

# **Polyus Gold International Limited**

**Consolidated financial statements  
for the year ended 31 December 2015**

# Polyus Gold International Limited

## Consolidated statement of profit or loss for the year ended 31 December (in millions of US Dollars, except for earnings per share data)

|                                                                        | Notes | 2015                | 2014                |
|------------------------------------------------------------------------|-------|---------------------|---------------------|
| Gold sales                                                             | 5     | 2,159               | 2,197               |
| Other sales                                                            |       | <u>30</u>           | <u>42</u>           |
| <b>Total revenue</b>                                                   |       | <b>2,189</b>        | <b>2,239</b>        |
| Cost of gold sales                                                     | 6     | (876)               | (1,174)             |
| Cost of other sales                                                    |       | <u>(26)</u>         | <u>(33)</u>         |
| <b>Gross profit</b>                                                    |       | <b>1,287</b>        | <b>1,032</b>        |
| Selling, general and administrative expenses                           | 7     | (166)               | (183)               |
| Reversal of impairment                                                 | 8     | 22                  | 17                  |
| Other expenses, net                                                    |       | <u>(2)</u>          | <u>(20)</u>         |
| <b>Operating profit</b>                                                |       | <b>1,141</b>        | <b>846</b>          |
| Finance costs                                                          | 9     | (48)                | (26)                |
| Interest income on bank deposits                                       |       | 59                  | 31                  |
| Gain / (loss) on derivative financial instruments and investments, net | 10    | 12                  | (934)               |
| Foreign exchange gain, net                                             |       | <u>149</u>          | <u>123</u>          |
| <b>Profit before income tax</b>                                        |       | <b>1,313</b>        | <b>40</b>           |
| Income tax expense                                                     | 11    | <u>(194)</u>        | <u>(222)</u>        |
| <b>Profit / (loss)</b>                                                 |       | <b><u>1,119</u></b> | <b><u>(182)</u></b> |
| Attributable to:                                                       |       |                     |                     |
| Shareholders of the Company                                            |       | 1,033               | (164)               |
| Non-controlling interests                                              |       | <u>86</u>           | <u>(18)</u>         |
|                                                                        |       | <b><u>1,119</u></b> | <b><u>(182)</u></b> |
| Weighted average number of ordinary shares (million)                   | 18    | 3,032               | 3,032               |
| Earnings / (loss) per share (US Cents), basic                          |       | 34                  | (5)                 |
| Earnings / (loss) per share (US Cents), diluted <sup>1</sup>           |       | 34                  | (5)                 |

<sup>1</sup> There were no financial instruments or any other instances which could cause an antidilutive effect on the earnings per share calculation.

# Polyus Gold International Limited

## Consolidated statement of comprehensive income for the year ended 31 December (in millions of US Dollars)

|                                                                                                        | Notes | 2015         | 2014           |
|--------------------------------------------------------------------------------------------------------|-------|--------------|----------------|
| <b>Profit / (loss) for the year</b>                                                                    |       | <b>1,119</b> | <b>(182)</b>   |
| <b>Other comprehensive income / (loss) for the year</b>                                                |       |              |                |
| <i>Items that may be subsequently reclassified to profit or loss:</i>                                  |       |              |                |
| Increase in revaluation of cash flow hedge reserve on revenue stabiliser                               | 13    | 115          | 132            |
| Increase in revaluation of cash flow hedge reserve on gold forward                                     | 13    | 15           | 36             |
| Deferred tax relating to increase in revaluation of cash flow hedge reserve                            |       | (32)         | (26)           |
| Effect of translation to presentation currency                                                         |       | (678)        | (1,751)        |
|                                                                                                        |       | <b>(580)</b> | <b>(1,609)</b> |
| <i>Items that have been reclassified through profit or loss:</i>                                       |       |              |                |
| Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser | 13    | (91)         | (35)           |
| Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward       | 13    | (25)         | (6)            |
| Deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss |       | 22           | 7              |
|                                                                                                        |       | <b>(94)</b>  | <b>(34)</b>    |
| <b>Other comprehensive loss for the year</b>                                                           |       | <b>(674)</b> | <b>(1,643)</b> |
| <b>Total comprehensive income / (loss) for the year</b>                                                |       | <b>445</b>   | <b>(1,825)</b> |
| Total comprehensive income / (loss) for the year attributable to:                                      |       |              |                |
| Shareholders of the Company                                                                            |       | 417          | (1,705)        |
| Non-controlling interests                                                                              |       | 28           | (120)          |
|                                                                                                        |       | <b>445</b>   | <b>(1,825)</b> |

# Polyus Gold International Limited

## Consolidated statement of financial position at 31 December (in millions of US Dollars)

| Assets                                                          | Notes | 2015         | 2014         |
|-----------------------------------------------------------------|-------|--------------|--------------|
| <b>Non-current assets</b>                                       |       |              |              |
| Property, plant and equipment                                   | 12    | 2,023        | 2,351        |
| Derivative financial instruments and investments                | 13    | 212          | 172          |
| Inventories                                                     | 14    | 184          | 227          |
| Deferred tax assets                                             | 20    | 46           | 47           |
| Other non-current assets                                        |       | 8            | 3            |
|                                                                 |       | <b>2,473</b> | <b>2,800</b> |
| <b>Current assets</b>                                           |       |              |              |
| Inventories                                                     | 14    | 296          | 440          |
| Derivative financial instruments and investments                | 13    | 20           | -            |
| Deferred expenditures                                           |       | 13           | 13           |
| Other receivables                                               |       | 14           | 11           |
| Advances paid to suppliers and prepaid expenses                 |       | 18           | 16           |
| Taxes receivable                                                | 15    | 63           | 48           |
| Bank deposits                                                   | 16    | -            | 269          |
| Cash and cash equivalents                                       | 17    | 2,039        | 1,217        |
|                                                                 |       | <b>2,463</b> | <b>2,014</b> |
| <b>Total assets</b>                                             |       | <b>4,936</b> | <b>4,814</b> |
| <b>Equity and liabilities</b>                                   |       |              |              |
| <b>Capital and reserves</b>                                     |       |              |              |
| Share capital                                                   | 18    | 1            | 1            |
| Additional paid-in capital                                      | 18    | 2,159        | 2,152        |
| Cash flow hedge revaluation reserve                             | 13    | 112          | 108          |
| Translation reserve                                             |       | (2,665)      | (2,045)      |
| Retained earnings                                               |       | 2,107        | 1,258        |
| <b>Equity attributable to shareholders of the Company</b>       |       | <b>1,714</b> | <b>1,474</b> |
| Non-controlling interests                                       |       | 163          | 146          |
|                                                                 |       | <b>1,877</b> | <b>1,620</b> |
| <b>Non-current liabilities</b>                                  |       |              |              |
| Site restoration, decommissioning and environmental obligations |       | 32           | 49           |
| Borrowings                                                      | 19    | 2,147        | 1,723        |
| Derivative financial instruments                                | 13    | 509          | 423          |
| Deferred tax liabilities                                        | 20    | 133          | 150          |
| Other non-current liabilities                                   |       | 21           | 22           |
|                                                                 |       | <b>2,842</b> | <b>2,367</b> |
| <b>Current liabilities</b>                                      |       |              |              |
| Borrowings                                                      | 19    | 38           | 90           |
| Derivative financial instruments                                | 13    | -            | 547          |
| Trade, other payables and accrued expenses                      | 21    | 150          | 154          |
| Taxes payable                                                   | 22    | 29           | 36           |
|                                                                 |       | <b>217</b>   | <b>827</b>   |
| <b>Total liabilities</b>                                        |       | <b>3,059</b> | <b>3,194</b> |
| <b>Total equity and liabilities</b>                             |       | <b>4,936</b> | <b>4,814</b> |

# Polyus Gold International Limited

## Consolidated statement of changes in equity for the year ended 31 December (in millions of US Dollars)

| Notes                                                                    | Number of<br>outstanding<br>shares,<br>(million) | Equity attributable to shareholders of the Company |                               |                                              |                        |                      |                | Non-controlling<br>interests | Total          |
|--------------------------------------------------------------------------|--------------------------------------------------|----------------------------------------------------|-------------------------------|----------------------------------------------|------------------------|----------------------|----------------|------------------------------|----------------|
|                                                                          |                                                  | Share<br>capital                                   | Additional<br>paid-in capital | Cash flow<br>hedge<br>revaluation<br>reserve | Translation<br>reserve | Retained<br>earnings | Total          |                              |                |
| <b>Balance at 31 December 2013</b>                                       | <b>3,032</b>                                     | <b>1</b>                                           | <b>2,152</b>                  | <b>–</b>                                     | <b>(396)</b>           | <b>1,922</b>         | <b>3,679</b>   | <b>275</b>                   | <b>3,954</b>   |
| Profit for the year                                                      | –                                                | –                                                  | –                             | –                                            | –                      | (164)                | (164)          | (18)                         | (182)          |
| Increase in cash flow hedge revaluation reserve                          |                                                  |                                                    |                               | 108                                          |                        |                      | <b>108</b>     |                              | <b>108</b>     |
| Effect of translation to presentation currency <sup>1</sup>              | –                                                | –                                                  | –                             | –                                            | (1,649)                | –                    | <b>(1,649)</b> | (102)                        | <b>(1,751)</b> |
| <b>Total comprehensive income</b>                                        | <b>–</b>                                         | <b>–</b>                                           | <b>–</b>                      | <b>108</b>                                   | <b>(1,649)</b>         | <b>(164)</b>         | <b>(1,705)</b> | <b>(120)</b>                 | <b>(1,825)</b> |
| Dividends declared and paid to shareholders of the Company               | 18                                               | –                                                  | –                             | –                                            | –                      | (500)                | (500)          | –                            | (500)          |
| Dividends declared and paid to shareholders of non-controlling interests |                                                  | –                                                  | –                             | –                                            | –                      | –                    | –              | (9)                          | (9)            |
| <b>Balance at 31 December 2014</b>                                       | <b>3,032</b>                                     | <b>1</b>                                           | <b>2,152</b>                  | <b>108</b>                                   | <b>(2,045)</b>         | <b>1,258</b>         | <b>1,474</b>   | <b>146</b>                   | <b>1,620</b>   |
| Profit for the year                                                      | –                                                | –                                                  | –                             | –                                            | –                      | 1,033                | <b>1,033</b>   | 86                           | <b>1,119</b>   |
| Increase in cash flow hedge revaluation reserve                          | 13                                               | –                                                  | –                             | 4                                            | –                      | –                    | <b>4</b>       | –                            | <b>4</b>       |
| Effect of translation to presentation currency <sup>1</sup>              | –                                                | –                                                  | –                             | –                                            | (620)                  | –                    | <b>(620)</b>   | (58)                         | <b>(678)</b>   |
| <b>Total comprehensive income</b>                                        | <b>–</b>                                         | <b>–</b>                                           | <b>–</b>                      | <b>4</b>                                     | <b>(620)</b>           | <b>1,033</b>         | <b>417</b>     | <b>28</b>                    | <b>445</b>     |
| Equity-settled share-based payment plans (Long Term Incentive Plan)      | 18                                               | –                                                  | –                             | 7                                            | –                      | –                    | <b>7</b>       | –                            | <b>7</b>       |
| Dividends declared and paid to shareholders of the Company               | 18                                               | –                                                  | –                             | –                                            | –                      | (184)                | (184)          | –                            | (184)          |
| Dividends declared and paid to shareholders of non-controlling interests | 18                                               | –                                                  | –                             | –                                            | –                      | –                    | –              | (11)                         | (11)           |
| <b>Balance at 31 December 2015</b>                                       | <b>3,032</b>                                     | <b>1</b>                                           | <b>2,159</b>                  | <b>112</b>                                   | <b>(2,665)</b>         | <b>2,107</b>         | <b>1,714</b>   | <b>163</b>                   | <b>1,877</b>   |

