivalents, and bank deposits breakdown by currency as at 30 September2016

$ mln	3Q 2016	1H 2016	FY 2015
RUB	114	92	104
USD	1,596	1,290	1,721
Total	**1,710**	**1,382**	**1,825**

Net debt

By the end of 3Q 2016, the Group's net debt amounted to $3,240 million, as opposed to $3,469 million as of the end of 1H 2016, on the back of a robust free cash flow generation in 3Q 2016.

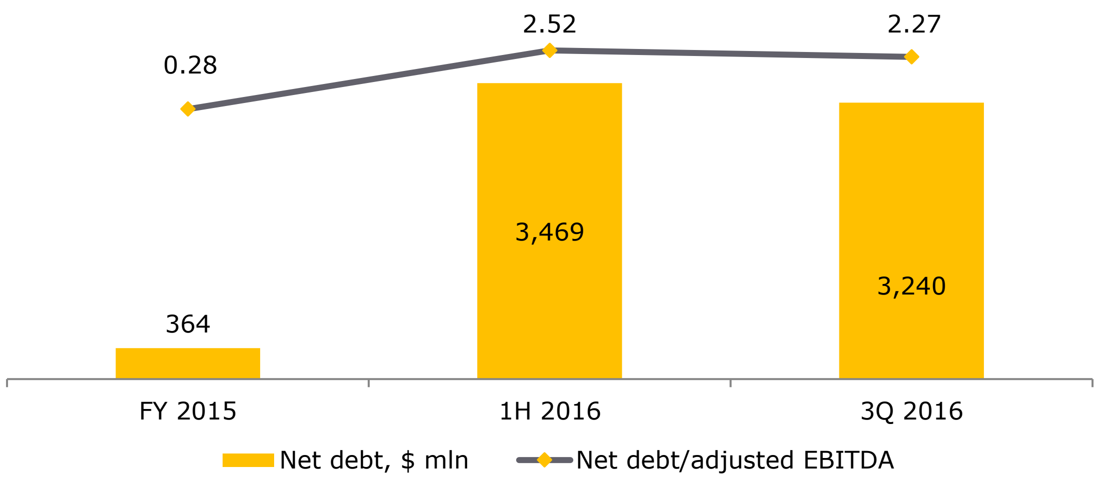
Net debt calculation

$ mln	3Q 2016	1H 2016	FY 2015
Non-current borrowings	**4,757**	**4,713**	**2,151**
+ Current borrowings	193	138	38
– Cash and cash equivalents	(1,710)	(1,382)	(1,825)
Net debt	**3,240**	**3,469**	**364**

[11] The breakdown is based on actual maturities and excludes $48 million of bank commissions included in borrowings, in accordance with IFRS.

The net debt/adjusted EBITDA (last 12 months) ratio as of the end of 3Q 2016 decreased to 2.3x, as compared to 2.5x as of the end of 1H 2016, due to both decrease in net debt position and last 12 months adjusted EBITDA expansion.

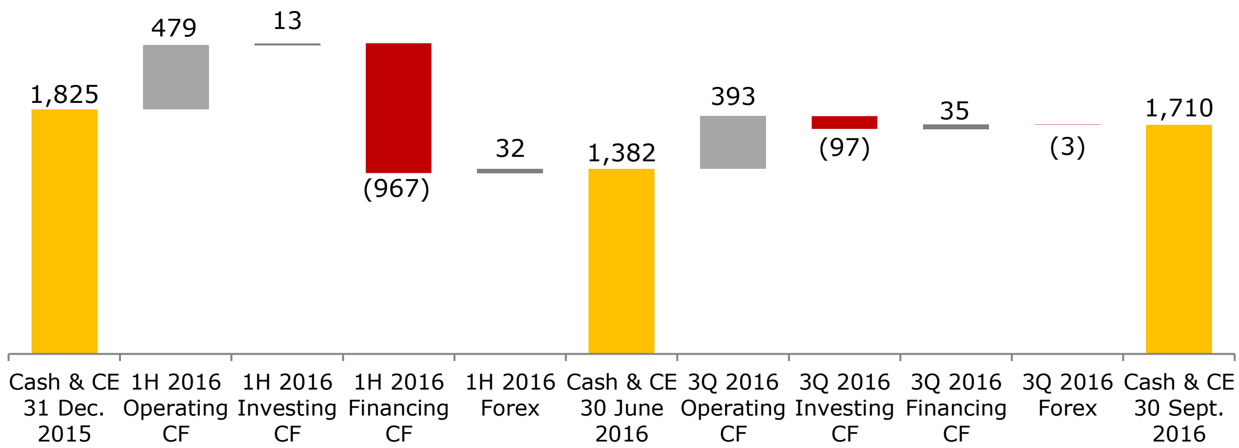
Net debt and net debt/ adjusted EBITDA (last 12 months) ratio



Cash flow review

The Group's net operating cash flow[12] in 3Q 2016 was largely unchanged y-o-y at $393 million. Despite a modestly higher capex spending in 3Q 2016 as compared to 3Q 2015, the Company posted cash outflow on investing activities at $97 million as opposed to $166 million of cash outflow in 3Q 2015. Net financing cash flow amounted to $35 million, despite an increase in interest paid due to an increase in debt as compared to the 3Q 2015. All of the above resulted in an increase in cash and cash equivalents of $331 million during 3Q 2016 to $1,710 million as at the end of the respective period.

3Q 2016 cash flow bridge, $ mln



Operating cash flow

The Group generated operational cash flow of $393 million in 3Q 2016, driven by strong EBITDA generation on the back of higher sales volumes, low cash cost profile and favourable FX rate. This result was supported by a $13 million of working capital release. An increase in trade payables more than offset the negative impact of advanced procurement of fuel at Krasnoyarsk Business Unit and accumulation of ore stockpiles at Blagodatnoye and Verninskoye. Strict working capital control continues to remain a priority for the Group. In 3Q 2016 operational cash flow was flat y-o-y.

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

Investing cash flow

The Group's 3Q 2016 capex rose by 43%, to $109 million, from $76 million in 3Q 2015 reflecting higher maintenance capex as well as the Natalka and brownfield development projects entering an active phase during the last twelve months.

The Group's main development project, Natalka saw a 27% growth in capex in 3Q 2016, to $47 million, due to a further ramp up in construction works. The construction of the primary crushing and main conveyor complex was completed and equipment for the grinding circuit was installed. In the meantime, construction of the crushed ore storage and reclaim facility is progressing well. The construction works are expected to peak in 1H 2017.

The Group substantially increased capex at Olimpiada to $17 million, as the construction works to reconfigure the Titimukhta Mill entered the final stage in 3Q 2016. The reconfiguration project was completed in September.

At Blagodatnoye, capex rose to $5 million, primarily as a result of projects to upgrade and expand the Mill's processing capacity to 8.0 mtpa, including the launch of an additional crushing circuit at the pre-cyanidation flotation stage as well as the installation of several screening units at the gravitation circuit. In addition, the Company continued design works related to the heap leach project.

Capex at Kuranakh increased 50% y-o-y, to $6 million, largely due to the preparation works related to heap leach installation. Meanwhile, the projects to improve equipment productivity have been largely completed, which already resulted in a substantial improvement in Kuranakh cost profile. Mining fleet renovation due to the increased mining activity was completed in 1H 2016.