<sup>1</sup> Following a decrease in exchange rate of the Russian Rouble against the US Dollar a translation loss of USD 678 million was recognised in other comprehensive income, mainly relates to property, plant and equipment (2014: translation loss of USD 1751 million).

# Polyus Gold International Limited

## Consolidated statement of cash flows for the year ended 31 December (in millions of US Dollars)

|                                                                                            | Notes | 2015         | 2014         |
|--------------------------------------------------------------------------------------------|-------|--------------|--------------|
| <b>Operating activities</b>                                                                |       |              |              |
| <b>Profit before income tax</b>                                                            |       | <b>1,313</b> | <b>40</b>    |
| Adjustments for:                                                                           |       |              |              |
| Reversal of impairment                                                                     | 8     | (22)         | (17)         |
| Finance costs                                                                              | 9     | 48           | 26           |
| Interest income on bank deposits                                                           |       | (59)         | (31)         |
| (Gain) / loss on derivative financial instruments and investments                          | 10    | (12)         | 934          |
| Depreciation and amortisation                                                              | 12    | 128          | 182          |
| Foreign exchange gain, net                                                                 |       | (149)        | (123)        |
| Other                                                                                      |       | 5            | 10           |
|                                                                                            |       | <b>1,252</b> | <b>1,021</b> |
| Movements in working capital                                                               |       |              |              |
| Inventories                                                                                |       | 42           | (121)        |
| Deferred expenditures                                                                      |       | (3)          | (5)          |
| Other receivables                                                                          |       | (7)          | 6            |
| Advances paid to suppliers and prepaid expenses                                            |       | (11)         | (2)          |
| Taxes receivable                                                                           |       | (11)         | 123          |
| Trade, other payables and accrued expenses                                                 |       | 27           | 53           |
| Other non-current liabilities                                                              |       | 5            | 1            |
| Taxes payable                                                                              |       | (1)          | (25)         |
| <b>Cash flows from operations</b>                                                          |       | <b>1,293</b> | <b>1,051</b> |
| Income tax paid                                                                            |       | (217)        | (185)        |
| <b>Net cash generated from operating activities</b>                                        |       | <b>1,076</b> | <b>866</b>   |
| <b>Investing activities</b>                                                                |       |              |              |
| Purchases of property, plant and equipment                                                 |       | (327)        | (570)        |
| Interest received                                                                          |       | 62           | 29           |
| Cash placed on bank deposits                                                               |       | (74)         | (475)        |
| Proceeds from redemption of bank deposits                                                  |       | 340          | 248          |
| Proceeds from derivatives                                                                  |       | -            | 43           |
| Payment for currency collars                                                               |       | (494)        | (55)         |
| Other                                                                                      |       | 6            | 6            |
| <b>Net cash utilised in investing activities</b>                                           |       | <b>(487)</b> | <b>(774)</b> |
| <b>Financing activities</b>                                                                |       |              |              |
| Interest paid <sup>1</sup>                                                                 |       | (122)        | (77)         |
| Net proceeds on exchange of interest payments under interest and cross currency rate swaps | 9     | 52           | 20           |
| Dividends paid to shareholders of the Company                                              | 18    | (184)        | (500)        |
| Dividends paid to non-controlling interests                                                |       | (9)          | (10)         |
| Proceeds from borrowings                                                                   |       | 621          | 1,254        |
| Repayment of borrowings                                                                    |       | (89)         | (294)        |
| <b>Net cash generated from financing activities</b>                                        |       | <b>269</b>   | <b>393</b>   |
| <b>Net increase in cash and cash equivalents</b>                                           |       | <b>858</b>   | <b>485</b>   |
| <b>Cash and cash equivalents at beginning of the year</b>                                  | 17    | <b>1,217</b> | <b>809</b>   |
| Effect of foreign exchange rate changes on cash and cash equivalents                       |       | (36)         | (77)         |
| <b>Cash and cash equivalents at end of the year</b>                                        | 17    | <b>2,039</b> | <b>1,217</b> |

<sup>1</sup> Interest paid for the period was reclassified from the cash flow from operating activities into the cash flows from financing activities, because this provides better presentation of Cash flows from operating activities considering the nature of the Group's business, respectively amounts for comparative period were reclassified.

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

### 1. General

Polyus Gold International Limited (the “Company”) was incorporated on 26 September 2005 in Jersey and re-registered as a public limited company under the Companies (Jersey) Law 1991 on 18 November 2005. The Company’s registered office is located at Queensway House, Hilgrove Street, St Helier, Jersey.

On 19 June 2012, the Company was admitted to the Official List of the UK Listing Authority and commenced trading on the London Stock Exchange’s premium listed market. In December 2015, the Company completed its delisting from the London Stock Exchange’s premium listed market.

The principal activities of the Company and its controlled entities (the “Group”) are the mining (including initial processing) and sale of gold. The mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and the Sakha Republic of the Russian Federation.

The Group also performs research, exploration and development works, the development works being primarily at the Natalka licence area located in the Magadan region of the Russian Federation. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 27.1.

### 2. Basis of preparation and presentation

#### ***Going concern***

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

#### ***Compliance with the International Financial Reporting Standards***

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union (“EU”). IFRS includes the standards and interpretations approved by the IASB including IFRS, International Accounting Standards (“IAS”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

#### ***Basis of presentation***

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

The consolidated financial statements of the Group are prepared on the historical cost basis, except for the financial instruments, which are accounted for at amortised cost or at fair value, as explained in the accounting policies below.

During the review of the preparation of the financial statements for the year ended 31 December 2015 the Directors have 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 as disclosed previously.

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

Under Article 105(11) of the Companies (Jersey) Law 1991 the directors of a holding company need not prepare separate accounts (i.e. company only accounts) if consolidated accounts for the company are prepared, unless required to do so by the members of the company by ordinary resolution. The members of the Company have not passed a resolution requiring separate accounts and, in the Directors' opinion, the Company meets the definition of a holding company.

### IFRS standards update

The following amendments to the IFRS standards endorsed by the EU became effective for the year ended 31 December 2015:

| Title                                                                                                  | Subject                     | Effective for annual periods beginning on or after | Effect on the consolidated financial statements |
|--------------------------------------------------------------------------------------------------------|-----------------------------|----------------------------------------------------|-------------------------------------------------|
| IAS 19                                                                                                 | Amendments to the standard  | 1 February 2015                                    | No effect                                       |
| Annual Improvements to IFRSs 2010–2012 Cycle (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38, IAS 24) | Amendments to the standards | 1 February 2015                                    | No effect                                       |
| Annual Improvements to IFRSs 2011–2013 Cycle (IFRS 3, IFRS 13, IAS 40)                                 | Amendments to the standards | 1 January 2015                                     | No effect                                       |

The following standards and interpretations, which have not been applied in these consolidated financial statements, were in issue but not yet effective, because have not yet been adopted by the EU:

| Title                                        | Subject                                                                               | IASB effective for annual periods beginning on or after | Effect on the consolidated financial statements in future periods |
|----------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------------|
| IFRS 9                                       | Financial instruments                                                                 | 1 January 2018                                          | To be determined                                                  |
| IFRS 14                                      | Regulatory deferral accounts                                                          | 1 January 2016                                          | To be determined                                                  |
| IFRS 15                                      | Revenue from contracts with customers                                                 | 1 January 2018                                          | To be determined                                                  |
| IFRS 16                                      | Leases                                                                                | 1 January 2019                                          | To be determined                                                  |
| Amendments to IFRS 10, IFRS 12 and IAS 28    | Investment entities: applying the consolidation exception                             | 1 January 2016                                          | To be determined                                                  |
| Amendments to IAS 1                          | Disclosure initiative                                                                 | 1 January 2016                                          | To be determined                                                  |
| Annual Improvements to IFRSs 2012–2014 Cycle | Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34                                       | 1 January 2016                                          | To be determined                                                  |
| Amendments to IAS 27                         | Equity method in separate financial statements                                        | 1 January 2016                                          | To be determined                                                  |
| Amendments to IAS 16 and IAS 41              | Agriculture: bearer plants                                                            | 1 January 2016                                          | To be determined                                                  |
| Amendments to IAS 16 and IAS 38              | Clarification of acceptable methods of depreciation and amortisation                  | 1 January 2016                                          | To be determined                                                  |
| Amendments to IFRS 11                        | Accounting for acquisition of interests in joint operations                           | 1 January 2016                                          | To be determined                                                  |
| Amendments to IFRS 10 and IAS 28             | Sale or contribution of assets between an investor and its associate or joint venture | 1 January 2016                                          | To be determined                                                  |

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



# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

### 3. Significant accounting policies

#### 3.1 Basis of consolidation

##### ***Subsidiaries***

The consolidated financial statements of the Group incorporate the financial statements of the Company and all its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it the power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holding of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company gains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Non-controlling interests in consolidated subsidiaries are identified separately from the Group's equity therein. The non-controlling interest may initially be measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis.

Subsequent to acquisition, the carrying amount of the non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in net assets since the date of the business combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Company.

When the Group loses control of a subsidiary, the profit and loss on disposal is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

All intra-group balances, transactions and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

### **Functional currency**

The individual financial statements of the Group's subsidiaries are each prepared in their respective functional currencies. The functional currency of the Company is the US Dollar. The Russian Rouble ("RUB") is the functional currency of all the subsidiaries of the Group.

### **3.2 Presentation currency**

The Group presents its consolidated financial statements in the US Dollar ("USD"), as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Group as it is a common presentation currency in the mining industry. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is performed as follows:

- all assets, liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting date;
- starting from 1 January 2015 all income and expenses are translated at the average quarterly exchange rates, except for significant transactions that are translated at rates on the date of such transactions;
- resulting exchange differences are included in equity and presented as Effect of translation to presentation currency within the Translation reserve (on disposal of such entities this Translation reserve is reclassified into the consolidated statement of profit or loss); and
- in the statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. Starting from 1 January 2015 all cash flows are translated at the average quarterly exchange rates, except for significant transactions that are translated at rates on the date of the transaction.

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

|                                 | <u>2015</u> | <u>2014</u> |
|---------------------------------|-------------|-------------|
| <b>Russian Rouble/US Dollar</b> |             |             |
| Year end rate                   | 72.88       | 56.26       |
| Average for the year            | 60.96       | 38.42       |

### **3.3 Foreign currencies**

Transactions in currencies other than the relevant entity's functional currencies (foreign currencies) are recorded at the exchange rate prevailing on the date of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of the transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined.

Exchange differences arising from changes in exchange rates are recognised in the consolidated statement of profit or loss, except for those exchange difference on foreign currency borrowings relating to qualifying assets under construction, which are capitalised in the cost of those assets when they are regarded as an adjustment to finance costs on those foreign currency borrowings.

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

### 3.4 Revenue recognition

#### **Gold sales revenue**

Revenue from the sale of refined gold and other gold-bearing products is recognised when:

- the risks and rewards of ownership are transferred to the buyer;
- the Group retains neither a continuing degree of involvement or control over the goods sold;
- the amount of revenue can be measured reliably; and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from gold sales is recognised at the time of shipment from the refining plant when the Group has received confirmation of sale from the third party. Revenue from gold-bearing products is recognised when the goods have been delivered to a contractually agreed location. Gold sales are stated at their invoiced value net of value-added tax.

#### **Other revenue**

Other revenue comprises mainly sales of electricity, transportation, handling and warehousing services, and other. Revenue from the sale of electricity is recognised when it is supplied to the buyer. Revenue from service contracts is recognised when the services are rendered.

### 3.5 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group operates.

#### **Current tax**

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

#### **Deferred tax**

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements of the separate legal entities and the corresponding tax bases used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries and associates are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### ***Current and deferred tax for the year***

Current and deferred tax are recognised as an expense or income in the consolidated statement of profit or loss, except when they relate to items that are recognised outside the consolidated statement of profit or loss, in which case the tax is also recognised outside the consolidated statement of profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the net book value.

### **3.6 Operating leases**

The leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Costs for operating leases are recognised on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

### **3.7 Dividends**

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Retained earnings legally distributable by the Company are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual subsidiaries of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

### **3.8 Property, plant and equipment**

#### ***Mineral rights***

Mineral rights are recorded as assets upon acquisition at fair value and are included within Fixed assets, Mines under development or Exploration and evaluation assets.

#### ***Fixed assets***

Fixed assets are recorded at cost less accumulated depreciation. Fixed assets include the cost of acquiring and developing mining properties, pre-production expenditure and mine infrastructure, processing plant, mineral rights and mining and exploration licences and the present value of future mine closure, rehabilitation and decommissioning costs.

Fixed assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of the mines in accordance with the mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Amortisation is charged from the date a new mine reaches commercial production quantities and is included in the *Cost of production*. The estimated remaining useful lives of the Group's significant mines based on the mine operating plans are as follows:

|              |          |
|--------------|----------|
| Blagodatnoye | 16 years |
| Olimpiada    | 13 years |
| Verninskoye  | 12 years |
| Kuranakh     | 8 years  |
| Titimukhta   | 2 years  |

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

### **Stripping activity asset**

Stripping costs incurred during the production phase are considered to create two benefits, being either the production of inventory in the current period and/or improved access to the ore to be mined in the future. Where stripping costs are incurred and the benefit is improved access to the component of the ore body to be mined in the future, the costs are recognised as a stripping activity asset, if the following criteria are met:

- future economic benefits (being improved access to the ore body) are probable;
- the component of the ore body for which access will be improved can be accurately identified; and
- the costs associated with the improved access can be reliably measured.

If not all of the above-mentioned criteria are met, the stripping costs are included in the *Production cost* of inventory which are expensed in the consolidated statement of profit or loss as *Cost of gold sales* as and when they are sold.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of the ore body, plus an allocation of directly attributable overhead costs. The costs associated with incidental operations are not included in the costs of the stripping activity asset. The Group uses an allocation basis that compares the expected average life of the mine stripping ratio with the actual stripping ratio in the period for the identified component of the ore body to determine if further stripping costs are to be allocated to stripping activity asset or the cost of inventory.

After initial recognition the stripping activity asset is carried at cost less depreciation and any impairment losses. Those capitalised costs are depreciated or amortised on a systematic basis, by using the units of production method, once production begins.

### **3.9 Capital construction-in-progress**

Assets under construction at operating mines are accounted for as capital construction-in-progress, and are carried at cost, less any recognised impairment loss. The cost of capital construction-in-progress comprises its purchase price and any directly attributable costs to bringing it into working condition for its intended use and finance costs capitalised in accordance with the Group's accounting policy.

Capital construction-in-progress is not depreciated.

When the capital construction-in-progress has been completed and, in a condition necessary to be capable of operating in the manner intended by management, the objects are reclassified to fixed assets.

### **3.10 Mine under development**

Comprises amounts related to new mine development and includes the costs directly related to mine development projects such as acquiring and developing mining properties, pre-production expenditure, construction of processing plant and mine infrastructure, depreciation of equipment used in the development, mineral rights and mining and exploration licences and the present value of future mine closure, rehabilitation and decommissioning costs and finance costs capitalised in accordance with the Group's accounting policy.

### **3.11 Finance costs directly attributable to the construction of qualifying assets**

Finance costs directly attributable to the construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the finance costs eligible for capitalisation.

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

All other finance costs are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

### 3.12 Impairment of long-lived tangible assets (Fixed assets, Capital construction-in-progress and Mine under development)

An impairment review of long-lived tangible assets is carried out when there is an indication that those assets have suffered an impairment loss, but at least at the end of each reporting period. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell or value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the consolidated statement of profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

A reversal of an impairment loss is recognised in the consolidated statement of profit or loss immediately.

### 3.13 Exploration and evaluation assets

Exploration and evaluation assets represent capitalised expenditures incurred by the Group in connection with the exploration for and evaluation of gold resources, such as:

- acquisition of rights to explore potentially mineralised areas;
- topographical, geological, geochemical and geophysical studies;
- exploratory drilling;
- trenching;
- sampling; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting gold resource.

Exploration and evaluation expenditures are capitalised when the exploration and evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable gold resources. When the technical feasibility and commercial viability of extracting a gold resource are demonstrable and a decision has been made to develop the mine, capitalised exploration and evaluation assets are reclassified to Mine under development.

#### ***Impairment of exploration and evaluation assets***

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, but at least at the end of each reporting period. The following facts and circumstances, among others, indicate that exploration and evaluation assets must be tested for impairment:

- the term of the exploration licence in the specific area has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of gold resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of gold resources in the specific area have not led to the discovery of commercially viable quantities of gold resources and the decision was made to discontinue such activities in the specific area; and

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

- sufficient data exists to indicate that, although a development in the specific area is likely to occur, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

For the purpose of assessing exploration and evaluation assets for impairment, such assets are allocated to cash-generating units, being exploration licence areas.

Any impairment loss is recognised as an expense in accordance with the policy on impairment of tangible assets set out above.

### 3.14 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in the consolidated statement of profit or loss.

#### Financial assets

Financial assets are recognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for financial assets classified at FVTPL, which are initially measured at fair value.

The Group's financial assets are classified into the following categories:

- financial assets at FVTPL; and
- loans and receivables.

The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

#### Financial assets at FVTPL

Financial assets are classified as a FVTPL where the financial asset is either held for trading or it is designated as a FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as a FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any dividend or interest earned on the financial asset and is included in the *Gain / (loss) on derivative financial instruments and investments, net* line item in the consolidated statement of profit or loss.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

### **Loans and receivables**

Loans and receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

### **Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### **Derecognition of financial assets**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense, respectively, over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or



# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

payments, as applicable, through the expected life of the financial asset or liability, or, where appropriate, a shorter period. Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

### **Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

#### ***Financial liabilities at FVTPL***

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement.

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis within finance cost.

### ***Derecognition of financial liabilities***

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### **Derivative financial instruments**

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk. Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each consolidated statement of financial position date. The resulting gain or loss is recognised in the consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

it is not expected to be realised or settled within 12 months. Other derivative financial instruments are presented as current assets or current liabilities.

The Group designates certain derivative financial instruments as cash flow hedges.