At Alluvials, capex increased to $5 million on the back of higher exploration activity as well as the ongoing worn-out equipment replacement programme.

Capex breakdown[13]

$ mln	3Q 2016	3Q 2015	y-o-y chng	9M 2016	9M 2015	y-o-y chng
Natalka	47	37	27%	129	75	72%
Olimpiada	17	8	113%	50	18	178%
Blagodatnoye	5	–	n.a.	14	4	250%
Verninskoye	8	1	n.m.	14	9	56%
Alluvials	5	2	150%	16	5	220%
Titimukhta	–	–	n.a.	–	–	n.a.
Kuranakh	6	4	50%	18	6	200%
Exploration	4	5	(20%)	7	6	17%
Other (incl. power projects)	17	19	(11%)	47	49	(4%)
Total	**109**	**76**	**43%**	**295**	**172**	**72%**

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

Other areas of investing activities in 3Q 2016 comprised of $17 million inflow of interest received and $1 million repayment of loans, as compared to a $75 million outflow in 3Q 2015, largely composed of interest received, bank deposits movements and payments for the currency collars and loans issued.

Financing cash flow

In 3Q 2016, net financing cash flow amounted to $35 million, posting a substantial decline compared to $425 million in 3Q 2015. This resulted from significantly lower proceeds from borrowings and debt repayments remaining largely flat y-o-y combined with an increase in interest paid due to an increase of debt. To recap, in January 2016 the Company entered into a $2.5 billion 7-year credit facility with PJSC Sberbank in order to finance the share buyback.

Recent corporate developments

Moody's assigned PGIL "Ba1" rating

On 30 September 2016, Moody's assigned PGIL a Ba1 Credit Rating with negative outlook. The rating assigned to PGIL is in line with Russia's sovereign rating.

In assigning PGIL a Ba1 Rating, Moody's noted Polyus' global cost leadership and large high-grade reserve base as well as the track record of cost-cutting and operational enhancements. In addition, Moody's recognised strong liquidity, long term debt maturity profile and positive free cash flow.

New dividend policy

On 7 October 2016, the Board of Directors (the „Board") has approved the Company's dividend policy, pursuant to which the Company will pay dividends on a semi-annual basis in an amount of 30% of the EBITDA of PJSC Polyus for the respective reporting period. Payment will be calculated on the basis of the consolidated financial statements of the Company in accordance with IFRS requirements, provided that the net debt/adjusted EBITDA (last 12 months) ratio based on the consolidated financial statements of PJSC Polyus is lower than 2.5x.

Should the net debt / adjusted EBITDA (for the last 12 months) ratio increase to higher than 2.5x, the Board will exercise discretion on dividends, considering the Company's financial position, free cash flow, outlook and macro environment.

The Board may consider the possibility of payment of special dividends, subject to the Company's liquidity position, capex requirements, free cash flows and leverage.

PGIL completed USD 500 million Notes due 2022 issuance

On 26 October 2016, PGIL issued USD 500 million notes due 28 March 2022 with a coupon of 4.699% per annum (the "Notes"). The Notes are guaranteed by JSC "Gold Mining Company Polyus", a 100% subsidiary of the Group. Group intends to borrow the net proceeds from the issue of the Notes and use primarily for debt refinancing and other general corporate purposes of the Group, including the financing of operating activities and development projects of the Group.

Going concern

The financial position of the Group, its cash flows, liquidity position, and borrowing facilities are set out in this MD&A on pages 20 to 22. As at 30 September 2016 the Group held $1,710 million in cash and cash equivalents and bank deposits and had a net debt of $3,240 million, with $666 million of undrawn but committed credit facilities, subject to covenant compliance. Details on borrowings and credit facilities are disclosed in note 15 to the financial statements. In assessing its going-concern status, the directors have considered the uncertainties affecting future cash flows and have taken into account its financial position, anticipated future trading performance, borrowings, and other available credit facilities, as well as its forecast compliance with the covenants on those borrowings and its capital expenditure commitments and plans. In the event of certain reasonably possible adverse pricing and forex scenarios and the risks and uncertainties below, management has within its control the option of deferring uncommitted capital expenditure, or managing the dividend payment profile to maintain the Group's funding position.

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

Risks and uncertainties

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

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

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

The Directors do not believe that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 December 2015, other than the aforementioned sanctions against Russia. Additional information on sanctions, surfaced during the 9M 2016, does not constitute an additional risk for the Group. Detailed explanation of the risks summarized below, together with the Group's risk mitigation plans, can be found on pages 40 to 51 of the 2015 Annual Report which is available at http://polyus.com/en/?from=ru

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

Commodity price risk

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

Foreign exchange risk

As stated on page 8, the Group's revenue is linked to the USD, as the gold price is quoted in this currency. Thus the Group's strategy is to have mostly USD-denominated debt and to keep its cash and deposits in USD. As of the end of 9M 2016, 93% of the cash and cash equivalents and bank deposits of the Group were in USD – see page 21 of this MD&A for a detailed description. As part of this strategy, the Group entered into a number of cross-currency swaps with leading Russian banks economically to hedge interest payments and the exchange of the principal amounts – see page 19. In order to reduce the adverse effects associated with the changes in the exchange rates of RUB against USD the Group entered into currency collar contracts, which had all matured by 31 December 2015, thus, had no impact on the Group's financials in 9M 2016.

Interest rate risk

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

Inflation risk

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

Outlook

Based on the strong operational performance of the Company's key mines to date, Polyus revisited its production guidance for 2016, upgrading it from 1.76-1.80 million ounces to 1.87-1.90 million ounces. Management anticipates continued growth into 2017 and has set a mid-term annual production target of at least 2.7 million ounces of gold by 2020. The Company expects to continue to benefit from its position as one of the most efficient gold producers globally and the low-cost profile of bulk open-pit operations.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

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

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Deloitte & Touche

Moscow, Russian Federation
7 November, 2016

PJSC "Polyus"

Condensed consolidated interim financial statements

for the three and nine months ended 30 September 2016 (unaudited)

POLYUS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)
(in millions of US Dollars, except for earnings per share data)

		Three months ended 30 September		Nine months ended 30 September	
	Notes	**2016**	**2015**	**2016**	**2015**
Gold sales	4	700	628	1,769	1,633
Other sales		6	6	19	20
Total revenue		**706**	**634**	**1,788**	**1,653**
Cost of gold sales	5	(253)	(242)	(632)	(648)
Cost of other sales		(7)	(5)	(19)	(17)
Gross profit		**446**	**387**	**1,137**	**988**
Selling, general and administrative expenses	6	(35)	(33)	(98)	(103)
Reversal of impairment	7	1	13	2	17
Other (expenses) / incomes, net		(11)	6	(22)	6
Operating profit		**401**	**373**	**1,019**	**908**
Finance costs, net	8	(32)	(6)	(105)	(46)
Interest income on bank deposits and loans issued		12	16	30	51
Gain / (loss) on derivative financial instruments and investments, net	9	65	(209)	(77)	(64)
Foreign exchange gain, net		34	99	291	94
Profit before income tax		**480**	**273**	**1,158**	**943**
Current income tax expense		(80)	(72)	(231)	(151)
Deferred income tax (expense) / benefit		(10)	16	(38)	19
Profit for the period		**390**	**217**	**889**	**811**
Attributable to:					
Shareholders of the Company		367	194	863	785
Non-controlling interests		23	23	26	26
		390	**217**	**889**	**811**
Weighted average number of ordinary shares'000	14	130,109	190,628	145,846	190,628
Earnings per share (US Dollar), basic and diluted[1]		2.82	1.02	5.92	4.12