Accounting standards require that the fair value of financial instruments reflects their credit quality, and also changes in credit quality where there is evidence that this has occurred. The credit risk associated with the Group's derivative financial instruments is reflected in its derivative valuations. This credit factor is adjusted over time to reflect the reducing tenor of the instrument and is updated where the credit risk associated with the derivative has clearly changed based on market transactions and prices.

### 3.15 Cash flow hedges

The Group uses derivative financial instruments for hedge accounting as determined in accordance with IAS 39.

The Group applies hedge accounting for cash flow hedges against the risk of decline of the gold prices. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivative financial instruments used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At the inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on a quarterly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the consolidated statement of profit or loss.

Where the hedging instrument represents an option based instrument the Group applies hedge accounting only if such option is considered as a purchased option.

Where the above option based financial instruments are used as a cash flow hedging instrument the Group designates and recognises only their intrinsic value for hedging purposes. All changes in intrinsic value are recognised in the consolidated statement of changes in equity through the consolidated statement of comprehensive income, whereas, all changes in time value are recognised directly in the consolidated statement of profit or loss. The amount recognised in the consolidated statement of changes in equity is reclassified into the consolidated statement of profit or loss in the same period as the hedged cash flows affect the consolidated statement of profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in Equity remains in equity until the forecast transaction affects the consolidated statement of profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in the consolidated statement of changes in equity is recognised immediately in the consolidated statement of profit or loss.

### 3.16 Inventories

#### ***Refined gold, ore stockpiles and gold-in-process***

Inventories including refined metals, doré, metals in concentrate and in process and ore stockpiles are stated at the lower of production cost or net realisable value. Production cost is determined as the sum of the applicable expenses incurred directly or indirectly in bringing inventories to their existing condition and location. Refined metals are valued at the average cost of production per saleable unit of

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

metal. Doré, metals in concentrate and in process, ore stockpiles are valued at the average production costs at the relevant stage of production. Net realisable value represents the estimated selling price for product based on forecasted metal price at the date when the sale is expected to occur, less estimated costs to complete production and costs necessary to make the sale.

### **Stores and materials**

Stores and materials consist of consumable stores and are stated at the lower of cost and net realisable value. Costs of stores and materials are determined on a weighted average cost basis.

Net realisable value represents the expected estimated selling price for stores and materials less all costs necessary to make the sale.

### **3.17 Deferred expenditures**

Deferred expenditures relate to the preparation for the seasonal alluvial mining activities comprised of excavation costs and general production costs.

### **3.18 Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

### **3.19 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

### **3.20 Site restoration, decommissioning and environmental obligations**

Site restoration, decommissioning and environmental obligations include mine closure, rehabilitation and decommissioning costs. Future decommissioning and land restoration costs, discounted to net present value, are added to the respective assets and the corresponding obligations raised as soon as the constructive or legal obligation to incur such costs arises and the future cost can be reliably estimated. The respective assets are amortised on a straight-line basis over the life-of-mine.

The unwinding of the obligation is included in the consolidated statement of profit or loss as finance costs. Obligations are periodically reviewed in light of current laws and regulations and adjustments made as necessary to the corresponding item of property, plant and equipment.

Ongoing restoration costs are expensed when incurred.

### **3.21 Share-based payment transactions of the Company**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 18.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

### 4. Critical accounting judgements and key sources of estimation uncertainty

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

#### **Critical judgements in applying accounting policies**

The following critical judgements have been applied when selecting the appropriate accounting policies:

- justification of the economic useful lives of property, plant and equipment;
- depreciation method for property, plant and equipment;
- borrowing costs capitalisation;
- determination of functional currency; and
- cash flow hedge designation.

#### ***Economic useful lives of property, plant and equipment***

The Group's fixed assets, classified within property, plant and equipment, are amortised using the straight-line method over the life-of-mine based on a mine operating plan, which calls for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code. When determining the life-of-mine, assumptions that were valid at the time of estimation may change when new information becomes available. Normally, life-of-mine as per JORC reports for the Company's deposits are longer than that as per the Russian Resource Reporting Code.

The factors that could affect the judgement of the life-of-mine include the following:

- change of estimates of proven and probable ore reserves;
- the grade of ore reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation of ore reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of ore reserves.

Any of these changes could affect prospective amortisation of fixed assets and their carrying value.

Management periodically reviews the appropriateness of the assets' economic useful lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

#### ***Depreciation method for property, plant and equipment***

Fixed assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of the mines in accordance with the mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Amortisation is charged from the date a new mine reaches commercial production quantities and is included in the *Cost of production*. Determination of this date requires judgement.

Depreciation is calculated based straight line method which management monitors to ensure it does not deviate significantly from the depreciation charge calculated based on units of production method. This consistent result reflects that production facilities operate at near full capacity to the end of the licence period.

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

### ***Borrowing costs capitalisation***

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset.

Such borrowing costs are capitalised whilst projects are in progress. Natalka mine construction has been restarted in the second half of the 2015 year, and, respectively, the Group commenced the capitalisation of the related borrowing costs starting from 1 July 2015.

Capitalisation of interest ceases once the asset is complete and available for use. Interest is then charged to the income statement as a depreciation expense over the life of the relevant asset.

### ***Determination of functional currency***

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21 the Group has analysed several factors that influence the choice of functional currency and, based on this analysis, has determined the functional currency for each entity of the Group.

Management concluded that the functional currency of each of the subsidiaries in Russia is the Russian Rouble, consistent with the accounting standard requirements, sector practice in Russia and management reporting in the company.

### ***Cash flow hedge designation***

The Group applies its judgement in identification of the forecast selling price of the expected gold sale for the purpose of calculation of the intrinsic value of the options designated as a cash flow hedge and for hedge effectiveness testing.

### ***Key sources of estimation uncertainty***

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- recoverability of the exploration and evaluation assets;
- impairment of the tangible assets;
- determination and valuation of the stripping activity asset;
- carrying value of stockpiles, gold in process and product inventories;
- estimation of the site restoration, decommissioning and environmental obligations; and
- interpretation of the tax legislation in accounting for income taxes.

### ***Exploration and evaluation assets***

Management's judgement is involved in the determination of whether the expenditures which are capitalised as exploration and evaluation assets may be recouped by future exploitation or sale or should be impaired. Determining this, management estimates the possibility of finding recoverable ore reserves related to a particular area of interest. However, these estimates are subject to significant uncertainties. The Group is involved in exploration and evaluation activities and some of its licensed properties contain gold resources under the definition of the Russian Resource Reporting Code. A number of licensed properties have no mineral resource delineation. Management assumes that all licences will be renewed. Many of the factors, assumptions and variables involved in estimating resources are beyond the Group's control and may prove to be incorrect over time. Subsequent changes in gold resources estimates could impact the carrying value of exploration and evaluation assets.

### ***Impairment of tangible assets***

The Group reviews the carrying amounts of its tangible assets including mine under development to determine whether there is any indication that those assets are impaired. In making the assessment for impairment indicators, assets that do not generate independent cash flows are allocated to an

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units and also in estimating the timing and value of underlying cash flows within the value-in-use calculation.

The value-in-use calculations for operating mines are based on the plans which include reserves calculated under the Russian Resource Reporting Code. In respect of other assets considered for impairment (for example, mines under development) the Group uses the best available reserve estimates at the time of the analysis such as JORC.

Factors which could impact the underlying cash flows include:

- commodity prices and exchange rates;
- timelines of granting of licences and permits;
- capital and operating expenditure; and
- available reserves and resources and future production profile.

Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

There are certain key differences between Russian Resource Reporting Code and JORC estimates. The Russian Resource Reporting Code estimates are constant at the time of the submission to the Russian Authorities as part of an agreed mining approach and are generally not (though there are certain exclusions) changed subsequently, whereas the JORC estimates are updated annually. Reflecting the longer time between the estimates there is a greater likelihood of differences in input parameters.

The Russian Resource Reporting Code estimates allocate the "geological" amount of ore and do not incorporate certain other mining parameters including dilution and losses while JORC estimates are based on modifying factors developed at pre-feasibility or feasibility stages. These estimates identify the value of the part of the resources which could be mined with profit. Further the Russian Resource Reporting Code estimates are limited by wireframes and in some cases this excludes the haloes of lower grade mineralization that is likely to be mined by open pit means

As a first approximation only the Russian Resource Reporting Code reserves are reconciled with JORC resources. The effect on the current year financial statements of seeking to apply a unit of production depreciation methodology based on Russian Resource Reporting Code instead of JORC is also considered to be immaterial.

### **Stripping activity asset**

The Group incurs stripping costs during the production phases of its surface mining operations. Significant judgement is required to distinguish between the stripping which relates to the extraction of inventory and those which relates to the creation of a stripping activity asset.

In order to perform the allocation the Group is required to identify separate components towards which the stripping costs have been incurred for the ore bodies in each of its mines. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgement is required to identify and define these components and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. For the purposes of identification of separate components the Group uses mine operating plans, which are based on estimated proven and probable ore reserves under the Russian Resource Reporting Code.

Each discrete stage of mining, identified in the mine plans, is considered as a unit of account. If the mine plan initially identifies several discrete stages of mining which will take place consecutively (one after the another), these stages would be identified as components. These assessments are undertaken for each individual mine.

Stripping costs incurred during the production phase should be allocated between inventory produced and the stripping activity asset by using the allocation basis. The Group considers that

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

an allocation basis that compares the expected average life of mine stripping ratio with the actual stripping ratio in the period for the identified component of the ore body to determine if further stripping costs are to be allocated to stripping activity asset or the cost of inventory, to be the most suitable allocation basis.

### ***Carrying value of stockpiles, gold-in-process and product inventories***

Costs that are incurred in the production process are accumulated as stockpiles, gold-in-process and gold doré. Stockpiles are measured based on each stockpile's average cost per tonne; gold-in-process and gold doré are measured based on recoverable ounces of gold.

Stockpile quantities are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces based on assay data and the estimated recovery percentage based on the expected processing method. Stockpile tonnages are verified by periodic surveys.