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)

(in millions of US Dollars)

	Notes	Three months ended 30 September 2016	Three months ended 30 September 2015	Nine months ended 30 September 2016	Nine months ended 30 September 2015
Profit for the period		**390**	**217**	**889**	**811**
Other comprehensive income / (loss)					
Items that may be subsequently reclassified to profit or loss:					
(Decrease) / increase in revaluation of cash flow hedge reserve on revenue stabiliser	11	(26)	75	(88)	105
Increase / (decrease) in revaluation of cash flow hedge reserve on gold forward	11	–	8	(12)	9
Deferred tax relating to decrease / (increase) in revaluation of cash flow hedge reserve		4	(26)	19	(26)
		(22)	**57**	**(81)**	**88**
Items that will not be reclassified through profit or loss:					
Effect of translation to presentation currency		(3)	(411)	(54)	(369)
Items that have been reclassified through profit or loss:					
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser	11	(4)	(27)	(37)	(62)
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward	11	–	(7)	(8)	(16)
Deferred tax relating to cash flow hedge reserve reclassified to consolidated statement of profit or loss		–	(3)	8	16
		(4)	**(37)**	**(37)**	**(62)**
Other comprehensive loss		**(29)**	**(391)**	**(172)**	**(343)**
Total comprehensive income / (loss)		**361**	**(174)**	**717**	**468**
Attributable to:					
Shareholders of the Company		337	(182)	681	455
Non-controlling interests		24	8	36	13
		361	**(174)**	**717**	**468**

POLYUS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2016 (UNAUDITED)

(in millions of US Dollars)

	Notes	30 Sep. 2016	31 Dec. 2015
Assets			
Non-current assets			
Property, plant and equipment	10	2,570	2,023
Derivative financial instruments and investments	11	25	411
Inventories	12	225	184
Deferred tax assets		64	46
Other non-current assets		25	8
		2,909	**2,672**
Current assets			
Derivative financial instruments and investments	11	14	205
Inventories	12	391	296
Deferred expenditures		11	13
Trade and other receivables		38	23
Advances paid to suppliers and prepaid expenses		18	17
Taxes receivable		71	59
Cash and cash equivalents	13	1,710	1,825
		2,253	**2,438**
Total assets		**5,162**	**5,110**
Equity and liabilities			
Capital and reserves			
Share capital	14	7	7
Additional paid-in capital	14	2,283	2,273
Treasury shares	14	(3,712)	–
Cash flow hedge revaluation reserve	11	5	123
Translation reserve		(2,690)	(2,623)
Retained earnings		3,060	2,196
Equity attributable to shareholders of the Company		**(1,047)**	**1,976**
Non-controlling interests		99	71
		(948)	**2,047**
Non-current liabilities			
Site restoration, decommissioning and environmental obligations		44	32
Borrowings	15	4,757	2,151
Derivative financial instruments	11	611	509
Deferred tax liabilities		175	133
Other non-current liabilities		26	20
		5,613	**2,845**
Current liabilities			
Borrowings	15	193	38
Derivative financial instruments	11	3	–
Trade, other payables and accrued expenses		229	151
Taxes payable		72	29
		497	**218**
Total liabilities		**6,110**	**3,063**
Total equity and liabilities		**5,162**	**5,110**

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

(in millions of US Dollars)

		Equity attributable to shareholders of the Company									
	Notes	Number of outstanding shares'000	Share capital	Additional paid-in capital	Treasury shares	Cash flow hedge revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total
Balance at 31 December 2014		**190,628**	**7**	**2,266**	**–**	**108**	**(2,090)**	**1,425**	**1,716**	**83**	**1,799**
Profit for the period		–	–	–	–	–	–	785	**785**	26	**811**
Increase in cash flow hedge revaluation reserve	11	–	–	–	–	26	–	–	**26**	–	**26**
Effect of translation to presentation currency		–	–	–	–	–	(356)	–	**(356)**	(13)	**(369)**
Total comprehensive income / (loss)		**–**	**–**	**–**	**–**	**26**	**(356)**	**785**	**455**	**13**	**468**
Equity-settled share-based payment plans (LTIP)	14	–	–	3	–	–	–	–	**3**	–	**3**
Dividends declared to shareholders of non-controlling interests		–	–	–	–	–	–	–	**–**	(5)	**(5)**
Balance at 30 September 2015		**190,628**	**7**	**2,269**	**–**	**134**	**(2,446)**	**2,210**	**2,174**	**91**	**2,265**
Balance at 31 December 2015		**190,628**	**7**	**2,273**	**–**	**123**	**(2,623)**	**2,196**	**1,976**	**71**	**2,047**
Profit for the period		–	–	–	–	–	–	863	**863**	26	**889**
Decrease in cash flow hedge revaluation reserve	11	–	–	–	–	(118)	–	–	**(118)**	–	**(118)**
Effect of translation to presentation currency		–	–	–	–	–	(64)	–	**(64)**	10	**(54)**
Total comprehensive (loss) / income		**–**	**–**	**–**	**–**	**(118)**	**(64)**	**863**	**681**	**36**	**717**
Equity-settled share-based payment plans (LTIP)	14	–	–	10	–	–	–	–	**10**	–	**10**
Increase of ownership in subsidiaries		–	–	–	–	–	–	(2)	**(2)**	(1)	**(3)**
Buy-back of treasury shares	14	(60,519)	–	–	(3,443)	–	–	–	**(3,443)**	–	**(3,443)**
Settlement of issued loans by own shares	14	(4,477)	–	–	(269)	–	–	–	**(269)**	–	**(269)**
Release of translation reserve due to disposal of subsidiary		–	–	–	–	–	(3)	3	**–**	–	**–**
Dividends declared to shareholders of non-controlling interests		–	–	–	–	–	–	–	**–**	(7)	**(7)**
Balance at 30 September 2016		**125,632**	**7**	**2,283**	**(3,712)**	**5**	**(2,690)**	**3,060**	**(1,047)**	**99**	**(948)**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)

(in millions of US Dollars)