Although the quantities of recoverable gold are reconciled by comparing the grades of ore to the quantities of gold actually recovered (metallurgical balancing), the nature of the process inherently limits the ability to monitor precisely recoverability levels. As a result, the metallurgical balancing process is constantly monitored and engineering estimates are refined based on actual results over time. Variations between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realisable value are accounted for on a prospective basis.

The split of stockpiles and gold-in-process between current (expected to be recovered within 12 months) and non-current (inventories expected to be recovered after 12 months) is based on approved mine operating plans.

### ***Site restoration, decommissioning and environmental obligations***

The Group's mining and exploration activities are subject to various environmental laws and regulations. The Group estimates site restoration, decommissioning and environmental obligations based on management's understanding of the current legal requirements in the various jurisdictions, terms of the mining licence agreements and internally generated engineering estimates. A provision is recognised, based on the net present values for decommissioning and land restoration costs, as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life-of-mine estimates and discount rates could affect the carrying amount of this provision.

### ***Income taxes***

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the Group's provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgements based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward and tax planning strategies. If actual results differ from the estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

### 5. Segment information

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

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

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

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

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



# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

|                                            | Gold sales   | Ounces of gold sold in thousands | Adjusted EBITDA | Total cash cost per ounce of gold sold (USD per ounce) | Capital expenditures |
|--------------------------------------------|--------------|----------------------------------|-----------------|--------------------------------------------------------|----------------------|
| <b>For the year ended 31 December 2015</b> |              |                                  |                 |                                                        |                      |
| <b>Business units</b>                      |              |                                  |                 |                                                        |                      |
| Krasnoyarsk                                | 1,611        | 1,293                            | 1,007           | 399                                                    | 58                   |
| Irkutsk alluvial                           | 191          | 168                              | 76              | 582                                                    | 5                    |
| Irkutsk ore                                | 189          | 161                              | 115             | 417                                                    | 21                   |
| Yakutia Kuranakh                           | 165          | 144                              | 70              | 598                                                    | 10                   |
| Exploration                                | 3            | 2                                | 3               | 694                                                    | 7                    |
| Magadan                                    | -            | -                                | -               | -                                                      | 111                  |
| Capital construction                       | -            | -                                | 1               | -                                                      | 53                   |
| Unallocated                                | -            | -                                | (4)             | -                                                      | 3                    |
| <b>Total</b>                               | <b>2,159</b> | <b>1,768</b>                     | <b>1,268</b>    | <b>424</b>                                             | <b>268</b>           |

### For the year ended 31 December 2014

|                       |              |              |              |            |            |
|-----------------------|--------------|--------------|--------------|------------|------------|
| <b>Business units</b> |              |              |              |            |            |
| Krasnoyarsk           | 1,602        | 1,219        | 822          | 541        | 84         |
| Irkutsk alluvial      | 234          | 190          | 70           | 735        | 17         |
| Irkutsk ore           | 186          | 146          | 89           | 594        | 38         |
| Yakutia Kuranakh      | 175          | 136          | 50           | 868        | 6          |
| Exploration           | -            | -            | (5)          | -          | 6          |
| Magadan               | -            | -            | (5)          | -          | 308        |
| Capital construction  | -            | -            | (3)          | -          | 54         |
| Unallocated           | -            | -            | (7)          | -          | 12         |
| <b>Total</b>          | <b>2,197</b> | <b>1,691</b> | <b>1,011</b> | <b>585</b> | <b>525</b> |

Gold sales reported above represent revenue generated from external customers (note 25). There were no inter-segment gold sales during the years ended 31 December 2015 and 2014. Included within gold sales in 2015 are realised gains on derivatives of USD 116 million (note 13) (2014: USD 41 million).

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

|                                                                                  | <b>Year ended 31 December</b> |              |
|----------------------------------------------------------------------------------|-------------------------------|--------------|
|                                                                                  | <b>2015</b>                   | <b>2014</b>  |
| <b>Profit / (loss)</b>                                                           | <b>1,119</b>                  | <b>(182)</b> |
| Income tax expense                                                               | 194                           | 222          |
| Depreciation and amortisation (note 12)                                          | 128                           | 182          |
| Finance costs (note 9)                                                           | 48                            | 26           |
| Delisting expenses                                                               | 15                            | -            |
| Long Term Incentive Plan (note 18)                                               | 7                             | -            |
| Foreign exchange gain, net                                                       | (149)                         | (123)        |
| Interest income on bank deposits                                                 | (59)                          | (31)         |
| Reversal of impairment                                                           | (22)                          | (17)         |
| Gain / (loss) on derivative financial instruments and investments, net (note 10) | (12)                          | 934          |
| Other                                                                            | (1)                           | -            |
| <b>Adjusted EBITDA</b>                                                           | <b>1,268</b>                  | <b>1,011</b> |

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

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

|                                                   |            |              |
|---------------------------------------------------|------------|--------------|
| <b>Cost of gold sales</b>                         | <b>876</b> | <b>1,174</b> |
| Adjusted for:                                     |            |              |
| Depreciation and amortisation (note 12)           | (126)      | (174)        |
| Other non-cash items in cost of gold sales        | (1)        | (11)         |
| <b>TCC</b>                                        | <b>749</b> | <b>989</b>   |
| Ounces of gold sold, in thousands                 | 1,768      | 1,691        |
| <b>TCC per ounce of gold sold (USD per ounce)</b> | <b>424</b> | <b>585</b>   |

### Capital expenditures primarily related to the following projects:

- at the Magadan business unit: works inside the production units and buildings and spending on the pilot plant, the construction of the main crushed ore conveyor was completed, construction of the tailings thickener, the ore crushing and conveyor complex, a 110 kV power line, the main stepdown substation, as well as circulating pump and slurry pump stations.
- at the Krasnoyarsk business unit: launching works to reconfigure the Titimukhta mill and preparations for connecting to the new Razdolinskaya-Taiga grid, upgrading and expanding the Blagodatnoye mill.
- at the Yakutia Kuranakh business unit: projects to increase equipment productivity and preparation works related to heap leach installation.
- at the Construction business unit: the construction of the Razdolinskaya-Taiga electricity grid.

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

## 6. Cost of gold sales

|                                                                      | Year ended 31 December |              |
|----------------------------------------------------------------------|------------------------|--------------|
|                                                                      | 2015                   | 2014         |
| Labour                                                               | 239                    | 320          |
| Consumables and spares                                               | 205                    | 281          |
| Tax on mining                                                        | 140                    | 154          |
| Fuel                                                                 | 74                     | 131          |
| Power                                                                | 35                     | 44           |
| Outsourced mining services                                           | 12                     | 19           |
| Refining costs                                                       | 3                      | 4            |
| Other                                                                | 57                     | 67           |
| <b>Total cash operating costs</b>                                    | <b>765</b>             | <b>1,020</b> |
| Depreciation and amortisation of operating assets (note 12)          | 126                    | 174          |
| <b>Total cost of production</b>                                      | <b>891</b>             | <b>1,194</b> |
| Increase in stockpiles, gold-in-process and refined gold inventories | (15)                   | (20)         |
| <b>Total</b>                                                         | <b>876</b>             | <b>1,174</b> |

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

### 7. Selling, general and administrative expenses

|                                          | Year ended 31 December |            |
|------------------------------------------|------------------------|------------|
|                                          | 2015                   | 2014       |
| Salaries                                 | 103                    | 124        |
| Professional services                    | 31                     | 16         |
| Taxes other than mining and income taxes | 12                     | 22         |
| Depreciation and amortisation (note 12)  | 3                      | 4          |
| Other                                    | 17                     | 17         |
| <b>Total</b>                             | <b>166</b>             | <b>183</b> |

### 8. Reversal of impairment

|                                             | Year ended 31 December |           |
|---------------------------------------------|------------------------|-----------|
|                                             | 2015                   | 2014      |
| Mine under development (note 12)            | 19                     | (37)      |
| Exploration and evaluation assets (note 12) | 5                      | (1)       |
| Fixed assets (note 12)                      | –                      | 29        |
| Stripping activity asset (note 12)          | –                      | 13        |
| Capital construction-in-progress (note 12)  | –                      | (6)       |
| Long-term stockpiles                        | (2)                    | 19        |
| <b>Total reversal of impairment</b>         | <b>22</b>              | <b>17</b> |

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

Impairment test was performed as of 31 December 2015.

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

The operational considerations reflect the most likely and optimal updated mining plan developed using the revised JORC reserves estimate and with the advice of the mining consultants.

The financial assumptions include significant judgements associated with forecast gold prices determined at a volatile time for our markets.

The key long-term assumptions that were used in the impairment testing were a weighted average long-term gold price of USD 1,270 per ounce, exchange rate of 74.5 RUB for 1 USD and a post-tax discount rate of approximately 10%. The assumptions are provided in real terms. The impairment test is particularly sensitive to the assumption for the RUB to USD exchange rate, gold price and discount rate. An impairment would be required:

- if the Rouble strengthened to below 59.6 RUB for 1 US Dollar; or
- if the gold price decreased below US Dollar 1,076 per oz; or
- if the discount rate increased above 15.3%.

During the year ended 31 December 2015, certain previously impaired items were requested for use in construction of the Natalka mine and accordingly, a reversal of impairment for USD 19 million was made.

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

### 9. Finance costs

|                                                                                           | Year ended 31 December |           |
|-------------------------------------------------------------------------------------------|------------------------|-----------|
|                                                                                           | 2015                   | 2014      |
| Interest on borrowings                                                                    | 134                    | 100       |
| Unwinding of discounts on site restoration, decommissioning and environmental liabilities | 4                      | 4         |
| Gain on exchange of interest payments under cross currency swap (note 13)                 | (39)                   | (16)      |
| Gain on exchange of interest payments under interest rate swaps (note 13)                 | (13)                   | (4)       |
| Other                                                                                     | 2                      | 2         |
| <b>Sub-total finance cost</b>                                                             | <b>88</b>              | <b>86</b> |
| Interest capitalised in the cost of Mine under development                                | (40)                   | (60)      |
| <b>Total finance cost expensed</b>                                                        | <b>48</b>              | <b>26</b> |

Interest on borrowings includes USD 4 million of consent fees paid to the bondholders of the Notes due in 2020 (Eurobonds) (note 19) to provide the flexibility for a potential Group restructuring involving a change in the issuer of the Eurobonds and/or a change in the parent company of the Group, and to amend certain related covenants.