	Notes	Three months ended 30 September 2016	Three months ended 30 September 2015	Nine months ended 30 September 2016	Nine months ended 30 September 2015
Operating activities					
Profit before income tax		**480**	**273**	**1,158**	**943**
Adjustments for:					
Reversal of impairment	7	(1)	(13)	(2)	(17)
Finance costs, net	8	32	6	105	46
Interest income on bank deposits		(12)	(16)	(30)	(51)
(Gain) / loss on derivative financial instruments and investments	9	(65)	209	77	64
Amortisation and depreciation	10	41	32	107	94
Foreign exchange gain, net		(34)	(99)	(291)	(94)
Other		5	(1)	13	(3)
		446	**391**	**1,137**	**982**
Movements in working capital					
Inventories		(16)	15	(56)	30
Deferred expenditures		11	9	(2)	(3)
Trade and other receivables		(14)	(5)	(19)	(7)
Advances paid to suppliers and prepaid expenses		(2)	3	(5)	1
Taxes receivable		(6)	(21)	(14)	(19)
Trade and other payables and accrued expenses		30	31	18	38
Other non-current liabilities		(1)	–	(1)	–
Taxes payable		11	10	7	13
Cash flows from operations		**459**	**433**	**1,065**	**1,035**
Income tax paid		(66)	(42)	(193)	(126)
Net cash generated from operating activities		**393**	**391**	**872**	**909**
Investing activities					
Purchase of property, plant and equipment		(115)	(91)	(255)	(245)
Increase in bank deposits		–	(3)	–	(74)
Proceeds from redemption bank deposits		–	49	–	340
Interest received		17	17	37	47
Payment for the currency collars	11	–	(134)	–	(351)
Proceeds from disposal of subsidiary, net of cash disposed of		–	–	10	–
Loans issued		–	(4)	–	(190)
Loans repaid		1	–	124	–
Other		–	–	–	3
Net cash utilised in investing activities		**(97)**	**(166)**	**(84)**	**(470)**
Financing activities					
Interest paid		(49)	(24)	(163)	(90)
Proceeds from leaseback transactions		–	–	2	–
Net proceeds on exchange of interest payments under interest and cross currency rate swaps	11	12	7	28	31
Payment for buy-back of shares	14	(1)	–	(3,443)	–
Dividends paid to non-controlling interests		(7)	(5)	(7)	(5)
Proceeds from borrowings	15	90	521	2,681	521
Repayment of borrowings	15	(10)	(9)	(27)	(77)
Cash used to increase ownership in subsidiaries		–	(65)	(3)	(65)
Net cash generated from / (utilised in) financing activities		**35**	**425**	**(932)**	**315**
Net increase / (decrease) in cash and cash equivalents		**331**	**650**	**(144)**	**754**
Cash and cash equivalents at beginning of the period	13	**1,382**	**1,326**	**1,825**	**1,213**
Effect of foreign exchange rate changes on cash and cash equivalents		(3)	(22)	29	(13)
Cash and cash equivalents at end of the period	13	**1,710**	**1,954**	**1,710**	**1,954**

1. GENERAL

Public Joint Stock Company "Polyus" (the "Company" or "Polyus") was incorporated in Moscow, Russian Federation, on 17 March 2006. The principal activities of the Company and its controlled entities (the "Group") are the extraction, refining and sale of gold. The mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and the Sakha Republic of the Russian Federation.

The Group also performs research, exploration and development works; the development works being primarily at the Natalka licence area located in the Magadan region of the Russian Federation.

The Company is a subsidiary of Polyus Gold International Limited ("PGIL"), previously a public company which published its consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). As of 30 September 2016 and 31 December 2015, the ultimate controlling party of the Company was Mr. Said Kerimov.

2. BASIS OF PREPARATION AND PRESENTATION

Going concern

In assessing its going concern status, the Directors have taken account of the Group's financial position, expected future trading performance, its borrowings, available credit facilities and its capital expenditure commitments, considerations of the gold price, currency exchange rates and other risks facing the Group. After making appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of signing these condensed consolidated interim financial statements and that it is appropriate to adopt the going concern basis in preparing these consolidated financial statements.

Compliance with International Financial Reporting Standards

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* ("IAS 34"). Accordingly, the condensed consolidated interim financial statements do not include all information and disclosures required for a complete set of financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2015.

Except for, as disclosed in section *Significant accounting policies* as presented below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated interim financial statements as were applied in the Group's audited consolidated financial statements for the year ended 31 December 2015.

Basis of presentation

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered. The accounting principles and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under International Financial Reporting Standards (IFRS). Accordingly, such financial information has been adjusted to ensure that the condensed consolidated interim financial statements are presented in accordance with IFRS.

The condensed consolidated interim financial statements of the Group are prepared on the historical cost basis, except for *Financial instruments*, which are accounted for at amortised cost or at fair value.

IFRS standards update

The following is a list of new or amended IFRS standards and interpretation that have been issued by the IASB that have been applied in the preparation of these condensed consolidated interim financial statements for the three and nine months ended 30 September 2016:

(in millions of US Dollars)

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

The following standards and interpretations, which have not been applied in these condensed consolidated interim financial statements, were issued but not yet effective:

Title	Subject	IASB effective for annual periods beginning on or after	Expected effect on the condensed consolidated interim financial statements
Amendments to IAS 7	Statement of Cash Flows	1 January 2017	No effect
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses	1 January 2017	No effect
Amendments to IFRS 2	Share-based payment	1 January 2018	To be determined
IFRS 9	Financial instruments	1 January 2018	No effect
IFRS 15	Revenue from contracts with customers	1 January 2018	To be determined
IFRS 16	Leases	1 January 2019	To be determined
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	Date will be determined later	No effect

Management is currently considering the potential impact of the adoption of these standards and amendments. However, it is not practicable to provide a reasonable estimate of their effect until a detailed review has been completed.

Exchange rates

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

Russian Rouble/US Dollar	30 Sep. 2016	31 Dec. 2015
Period end rate	63.16	72.88

Starting from 1 January 2016, all income or expenses and respective cash flows are translated at the monthly average exchange rates. At the same time comparative financial information for the three and nine months ended 30 September 2015 are presented at the average quarterly exchange rates. Individually significant items continue to be translated at exchange rate on the date of transaction.

3. SIGNIFICANT ACCOUNTING POLICIES

The critical accounting judgements, estimates and assumptions made by management of the Group and applied in the accompanying condensed consolidated interim financial statements for the three and nine months ended 30 September 2016 are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2015.

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

Sale and leaseback transactions

Starting from 1 January 2016, the Group engages in certain transactions which meet the criteria as sale and leaseback transactions. Where a transaction results in finance lease (see accounting policy below), the excess of sale proceeds over the carrying value is deferred and recognised in profit or loss over the term of a lease transaction.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the condensed consolidated interim statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Depreciation of property, plant and equipment under finance leases

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate partially or fully. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire property, plant and equipment are recognised as deferred revenue in the consolidated statement of financial position and amortised (transferred) to profit or loss on a systematic and rational basis over the useful lives of property, plant and equipment to which it relates. Amortisation of deferred revenue starts at the moment when items of property, plant and equipment are put into the operations and is presented as deduction of depreciation and amortisation charge in the statement of profit or loss.

4. SEGMENT INFORMATION

For management purposes the Group is organised by separate business segments identified on a combination of operating activities and geographical area bases with separate financial information available and reported regularly to the chief operating decision maker ("CODM"). The following is a description of operations of the Group's seven identified reportable segments and those that do not meet the quantitative reporting threshold for reporting:

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

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

- gold sales;
- ounces of gold sold, in thousand;
- adjusted earnings before interest, tax, depreciation and amortisation and other items (Adjusted EBITDA);
- total cash cost per ounce of gold sold (TCC); and
- capital expenditures.

Business segment assets and liabilities are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements.

The Group does not allocate the results of companies that perform management, investing activities and certain other administrative functions within its internal reporting.