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

|                                                                                                 | Year ended 31 December |              |
|-------------------------------------------------------------------------------------------------|------------------------|--------------|
|                                                                                                 | 2015                   | 2014         |
| Gain / (loss) on currency collars (note 13)                                                     | 53                     | (594)        |
| Revaluation loss on cross currency swaps (note 13)                                              | (106)                  | (403)        |
| Revaluation gain on ineffective part of the revenue stabiliser under Tranches 1 and 2 (note 13) | 19                     | 15           |
| Revaluation gain on ineffective part of the revenue stabiliser under Tranche 3 (note 13)        | 45                     | –            |
| Revaluation gain on interest rate swap (note 13)                                                | 2                      | 9            |
| Other                                                                                           | (1)                    | 5            |
| Gain on initial exchange of cross currency swaps (note 13)                                      | –                      | 34           |
| <b>Total</b>                                                                                    | <b>12</b>              | <b>(934)</b> |

### 11. Income tax expense

|                                  | Year ended 31 December |            |
|----------------------------------|------------------------|------------|
|                                  | 2015                   | 2014       |
| Current tax expense              | 198                    | 220        |
| Deferred tax (benefit) / expense | (4)                    | 2          |
| <b>Total</b>                     | <b>194</b>             | <b>222</b> |

The corporate income tax rates in the countries where the Group has a taxable presence vary from 0% (British Virgin Islands) to 20% (in the United Kingdom and in the Russian Federation).

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

A reconciliation of Russian Federation statutory income tax, the location of the Group's major production entities and operations, to the income tax expense recorded in the consolidated statement of profit or loss is as follows:

|                                                                                                                                                                                  | Year ended 31 December |            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------|
|                                                                                                                                                                                  | 2015                   | 2014       |
| <b>Profit before income tax</b>                                                                                                                                                  | <b>1,313</b>           | <b>40</b>  |
| Income tax at statutory rate applicable to principal entities (20%)                                                                                                              | 263                    | 8          |
| Unrecognized deferred tax assets and write-off / (reversal) of losses carried forward resulted from impairments                                                                  | (6)                    | 19         |
| Allowance for deferred tax assets on derivative financial instruments and deferred tax relating cash flow hedge reserve reclassified to consolidated statement of profit or loss | (37)                   | 185        |
| Effect of different tax rates of subsidiaries operating in other jurisdictions                                                                                                   | (9)                    | -          |
| Income tax effect of impairment reversals                                                                                                                                        | (4)                    | (6)        |
| Tax effect of non-deductible expenses and other permanent differences                                                                                                            | -                      | 23         |
| Other                                                                                                                                                                            | (13)                   | (7)        |
| <b>Income tax expense</b>                                                                                                                                                        | <b>194</b>             | <b>222</b> |

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

### 12. Property, plant and equipment

|                                                                           | Fixed<br>assets | Mine under<br>development | Stripping<br>activity<br>assets | Capital<br>construction<br>in progress | Exploration and<br>evaluation<br>assets | Total          |
|---------------------------------------------------------------------------|-----------------|---------------------------|---------------------------------|----------------------------------------|-----------------------------------------|----------------|
| <b>Cost</b>                                                               |                 |                           |                                 |                                        |                                         |                |
| <b>Balance at 31 December 2013</b>                                        | <b>2,466</b>    | <b>1,584</b>              | <b>221</b>                      | <b>299</b>                             | <b>510</b>                              | <b>5,080</b>   |
| Additions                                                                 | -               | 308                       | 109                             | 205                                    | 12                                      | 634            |
| Transfers from capital construction-in-progress                           | 163             | -                         | -                               | (163)                                  | -                                       | -              |
| Change in site restoration, decommissioning and environmental obligations | 8               | 1                         | -                               | -                                      | -                                       | 9              |
| Disposals                                                                 | (19)            | -                         | -                               | -                                      | -                                       | (19)           |
| Effect of translation to presentation currency                            | (1,080)         | (759)                     | (127)                           | (142)                                  | (215)                                   | (2,323)        |
| <b>Balance at 31 December 2014</b>                                        | <b>1,538</b>    | <b>1,134</b>              | <b>203</b>                      | <b>199</b>                             | <b>307</b>                              | <b>3,381</b>   |
| Additions                                                                 | -               | 111                       | 104                             | 146                                    | 11                                      | 372            |
| Transfers from capital construction-in-progress                           | 134             | -                         | -                               | (134)                                  | -                                       | -              |
| Change in site restoration, decommissioning and environmental obligations | (6)             | -                         | -                               | -                                      | -                                       | (6)            |
| Disposals                                                                 | (38)            | (3)                       | -                               | (1)                                    | -                                       | (42)           |
| Reclassifications                                                         | 15              | -                         | -                               | (3)                                    | 3                                       | 15             |
| Effect of translation to presentation currency                            | (360)           | (274)                     | (64)                            | (54)                                   | (72)                                    | (824)          |
| <b>Balance at 31 December 2015</b>                                        | <b>1,283</b>    | <b>968</b>                | <b>243</b>                      | <b>153</b>                             | <b>249</b>                              | <b>2,896</b>   |
| <b>Accumulated amortisation,<br/>depreciation and impairment</b>          |                 |                           |                                 |                                        |                                         |                |
| <b>Balance at 31 December 2013</b>                                        | <b>(1,113)</b>  | <b>(11)</b>               | <b>(68)</b>                     | <b>(21)</b>                            | <b>(336)</b>                            | <b>(1,549)</b> |
| Charge                                                                    | (214)           | -                         | (16)                            | -                                      | -                                       | (230)          |
| Disposals                                                                 | 17              | -                         | -                               | -                                      | -                                       | 17             |
| Reversal of impairment / (impairment losses) (notes 8)                    | 29              | (37)                      | 13                              | (6)                                    | (1)                                     | (2)            |
| Effect of translation to presentation currency                            | 528             | 16                        | 33                              | 17                                     | 140                                     | 734            |
| <b>Balance at 31 December 2014</b>                                        | <b>(753)</b>    | <b>(32)</b>               | <b>(38)</b>                     | <b>(10)</b>                            | <b>(197)</b>                            | <b>(1,030)</b> |
| Charge                                                                    | (134)           | -                         | (21)                            | -                                      | -                                       | (155)          |
| Disposals                                                                 | 36              | -                         | -                               | -                                      | -                                       | 36             |
| Reversal of impairment (notes 8)                                          | -               | 19                        | -                               | -                                      | 5                                       | 24             |
| Effect of translation to presentation currency                            | 188             | 4                         | 14                              | 3                                      | 43                                      | 252            |
| <b>Balance at 31 December 2015</b>                                        | <b>(663)</b>    | <b>(9)</b>                | <b>(45)</b>                     | <b>(7)</b>                             | <b>(149)</b>                            | <b>(873)</b>   |
| <b>Net book value at</b>                                                  |                 |                           |                                 |                                        |                                         |                |
| <b>31 December 2014</b>                                                   | <b>785</b>      | <b>1,102</b>              | <b>165</b>                      | <b>189</b>                             | <b>110</b>                              | <b>2,351</b>   |
| <b>31 December 2015</b>                                                   | <b>620</b>      | <b>959</b>                | <b>198</b>                      | <b>146</b>                             | <b>100</b>                              | <b>2,023</b>   |

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

### Fixed assets

The carrying values of mineral rights included in fixed assets were as follows:

|                | 31 December |      |
|----------------|-------------|------|
|                | 2015        | 2014 |
| Mineral rights | 46          | 45   |

### Exploration and evaluation assets

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

|                  | 31 December |            |
|------------------|-------------|------------|
|                  | 2015        | 2014       |
| Chertovo Koryto  | 23          | 30         |
| Razdolinskoye    | 16          | 18         |
| Olympiada        | 14          | 16         |
| Panimba          | 13          | 15         |
| Bamsky           | 11          | 12         |
| Smezhny          | 7           | 8          |
| Blagodatnoye     | 6           | 6          |
| Burgakhchan area | 5           | –          |
| Medvezhy Zapadny | 2           | 4          |
| Other            | 3           | 1          |
| <b>Total</b>     | <b>100</b>  | <b>110</b> |

Depreciation and amortisation charge is allocated as follows:

|                                                       | Year ended 31 December |            |
|-------------------------------------------------------|------------------------|------------|
|                                                       | 2015                   | 2014       |
| Cost of gold sales                                    | 122                    | 174        |
| Depreciation in change in inventory                   | 4                      | –          |
| <b>Sub-total: Cost of production (note 6)</b>         | <b>126</b>             | <b>174</b> |
| Selling, general and administrative expenses (note 7) | 3                      | 4          |
| Cost of other sales                                   | 3                      | 4          |
| Capitalised within capital construction-in-progress   | 23                     | 48         |
| <b>Total</b>                                          | <b>155</b>             | <b>230</b> |

### Mine under development

Mine under development includes only the Natalka mine (Magadan business unit).

Included within *Mine under development* are capitalised borrowing costs consisted of the following:

|                                  | Year ended 31 December |           |
|----------------------------------|------------------------|-----------|
|                                  | 2015                   | 2014      |
| Interest expenses                | 40                     | 60        |
| Foreign exchange losses          | 1                      | 33        |
| Interest income on bank deposits | (5)                    | (7)       |
| <b>Total</b>                     | <b>36</b>              | <b>86</b> |

Following temporary cessation of the active construction at Natalka during the year ended 31 December 2014 borrowing costs capitalization has been suspended until 30 June 2015. Natalka mine construction has been restarted in the second half of the 2015 year, and, respectively, the Group commenced the capitalisation of the related borrowing costs starting from 1 July 2015.