(in millions of US Dollars)

	Gold sales	Ounces of gold sold in thousand[2]	Adjusted EBITDA	Total cash cost per ounce of gold sold (USD per ounce)[2]	Capital expenditures
Three months ended 30 September 2016					
Business units					
Krasnoyarsk	457	344	309	388	24
Irkutsk alluvial	132	100	70	514	5
Irkutsk ore	58	43	37	375	8
Yakutia Kuranakh	53	40	31	526	6
Exploration	–	–	–	–	4
Magadan	–	–	(1)	–	47
Capital construction	–	–	–	–	15
Unallocated	–	–	(2)	–	–
Total	**700**	**527**	**444**	**406**	**109**
Three months ended 30 September 2015					
Business units					
Krasnoyarsk	431	347	289	365	12
Irkutsk alluvial	99	88	49	501	2
Irkutsk ore	49	43	32	400	1
Yakutia Kuranakh	49	44	24	569	4
Exploration	–	–	3	–	5
Magadan	–	–	–	–	37
Capital construction	–	–	–	–	13
Unallocated	–	–	(4)	–	2
Total	**628**	**522**	**393**	**401**	**76**
Nine months ended 30 September 2016					
Business units					
Krasnoyarsk	1,263	967	853	371	73
Irkutsk alluvial	174	133	83	522	16
Irkutsk ore	179	143	111	399	14
Yakutia Kuranakh	148	118	85	495	18
Exploration	5	4	1	1,010	7
Magadan	–	–	(1)	–	129
Capital construction	–	–	–	–	33
Unallocated	–	–	3	–	5
Total	**1,769**	**1,365**	**1,135**	**387**	**295**
Nine months ended 30 September 2015					
Business units					
Krasnoyarsk	1,223	968	781	395	27
Irkutsk alluvial	138	121	59	530	5
Irkutsk ore	145	122	90	440	9
Yakutia Kuranakh	127	110	57	612	6
Exploration	–	–	2	–	6
Magadan	–	–	–	–	75
Capital construction	–	–	1	–	41
Unallocated	–	–	(4)	–	3
Total	**1,633**	**1,321**	**986**	**422**	**172**

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales during the three and nine months ended 30 September 2016 and 2015.

[2] unaudited and not reviewed

(in millions of US Dollars)

Gold sales

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Refined gold	683	627	1,752	1,632
Other gold-bearing products	17	1	17	1
Total	**700**	**628**	**1,769**	**1,633**

The following realised gains on derivatives were included within gold sales for the respective reporting periods:

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Realised gains on derivatives	4	34	49	78

Gold sales in the Irkutsk alluvial business unit are more heavily weighted towards the second half of the calendar year, with all annual sales usually occurring from May until October.

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

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Profit for the period	**390**	**217**	**889**	**811**
Income tax	90	56	269	132
Depreciation and amortisation (note 10)	41	32	107	94
Finance costs (note 8)	32	6	105	46
Long Term Incentive Plan (note 14)	4	3	10	3
(Gain) / loss on derivative financial instruments and investments (note 9)	(65)	209	77	64
Foreign exchange gain, net	(34)	(99)	(291)	(94)
Interest income on bank deposits and loan issued	(12)	(16)	(30)	(51)
Reversal of impairment (note 7)	(1)	(13)	(2)	(17)
Other	(1)	(2)	1	(2)
Adjusted EBITDA	**444**	**393**	**1,135**	**986**

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

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Cost of gold sales	**253**	**242**	**632**	**648**
Adjusted for:				
Depreciation and amortisation (note 10)	(41)	(31)	(103)	(90)
Other non-cash items in cost of gold sales	2	(2)	1	–
TCC	**214**	**209**	**530**	**558**
Ounces of gold sold, in thousand	527	522	1,365	1,321
TCC per ounce of gold sold, USD per ounce	**406**	**401**	**387**	**422**

(in millions of US Dollars)

Capital expenditures are primarily related to the following projects:

- ***Magadan business unit:*** ongoing construction in all major areas of the first stage of the Natalka mill project, the tendering process is finished and external contractors have been selected for the main process equipment of the mill, ongoing infrastructure construction.
- ***Krasnoyarsk business unit:*** finishing reconfiguration of the Titimukhta mill and preparations for connecting to the new Razdolinskaya-Taiga grid, ongoing upgrading and expanding of the Blagodatnoye mill, launching works to build new BIOX unit.
- ***Yakutia Kuranakh business unit:*** completing project to increase equipment productivity, launched construction works at heap leach project, completed grading and leveling, ongoing heap construction, contractors have been selected for the main process equipment.
- ***Construction business unit:*** finishing construction of the Razdolinskaya-Taiga electricity grid.
- ***Irkutsk ore business unit:*** completed installation of the main process equipment and finishing installation of the auxiliary equipment as part of the project to increase the mill capacity to 2.5 million tons ore per year, consulting company AMC is finishing the current stage of the Irkutsk hub strategy development.

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

5. COST OF GOLD SALES

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Consumables and spares	71	58	183	152
Labour	62	60	158	170
Tax on mining	39	38	99	108
Fuel	19	19	51	51
Power	3	8	15	25
Outsourced mining services	4	5	8	8
Refining costs	1	1	1	3
Other	18	12	34	37
Total cash operating costs	**217**	**201**	**549**	**554**
Amortisation and depreciation of operating assets (note 10)	42	30	107	94
Total cost of production	**259**	**231**	**656**	**648**
(Increase) / decrease in stockpiles, gold-in-process and refined gold inventories	(6)	11	(24)	–
Total	**253**	**242**	**632**	**648**

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Salaries	24	22	69	73
Professional services	3	4	8	8
Taxes other than mining and income taxes	3	3	8	9
Amortisation and depreciation (note 10)	–	1	2	3
Other	5	3	11	10
Total	**35**	**33**	**98**	**103**

(in millions of US Dollars)

7. REVERSAL OF IMPAIRMENT

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Mine under development (note 10)	–	8	1	12
Exploration and evaluation assets (note 10)	–	5	–	5
Capital construction in progress (note 10)	1	–	1	–
Total	**1**	**13**	**2**	**17**

8. FINANCE COSTS, NET

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Interest on borrowings	67	33	198	95
Unwinding of discounts on site restoration, decommissioning and environmental liabilities	1	2	2	4
Gain on exchange of interest payments under cross currency swap (note 11)	(12)	(9)	(23)	(27)
Gain on exchange of interest payments under interest rate swaps (note 11)	–	–	(5)	(6)
Other	–	–	1	–
Sub-total finance cost	**56**	**26**	**173**	**66**
Interest capitalised in the cost of Mine under development and capital construction in progress	(24)	(20)	(68)	(20)
Total finance cost, net	**32**	**6**	**105**	**46**

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

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

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

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Revaluation gain / (loss) on ineffective part of the revenue stabiliser under Tranche 3 and 4 (note 11)	51	–	(173)	–
Revaluation gain / (loss) on cross currency swaps (note 11)	11	(120)	132	(99)
Revaluation gain / (loss) on ineffective part of the revenue stabiliser under Tranches 1 and 2 (note 11)	9	(22)	(57)	(15)
Revaluation (loss) / gain on interest rate swap (note 11)	(7)	16	5	18
Gain on disposal of subsidiary and subsequent accounting at equity method	–	–	16	–
(Loss) / gain on currency collars (note 11)	–	(84)	–	32
Other	1	1	–	–
Total	**65**	**(209)**	**(77)**	**(64)**