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

The carrying values of mineral rights relating to and included within a mine project under development were as follows:

|                | 31 December |      |
|----------------|-------------|------|
|                | 2015        | 2014 |
| Mineral rights | 28          | 37   |

### 13. Derivative financial instruments and investments

|                                | 31 December |            |
|--------------------------------|-------------|------------|
|                                | 2015        | 2014       |
| <b>Non-current assets</b>      |             |            |
| Revenue stabiliser             | 200         | 132        |
| Interest rate swaps            | 11          | 9          |
| Loans receivable               | 1           | 1          |
| Gold forward                   | –           | 30         |
| <b>Sub-total</b>               | <b>212</b>  | <b>172</b> |
| <b>Current assets</b>          |             |            |
| Gold forward                   | 20          | –          |
| <b>Total assets</b>            | <b>232</b>  | <b>172</b> |
| <b>Non-current liabilities</b> |             |            |
| Cross currency swaps           | 509         | 403        |
| Revenue stabiliser             | –           | 20         |
| <b>Sub-total</b>               | <b>509</b>  | <b>423</b> |
| <b>Current liabilities</b>     |             |            |
| Currency collars               | –           | 547        |
| <b>Total liabilities</b>       | <b>509</b>  | <b>970</b> |

### Strategic Price Protection Programme

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

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

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

#### Revenue stabiliser

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

During the 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.

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.

The allocation of volumes, strikes and barriers between years under the revenue stabiliser agreements after restructuring is presented below:



# Polyus Gold International Limited

Notes to the consolidated financial statements for the year ended 31 December 2015  
(in millions of US Dollars)

|                                                                                   | Years ended 31 December |       |      |      |     |      |     |      |       |
|-----------------------------------------------------------------------------------|-------------------------|-------|------|------|-----|------|-----|------|-------|
|                                                                                   | 2014                    | 2015  | 2016 | 2017 |     | 2018 |     | 2019 | Total |
| Revenue stabiliser volumes under put and call option agreements (thousand ounces) |                         |       |      |      |     |      |     |      |       |
| <i>Tranche 1 (covering the period 1 April 2014 - 30 March 2018)</i>               |                         |       |      |      |     |      |     |      |       |
| Total as per options agreements                                                   | 225                     | 300   | 300  | 75   | 315 | –    | 105 | –    | 1,320 |
| Exercised                                                                         | (225)                   | (300) | –    | –    | –   | –    | –   | –    | (525) |
| Outstanding as of 31 December 2015                                                | –                       | –     | 300  | 75   | 315 | –    | 105 | –    | 795   |
| <i>Tranche 2 (covering the period 1 July 2014 – 29 June 2018)</i>                 |                         |       |      |      |     |      |     |      |       |
| Total as per options agreements                                                   | 60                      | 120   | 120  | 60   | 180 | –    | 180 | –    | 720   |
| Exercised                                                                         | (60)                    | (120) | –    | –    | –   | –    | –   | –    | (180) |
| Outstanding as of 31 December 2015                                                | –                       | –     | 120  | 60   | 180 | –    | 180 | –    | 540   |
| <i>Tranche 3 (covering the period 1 January 2016 – 31 December 2019)</i>          |                         |       |      |      |     |      |     |      |       |
| Total as per options agreements                                                   | –                       | –     | 280  | 280  | –   | 280  | –   | 840  | 1,680 |
| Exercised                                                                         | –                       | –     | –    | –    | –   | –    | –   | –    | –     |
| Outstanding as of 31 December 2015                                                | –                       | –     | 280  | 280  | –   | 280  | –   | 840  | 1,680 |
| Total outstanding as of 31 December 2015                                          | –                       | –     | 700  | 415  | 495 | 280  | 285 | 840  | 3,015 |

# Polyus Gold International Limited

Notes to the consolidated financial statements for the year ended 31 December 2015  
(in millions of US Dollars)

|                                                                     | Years ended 31 December |       |       |       |       |       |
|---------------------------------------------------------------------|-------------------------|-------|-------|-------|-------|-------|
|                                                                     | 2014                    | 2015  | 2016  | 2017  | 2018  |       |
| <b>Tranche 1 (covering the period 1 April 2014 - 30 March 2018)</b> |                         |       |       |       |       |       |
| <b>First three years (put)</b>                                      |                         |       |       |       |       |       |
| Strike                                                              | 1,383                   | 1,383 | 1,383 | 1,383 | –     | –     |
| Knock-out barrier                                                   | 950                     | 950   | 921   | 911   | –     | –     |
| <b>First three years (call)</b>                                     |                         |       |       |       |       |       |
| Strike                                                              | 1,518                   | 1,518 | 1,518 | 1,518 | –     | –     |
| Knock-in barrier                                                    | 1,662                   | 1,655 | 1,634 | 1,634 | –     | –     |
| <b>Fourth year (put)</b>                                            |                         |       |       |       |       |       |
| Strike                                                              | –                       | –     | –     | –     | 1,107 | 1,107 |
| Knock-out barrier                                                   | –                       | –     | –     | –     | 900   | 900   |
| <b>Fourth year (call)</b>                                           |                         |       |       |       |       |       |
| Strike                                                              | –                       | –     | –     | –     | 1,551 | 1,551 |
| Knock-in barrier                                                    | –                       | –     | –     | –     | 1,750 | 1,750 |
| <b>Tranche 2 (covering the period 1 July 2014 – 29 June 2018)</b>   |                         |       |       |       |       |       |
| <b>First three years (put)</b>                                      |                         |       |       |       |       |       |
| Strike                                                              | 1,359                   | 1,359 | 1,359 | 1,359 | –     | –     |
| Knock-out barrier                                                   | 950                     | 950   | 950   | 950   | –     | –     |
| <b>First three years (call)</b>                                     |                         |       |       |       |       |       |
| Strike                                                              | 1,425                   | 1,425 | 1,425 | 1,425 | –     | –     |
| Knock-in barrier                                                    | 1,525                   | 1,525 | 1,525 | 1,525 | –     | –     |
| <b>Fourth year (put)</b>                                            |                         |       |       |       |       |       |
| Strike                                                              | –                       | –     | –     | –     | 1,100 | 1,100 |
| Knock-out barrier                                                   | –                       | –     | –     | –     | 900   | 900   |
| <b>Fourth year (call)</b>                                           |                         |       |       |       |       |       |
| Strike                                                              | –                       | –     | –     | –     | 1,500 | 1,500 |
| Knock-in barrier                                                    | –                       | –     | –     | –     | 1,650 | 1,650 |

# Polyus Gold International Limited

Notes to the consolidated financial statements for the year ended 31 December 2015  
(in millions of US Dollars)

|                                                                          | Years ended 31 December |       |       |       |       |       |       |
|--------------------------------------------------------------------------|-------------------------|-------|-------|-------|-------|-------|-------|
|                                                                          | 2014                    | 2015  | 2016  | 2017  | 2018  | 2019  |       |
| <b>Tranche 3 (covering the period 1 January 2016 – 31 December 2019)</b> |                         |       |       |       |       |       |       |
| <b>First three years (put)</b>                                           |                         |       |       |       |       |       |       |
| Strike                                                                   | –                       | –     | 1,232 | 1,232 | –     | 1,232 | 971   |
| Knock-out barrier                                                        | –                       | –     | 900   | 900   | –     | 900   | 921   |
| <b>First three years (call)</b>                                          |                         |       |       |       |       |       |       |
| Strike                                                                   | –                       | –     | 1,350 | 1,350 | –     | 1,350 | 1,391 |
| Knock-in barrier                                                         | –                       | –     | 1,450 | 1,450 | –     | 1,450 | 1,591 |
| <b>Fourth year (put)</b>                                                 |                         |       |       |       |       |       |       |
| Strike                                                                   | –                       | –     | –     | –     | –     | –     | 971   |
| Knock-out barrier                                                        | –                       | –     | –     | –     | –     | –     | 921   |
| <b>Fourth year (call)</b>                                                |                         |       |       |       |       |       |       |
| Strike                                                                   | –                       | –     | –     | –     | –     | –     | 1,391 |
| Knock-in barrier                                                         | –                       | –     | –     | –     | –     | –     | 1,591 |
| <b>Weighted average strikes for Tranches 1, 2 and 3</b>                  |                         |       |       |       |       |       |       |
| <b>Leg 1 (put)</b>                                                       |                         |       |       |       |       |       |       |
| Strike                                                                   | 1,378                   | 1,377 | 1,319 | 1,278 | –     | –     | –     |
| Knock-out barrier                                                        | 950                     | 950   | 918   | 909   | –     | –     | –     |
| <b>Leg 2 (call)</b>                                                      |                         |       |       |       |       |       |       |
| Strike                                                                   | 1,498                   | 1,491 | 1,435 | 1,391 | –     | –     | –     |
| Knock-in barrier                                                         | 1,633                   | 1,618 | 1,542 | 1,494 | –     | –     | –     |
| <b>Leg 3 (put)</b>                                                       |                         |       |       |       |       |       |       |
| Strike                                                                   | –                       | –     | –     | –     | 1,105 | 1,232 | 1,103 |
| Knock-out barrier                                                        | –                       | –     | –     | –     | 900   | 900   | 900   |
| <b>Leg 4 (call)</b>                                                      |                         |       |       |       |       |       |       |
| Strike                                                                   | –                       | –     | –     | –     | 1,533 | 1,350 | 1,519 |
| Knock-in barrier                                                         | –                       | –     | –     | –     | 1,714 | 1,450 | 1,687 |

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

As a result of Tranche 1 of the revenue stabiliser, the Group ensures a minimum weighted average price of USD 1,383 per ounce for 300 thousand ounces of gold output annually during the first three years of the Programme, provided the gold price does not fall below USD 921 per ounce. During the first three years the Group benefits from price increases until the gold price reaches USD 1,634 per ounce, in which case the weighted average price is capped at USD 1,518 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted average price of USD 1,107 per ounce for the price-protected amount of 420 thousand ounces, provided the gold price does not fall below USD 900 per ounce. Additionally, in the fourth year of the Programme, the Group will have an obligation to sell 420 thousand ounces of gold at USD 1,551 per ounce should the gold price exceed USD 1,750 per ounce.