(in millions of US Dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	Fixed assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
Cost						
Balance at 31 December 2014	**1,538**	**1,134**	**203**	**199**	**307**	**3,381**
Reclassification	15	–	–	–	–	**15**
Additions	–	75	83	91	6	**255**
Transfers from capital construction-in-progress	60	–	–	(60)	–	**–**
Change in site restoration, decommissioning and environmental obligations	(7)	(1)	–	–	–	**(8)**
Disposals	(21)	–	–	–	–	**(21)**
Effect of translation to presentation currency	(235)	(177)	(39)	(36)	(46)	**(533)**
Balance at 30 September 2015	**1,350**	**1,031**	**247**	**194**	**267**	**3,089**
Balance at 31 December 2015	**1,283**	**968**	**243**	**153**	**249**	**2,896**
Reclassification	12	(1)	–	(2)	–	**9**
Additions	–	128	44	152	12	**336**
Transfers from capital construction-in-progress	80	–	–	(80)	–	**–**
Change in site restoration, decommissioning and environmental obligations	4	–	–	–	–	**4**
Disposals	(5)	(6)	–	(1)	–	**(12)**
Disposal of subsidiary	–	–	–	–	(105)	**(105)**
Effect of translation to presentation currency	204	160	41	33	13	**451**
Balance at 30 September 2016	**1,578**	**1,249**	**328**	**255**	**169**	**3,579**

(in millions of US Dollars)

	Fixed assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
Accumulated amortisation, depreciation and impairment						
Balance at 31 December 2014	**(753)**	**(32)**	**(38)**	**(10)**	**(197)**	**(1,030)**
Charge	(102)	–	(18)	–	–	**(120)**
Disposals	17	–	–	–	–	**17**
Reversal of impairment (note 7)	–	12	–	–	5	**17**
Effect of translation to presentation currency	123	4	8	1	28	**164**
Balance at 30 September 2015	**(715)**	**(16)**	**(48)**	**(9)**	**(164)**	**(952)**
Balance at 31 December 2015	**(663)**	**(9)**	**(45)**	**(7)**	**(149)**	**(873)**
Reclassification	(9)	–	–	–	–	**(9)**
Charge	(96)	–	(24)	–	–	**(120)**
Disposals	5	–	–	–	–	**5**
Disposal of subsidiary	–	–	–	–	105	**105**
Reversal of impairment (note 7)	–	1	–	1	–	**2**
Effect of translation to presentation currency	(109)	(1)	(9)	(3)	3	**(119)**
Balance at 30 September 2016	**(872)**	**(9)**	**(78)**	**(9)**	**(41)**	**(1,009)**
Net book value at						
Balance at 31 December 2014	**785**	**1,102**	**165**	**189**	**110**	**2,351**
Balance at 30 September 2015	**635**	**1,015**	**199**	**185**	**103**	**2,137**
Balance at 31 December 2015	**620**	**959**	**198**	**146**	**100**	**2,023**
Balance at 30 September 2016	**706**	**1,240**	**250**	**246**	**128**	**2,570**

(in millions of US Dollars)

Mineral rights

The carrying values of mineral rights included in mining assets, mine under development and exploration and evaluation assets were as follows:

	30 Sep. 2016	31 Dec. 2015
Mineral rights presented within mining assets	49	46
Mineral rights presented within mine under development	33	28
Mineral rights presented within exploration and evaluation assets	17	15
Total	**99**	**89**

Exploration and evaluation assets

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

	30 Sep. 2016	31 Dec. 2015
Chertovo Koryto	27	23
Razdolinskoye	22	16
Olimpiada	18	14
Bamsky	17	11
Panimba	15	13
Smezhny	8	7
Blagodatnoye	7	6
Burgakhchan area	6	5
Medvezhy Zapadny	2	2
Other	6	3
Total	**128**	**100**

Amortisation and depreciation charge

Amortisation and depreciation charge is allocated as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Cost of gold sales attributable to property, plant and equipment	41	31	103	90
Depreciation in change in inventory	1	(1)	4	4
	42	**30**	**107**	**94**
Selling, general and administrative expenses (note 6)	–	1	2	3
Cost of other sales	–	–	2	1
Capitalised within capital construction-in-progress	1	7	9	22
Total	**43**	**38**	**120**	**120**

Mine under development and Capital construction in progress

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

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

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Interest expenses	24	20	68	20
Foreign exchange gain	(3)	–	(2)	–
Interest income on bank deposits	(2)	(2)	(7)	(2)
Total	**19**	**18**	**59**	**18**

(in millions of US Dollars)

11. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS

	30 Sep. 2016	31 Dec. 2015
Non-current assets		
Interest rate swaps	21	11
Investment in joint venture	4	–
Revenue stabiliser	–	200
Loans issued to related parties	–	198
Loans receivables	–	2
Sub-total	**25**	**411**
Current assets		
Revenue stabiliser	14	–
Loans issued to related parties	–	185
Gold forward	–	20
Sub-total	**14**	**205**
Total assets	**39**	**616**
Non-current liabilities		
Cross currency swaps	445	509
Revenue stabiliser	166	–
Sub-total	**611**	**509**
Current liabilities		
Revenue stabiliser	3	–
Total liabilities	**614**	**509**

Strategic Price Protection Programme

In March 2014, the Group initiated a Strategic Price Protection Programme (the “Programme”).

Under the Programme, the Group has entered into a series of price protection arrangements comprised of two components:

- zero cost Asian gold collars (“revenue stabiliser”); and
- gold forward contracts.

Revenue stabiliser

The revenue stabiliser component represents a series of zero cost Asian barrier collar agreements to purchase put options and sell call options with “knock-out” and “knock-in” barriers. The revenue stabiliser options are exercised quarterly in equal amounts. Initially, the revenue stabiliser agreements are recognised at fair value using a Monte Carlo simulation model. Input data used in the valuation model (spot gold prices and volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13.

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

Tranche 1 and 2 of the revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the *Cash flow hedge revaluation reserve* within the condensed consolidated interim statement of changes in equity, whilst the remaining change in the fair value is reflected in the condensed consolidated interim statement of profit or loss (note 9) in the following amounts:

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Gain / (loss) from change in fair value recognised in profit or loss	9	(22)	(57)	(15)

(in millions of US Dollars)

Under Tranches 1 and 2, the following (decrease) / increase in fair value was recognised in the *Cash flow hedge revaluation reserve* within the condensed consolidated interim statement of changes in equity:

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
(Decrease) / increase in fair value recognised in equity	(26)	75	(88)	105

Following the sale of the hedged volume of gold and the exercise of certain options the respective amounts were subsequently reclassified to *Gold sales* within the condensed consolidated interim statement of profit or loss:

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Reclassified to gold sales	4	27	37	62

Tranche 3 and 4 are accounted for at fair value through profit or loss. Gain / (loss) resulted from the change in its fair value is presented within the note 9 of the condensed consolidated interim statement of profit or loss in the following amounts:

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Gain / (loss) from change in fair value recognised in profit or loss	51	–	(173)	–

On the expiration of the Tranches 3 and 4 collars, gains in the following amounts are recognised within *Gold sales* line of the condensed consolidated interim statement of profit or loss:

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Recognised within gold sales	–	–	4	–

Gold forward

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

There are no outstanding balances in regard of gold forward as of 30 September 2016.

The gold forward contract is designated as a cash flow hedge. Any change in the forward fair value is recognised in *Cash flow hedge revaluation reserve* within the condensed consolidated interim statement of changes in equity. The following increase / (decrease) in fair value was recognised in the *Cash flow hedge revaluation reserve* within the condensed consolidated interim statement of changes in equity:

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Increase / (decrease) in fair value recognised in equity	–	8	(12)	9

Following the sale of the hedged volume of gold the respective amounts were reclassified to *Gold sales* within the condensed consolidated interim statement of profit or loss:

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Recognised within gold sales	–	7	8	16

(in millions of US Dollars)

The fair value is determined using the Black-Scholes valuation technique. Input data used in the valuation model (forward gold prices and volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13. The Group performs prospective and retrospective effectiveness testing for the instruments designated as a cash flow hedge at least at each reporting date.

Currency collars

During the year ended 31 December 2014, in order to economically hedge its Russian rouble denominated expenses, the Group simultaneously purchased put options and sold call options for the total amount of USD 1,900 million. The last options matured during the year ended 31 December 2015. Change in the fair value was reflected in the condensed consolidated interim statement of profit or loss (note 9) in the following amounts:

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
(Loss) / gain from change in fair value recognised in profit or loss	–	(84)	–	32

The Group classified these contracts as financial instruments at FVTPL. The fair value was determined using the Black-Scholes valuation technique using the inputs (forward currency exchange rates and volatility) which were observable in the market and correspondently classified as Level 2 in accordance with the hierarchy of fair value.

Loans issued to related parties

On 30 September 2016, all loans previously issued to PGIL and outstanding as of 31 December 2015, were settled in full in advance of maturity date:

	Due date	Rate, % p.a.	30 Sep. 2016	31 Dec. 2015
Loan 1	03/11/16	2.40	–	185
Loan 2	01/04/17	3.89	–	198
Total			**–**	**383**

Cross currency swaps

RUB denominated credit facilities with fixed interest rate

The revenue of the Group is linked to US dollars, because the gold price is denominated in US dollars. The Group entered into cross currency swaps with leading Russian banks to economically hedge interest and principal payments nominated in RUB. According to the cross currency swap agreements the Group pays quarterly to the banks LIBOR + Margin 2.47% in USD and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group exchanges principal amounts paying USD 1,023 million and receiving RUB 35,999 million.

Rusbonds

The Group entered into cross currency swaps with leading Russian banks for a total amount of RUB 15 billion to economically hedge interest and principal payments. According to the cross currency swap agreements the Group pays semi-annually to the banks in USD (6MLIBOR + Margin 4.45% for RUB 10 billion and + 5.9% for RUB 5 billion) and receives from the banks 12.1% in RUB; and at maturity (July 2021) the Group will exchange principal amounts paying USD 255 million and receiving RUB 15 billion. According to IAS 39 the swaps were not eligible to be designated as cash flow or fair value hedges. The Group accounted for these derivative financial instruments at fair value which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps, which was recognised in the condensed consolidated interim statement of profit or loss (note 9) presented as follow:

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Gain / (loss) from change in fair value recognised in profit or loss	11	(120)	132	(99)

(in millions of US Dollars)

Gain on the exchange of interest payments recognised within the *Finance cost* (note 8) presented as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Gain recognised within finance cost	12	9	23	27

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

Interest rate swaps

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

Changes in the fair value of the interest rate swaps, which was recognised in the condensed consolidated interim statement of profit or loss (note 9) presented as follow:

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
(Loss) / gain from change in fair value recognised in profit or loss	(7)	16	5	18

Gain on the exchange of interest payments recognised within the *Finance cost* (note 8) presented as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Gain recognised within finance cost	–	–	5	6

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.

12. INVENTORIES

	30 Sep. 2016	**31 Dec. 2015**
Inventories expected to be recovered after 12 months		
Stockpiles	214	174
Gold-in-process	11	10
Sub-total	**225**	**184**
Inventories expected to be recovered in the next 12 months		
Stockpiles	58	44
Gold-in-process	78	59
Refined gold	16	13
Stores and materials	249	188
Less: provision for obsolete and slow-moving stores and materials	(10)	(8)
Sub-total	**391**	**296**
Total	**616**	**480**

(in millions of US Dollars)

13. CASH AND CASH EQUIVALENTS

	30 Sep. 2016	31 Dec. 2015
Bank deposits		
- USD	1,366	1,630
- RUB	57	71
Current bank accounts		
- USD	225	59
- RUB	57	33
Other cash and cash equivalents	5	32
Total	**1,710**	**1,825**

Bank deposits within *Cash and cash equivalents* include deposits with original maturity less than three months or repayable on demand without loss on principal and accrued interest amounts denominated in RUB and USD and accrue interest at the following rates:

- USD	0.2–6.0%	1.0–6.0%
- RUB	8.3–10.2%	8.0–11.1%

14. SHARE CAPITAL

Authorised, issued and fully paid share capital of the Company comprised 190,627,747 ordinary shares at par value of RUB 1.

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

As a result of the completion of the above mentioned buy-back program, LLC "Polyus-Invest" purchased the following number of ordinary shares:

Name of shareholders submitted its ordinary shares for buy-back	Number of shares'000	Ownership, as %	Price per 1 share, RUB	Consideration, USD million
PGIL	60,212	31.59%	4,041	3,423
Minority shareholders	307	0.16%	4,041	19
Buy-back direct expenses	–	–	–	1
Total	**60,519**	**31.75%**		**3,443**

On 30 September 2016, a 100% subsidiary of the Group obtained from PGIL 4,477 thousand of the Company's ordinary shares which were used as a settlement of loans issued and accrued interest in the total amount of USD 269 million.

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

The weighted average number of ordinary shares including dilutive effect of potentially issuable shares is presented as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Ordinary shares'000 in issue at the beginning of the reporting period	**130,109**	**190,628**	**190,628**	**190,628**
Treasury shares'000 (60,519 during period from 10 March 2016 to 30 September 2016)	–	–	(44,782)	–
Weighted average number of ordinary shares'000	**130,109**	**190,628**	**145,846**	**190,628**

(in millions of US Dollars)

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

During the year ended 31 December 2015, Group approved a Long Term Incentive Plan (LTIP) according to which the members of top management of the Group are entitled to a conditional award in the form of the PGIL's ordinary shares in result of achievements in a combination of financial and non-financial performance indicators. The LTIP stipulates three three-year rolling performance periods, starting from 2015, 2016 and 2017. The total number of shares that may be distributed under the LTIP is up to 1% of the total share capital of the Company which can be granted from newly issued ordinary shares or from treasury shares, if any.

Total expense for the reporting period arising from LTIP was immediately recognised in the condensed consolidated interim statement of profit or loss within the line *Salaries* included within *Selling, general and administrative expenses* in the following amounts:

	Three months ended 30 September		Nine months ended 30 September	
	2016	**2015**	**2016**	**2015**
Expenses recognised within selling, general and administrative expenses	4	3	10	3

15. BORROWINGS

	Nominal rate %	30 Sep. 2016	31 Dec. 2015
Credit facilities with financial institutions nominated in USD with variable interest rates	USD LIBOR + margins ranging from 0.55% to 4.95%	3,364	785
USD-credit facilities with fixed interest rate	6.1%	750	750
Credit facilities with financial institutions nominated in RUB with fixed interest rates	10.35%	518	461
Notes due in 2025 (Rusbonds) with noteholders' early repayment option in 2021	12.1%	243	137
Letters of credit with deferred payments terms with variable rates	Cost of fund (COF) + 2.7%, Euribor +1.8%, USD LIBOR + 2.35%	7	38
Credit facilities with financial institutions nominated in RUB with variable interest rates	Central bank rate + 2.3%	61	18
Lease liabilities nominated in USD with fixed interest rate	5.1% - 7.5%	6	–
Lease liabilities nominated in RUB with fixed interest rate	15.6%	1	–
Sub-total		**4,950**	**2,189**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(193)	(38)
Long-term borrowings		**4,757**	**2,151**

The Company and subsidiaries of the Group from time to time obtain credit facilities from different financial institutions, raise financing from the noteholders to fund its general corporate purposes and to finance its capital investment projects and repurchase shares.

Unused committed credit facilities

In 2014, one of the Group's subsidiaries entered into a five year RUB 40,000 million credit line with a bank to fund its general corporate purposes. As of 30 September 2016, the amount of unused credit facilities was RUB 40,000 million equivalent to USD 633 million.

In 2015, one of the Group's subsidiaries entered into an eleven year RUB 6,054 million credit line with a bank to fund Razdolinskaya-Taiga power grid construction. As of 30 September 2016, USD 33 million (RUB 2,115 million) of the credit line was unused.

(in millions of US Dollars)

Other matters

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

There were a number of financial covenants under several loan agreements in effect as of 30 September 2016 according to which the respective subsidiaries of the Company and the Company itself are limited:

- in the distribution of their assets. The Group is not allowed to divest more than 10% of its assets in any form of transaction without prior consent of the banks. This limitation is applicable to the most significant subsidiaries of the Group;
- in its right to dispose of the controlling share in certain significant subsidiaries of the Group;
- in the transfer of non-core assets between certain subsidiaries of the Group;
- by other financial covenants.

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

16. DEFERRED REVENUE

On 13 September 2016, the Ministry for the Development of the Russian Far East (the "Minvostokrazvitiya") and JSC "Matrosova Mine" (the "Matrosova Mine"), a 100% subsidiary of the Group representing Magadan business unit, signed-off an agreement under which Minvostokrazvitiya has to provide to Matrosova Mine government grant in the following maximum amounts:

During the year ended 31 December	30 Sep. 2016
2016	82
2017	33
2018	43
Total	**158**

Under the agreement Matrosova Mine receives the government grant, cash from which should be used for the construction of: (i) electricity transmission line 220 kW "Ust'-Omchug – Omchak New", (ii) 220 kW distribution point and (iii) electric power substation for 220 kW "Omchak New". The construction is expected to be completed during the second quarter of the year ending 31 December 2019. Unutilised balance of the government grant will have to be returned to Minvostokrazvitiya. JSC "Gold Mining Company Polyus" is a guarantor under the agreement.

As of 30 September 2016, the Group did not receive any funds from the Ministry for the Development of the Russian Far East.

17. RELATED PARTIES

Related parties include substantial shareholders, entities under common ownership and control within the Group and members of key management. The Company and its subsidiaries, in the ordinary course of business, generally obtains and issues loans from / (to) related parties and makes appropriate accruals and cash receipts of interest income and expense.

(in millions of US Dollars)

Immediate shareholder

The Group had the following outstanding balances and investments with parent entity:

	30 Sep. 2016	31 Dec. 2015
Loans received (note 15)	750	750
Interest payable	20	9
Loans issued (note 11)	–	383
Interest receivable	–	10

The Group entered into the following transactions with parent entity:

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Interest income	2	3	6	7
Interest received	7	–	7	–
Interest expense	–	–	1	21
Interest capitalised	11	11	33	11
Repayment of borrowing and interest accrued	–	12	23	37
Loans issued	–	4	–	190
Proceeds from loans given	–	–	123	–
Buy-back of treasure shares	–	–	3,423	–
Settlement of issued loans by own shares (refer to note 14)	269	–	269	–

Key management personnel

Short-term compensation of key management personnel	3	8	18	16
Long-term compensation of key management personnel (LTIP)	4	3	10	3
Total	**7**	**11**	**28**	**19**

18. COMMITMENTS AND CONTINGENCIES

Capital commitments

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

	30 Sep. 2016	31 Dec. 2015
Contracted capital expenditure commitments	240	30
including contracted capital expenditure commitments related to the Natalka project	210	9

Contingencies

Litigations

In the ordinary course of business, the Group is subject to litigation in a number of jurisdictions, the outcome of which is uncertain and could give rise to adverse outcomes. At the date of issuance of these condensed consolidated interim financial statements there were no material claims and litigation applicable to the Group.

Taxation contingencies in the Russian Federation

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant. With regards to matters where practice concerning payment of taxes is unclear, management estimates that there were no tax exposures as of 30 September 2016.

Environmental matters

The Group is subject to extensive federal and local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns. The Group's management believes that its mining and production technologies are in compliance with existing Russian environmental legislation.

However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernises technology to meet more stringent standards. The Group is obliged under the terms of various laws, mining licences and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses site restoration, decommissioning and environmental obligations for its operations. Estimations are based on management's understanding of the current legal requirements and the terms of the licence agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional site restoration, decommissioning and environmental obligations.

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of 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 Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. In the first quarter of 2015 international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook. During 2015 and for the nine months ended 30 September 2016, the economic situation has become more stable, although the above mentioned events have led to reduced access of Russian businesses to international capital markets, increased inflation, reduced economic growth and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

19. EVENTS AFTER THE REPORTING DATE

Except for stated below, there were no events subsequent to the reporting date that should be disclosed in these condensed consolidated interim financial statements.

New dividend policy

On 7 October 2016, the Board of Directors (the "Board") has approved the Company's dividend policy, pursuant to which the Company will pay dividends on a semi-annual basis in an amount of 30% of the EBITDA of PJSC Polyus for the respective reporting period. Payment will be calculated on the basis of the consolidated financial statements of the Company in accordance with IFRS requirements, provided that the net debt/adjusted EBITDA (last 12 months) ratio based on the consolidated financial statements of PJSC Polyus is lower than 2.5x.

Should the net debt / adjusted EBITDA (for the last 12 months) ratio increase to higher than 2.5x, the Board will exercise discretion on dividends, considering the Company’s financial position, free cash flow, outlook and macro environment.

The Board may consider the possibility of payment of special dividends, subject to the Company’s liquidity position, capex requirements, free cash flows and leverage.

PGIL completed USD 500 million Notes issuance

On 26 October 2016, PGIL issued USD 500 million notes due 28 March 2022 with a coupon of 4.699% per annum (the “Notes”). The Notes are guaranteed by JSC “Gold Mining Company Polyus”, a 100% subsidiary of the Group. Group intends to borrow the net proceeds from the issue of the Notes and use primarily for debt refinancing and other general corporate purposes of the Group, including the financing of operating activities and development projects of the Group.