As a result of Tranche 2 of the revenue stabiliser, the Group ensures a minimum weighted average price of USD 1,359 per ounce for 120 thousand ounces of gold annually output during the first three years of the Programme, provided the gold price does not fall below USD 950 per ounce. During the first three years the Group benefits from price increases until the gold price reaches USD 1,525 per ounce, in which case the weighted average price is capped at USD 1,425 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted average price of USD 1,100 per ounce for the price-protected amount of 360 thousand ounces, provided the gold price does not fall below USD 900 per ounce. Additionally, in the fourth year of the Programme, the Group will have an obligation to sell 360 thousand ounces of gold at USD 1,500 per ounce should the gold price exceed USD 1,650 per ounce.

During the year ended 31 December 2015, the Group entered into several new revenue stabilizer agreements under the Tranche 3 of the revenue stabiliser programme. As per the agreements the Group ensures a minimum weighted average price of USD 1,232 per ounce for 280 thousand ounces of gold annually output during the first three years of the Programme, provided the gold price does not fall below USD 900 per ounce. During the first three years the Group benefits from price increases until the gold price reaches USD 1,450 per ounce, in which case the weighted average price is capped at USD 1,350 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted average price of USD 971 per ounce for the price-protected amount of 840 thousand ounces, provided the gold price does not fall below USD 921 per ounce. Additionally, in the fourth year of the Programme, the Group will have an obligation to sell 840 thousand ounces of gold at USD 1,391 per ounce should the gold price exceed USD 1,591 per ounce.

The revenue stabiliser options are exercised quarterly in equal amounts.

Initially, the revenue stabiliser agreements are recognised at fair value using a Monte Carlo simulation model. Input data used in the valuation model (spot gold prices and volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13.

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 consolidated statement of changes in equity, whilst the remaining change in the fair value of USD 19 million gain is reflected in the consolidated statement of profit or loss (note 10) (the year ended 31 December 2014: gain of USD 15 million).

During the year ended 31 December 2015, under Tranches 1 and 2, USD 115 million was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity (the year ended 31 December 2014: USD 132 million) and following the sale of the hedged volume of gold and the exercise of certain options USD 91 million was subsequently reclassified to Gold sales within the consolidated statement of profit or loss (the year ended 31 December 2014: USD 35 million).

Tranche 3 is accounted at fair value through profit and loss. Gain resulted from the change in its fair value totalled USD 45 million and is presented within the note 10 of the consolidated statement of profit or loss.

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

### Gold forward

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

|                                           | Years ended 31 December |          |             |
|-------------------------------------------|-------------------------|----------|-------------|
|                                           | 2014                    | 2015     | 2016        |
| Forward agreements                        | 77.5                    | 155.0    | 77.5        |
| Exercised                                 | (77.5)                  | (155.0)  | –           |
| <b>Outstanding as of 31 December 2015</b> | <b>–</b>                | <b>–</b> | <b>77.5</b> |

The gold forward contract is designated as a cash flow hedge. Any change in the forward fair value is recognised in *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity. During the year ended 31 December 2015, USD 15 million was recognised in the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity (the year ended 31 December 2014: USD 36 million) and following the sale of the hedged amount of gold USD 25 million was reclassified from the *Cash flow hedge revaluation reserve* within consolidated statement of changes in equity into *Gold sales* within the consolidated statement of profit or loss (the year ended 31 December 2014: USD 6 million). The remaining balance is expected to be evenly reclassified monthly to the consolidated statement of profit or loss through to 30 June 2016.

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

### Currency collars

During the year ended 31 December 2014, in order to economically hedge its Russian rouble denominated expenses, the Group simultaneously purchased put options and sold call options for the total amount of USD 1,900 million allocated monthly as following:

|                                           | 2014  | 2015  |
|-------------------------------------------|-------|-------|
| Volume of option agreements (million USD) | 400   | 1,500 |
| Exchange rates for puts, RUB/USD          | 36.83 | 37.47 |
| Exchange rates for calls, RUB/USD         | 40.06 | 40.38 |

During the year ended 31 December 2015 all remaining options matured and resulted in a gain of USD 53 million (the year ended 31 December 2014: loss USD 594 million). No currency collars options remained as of 31 December 2015.

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

### Cross currency swaps

#### RUB denominated credit facilities with fixed interest rate

The revenue of the Group is linked to US dollars, because the gold price is denominated in US dollars. The Group entered into cross currency swaps with leading Russian banks to economically hedge interest payments and principal amounts exchange nominated in RUB.

According to the cross currency swap agreements the Group quarterly pays to the banks LIBOR + Margin 2.32% in USD and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group exchanges principal amounts paying USD 1,023 million and receiving RUB 35,999 million.

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

### Rusbonds

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

According to IAS 39 the swaps were not eligible to be designated as cash flow or fair value hedges. The Group accounted for these derivative financial instruments at fair value which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps for the year ended 31 December 2015 resulted in a revaluation loss of USD 106 million recognised in the Consolidated statement of profit or loss (note 10) (the year ended 31 December 2014: loss USD 403 million). The gain on the exchange of interest payments in amount of USD 39 million is recognised within the Finance cost (note 9) (the year ended 31 December 2014: USD 16 million).

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

### Interest rate swaps

During the year ended 31 December 2014, the Group entered into an interest rate swap agreements with leading Russian banks, according to which the Group pays semi-annually and until 29 April 2020 LIBOR+3.55% in USD and receives 5.625% in USD in respect of a USD 750 million nominal amount. The purpose of this swap is to decrease the effective interest rate for the USD 750 million Eurobonds (note 19). According to IAS 39 the swaps were not eligible to be designated as either a cash flow or fair value hedge. The Group accounts for it at fair value which was determined using a discounted cash flow valuation technique.

During the year ended 31 December 2015, gain on changes in the fair value of the interest rate swaps in the amount of USD 2 million is recognised in the Consolidated statement of profit or loss (note 10) (the year ended 31 December 2014: gain USD 9 million). The gain on the exchange of interest payments in amount of USD 13 million is recognised within the Finance cost (note 9) (the year ended 31 December 2014: USD 4 million).

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

## 14. Inventories

|                                                                   | <b>31 December</b> |             |
|-------------------------------------------------------------------|--------------------|-------------|
|                                                                   | <b>2015</b>        | <b>2014</b> |
| <b>Inventories expected to be recovered after 12 months</b>       |                    |             |
| Stockpiles                                                        | 174                | 224         |
| Gold-in-process                                                   | 10                 | 3           |
| <b>Sub-total</b>                                                  | <b>184</b>         | <b>227</b>  |
| <b>Inventories expected to be recovered in the next 12 months</b> |                    |             |
| Stockpiles                                                        | 44                 | 79          |
| Gold-in-process                                                   | 59                 | 63          |
| Refined gold                                                      | 13                 | 17          |
| Stores and materials                                              | 188                | 292         |
| Less: Net realisable value provision for stores and materials     | (8)                | (11)        |
| <b>Sub-total</b>                                                  | <b>296</b>         | <b>440</b>  |
| <b>Total</b>                                                      | <b>480</b>         | <b>667</b>  |

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

### 15. Taxes receivable

|                              | 31 December |           |
|------------------------------|-------------|-----------|
|                              | 2015        | 2014      |
| Reimbursable value added tax | 43          | 45        |
| Income tax prepaid           | 15          | 1         |
| Other prepaid taxes          | 5           | 2         |
| <b>Total</b>                 | <b>63</b>   | <b>48</b> |

### 16. Bank deposits

During the year ended 31 December 2015, the Group modified certain bank deposit agreements, so that as of 31 December 2015 all of the deposits were available on demand and respectively were presented under the cash and cash equivalents caption (note 17).

As of 31 December 2014, all Group's deposits were denominated in USD and had rates varying from 1.4% to 3.6% per annum.

### 17. Cash and cash equivalents

|                                 | 31 December  |              |
|---------------------------------|--------------|--------------|
|                                 | 2015         | 2014         |
| Bank deposits                   |              |              |
| - USD                           | 1,630        | 1,093        |
| - RUB                           | 71           | 50           |
| Current bank accounts           |              |              |
| - USD                           | 273          | 42           |
| - RUB                           | 33           | 12           |
| Other cash and cash equivalents | 32           | 20           |
| <b>Total</b>                    | <b>2,039</b> | <b>1,217</b> |

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

Interest rates on bank deposits denominated in:

|       |           |           |
|-------|-----------|-----------|
| - USD | 1.0-6.0%  | 0.6-6.0%  |
| - RUB | 8.0-11.1% | 8.9-25.0% |

### 18. Share capital

The authorised share capital of the Company comprises 3,600 million ordinary shares with a par value of GBP 0.0001 per share.

The issued and fully paid up share capital of the Company comprises 3,032 million ordinary shares issued at a premium, resulting in share capital of USD 482,000 and additional paid-in-capital of USD 2,159 million (31 December 2014: USD 2,152 million).

#### Dividends to shareholders of the Company

|                                             | Year ended 31 December |      |
|---------------------------------------------|------------------------|------|
|                                             | 2015                   | 2014 |
| Dividend declared and paid during the year: |                        |      |
| USD million                                 | 184                    | 500  |
| US cents per share                          | 6                      | 16   |

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

Dividends in the total amount of USD 184 million (US 6 cents per share) were declared and paid off during the year ended 31 December 2015.

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

During the year ended 31 December 2015, the Company 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 Company's ordinary shares linked to the achievement of a combination of financial and non-financial performance conditions.

The LTIP stipulates three 3-year rolling performance periods (i.e. 2015-2017, 2016-2018 and 2017-2019). The total number of shares that may be distributed under the LTIP is up to 1% of the total share capital of the Company which can be granted from newly issued ordinary shares or from treasury shares, if any. At the end of each performance period the shares shall be transferred to the members of top management depending on whether the performance conditions have been achieved.

Fair value of a share was identified at the grant date of 19 May 2015 as the closing price per London Stock Exchange. Total expense for the reporting period arising from LTIP was immediately recognized in the consolidated statement of profit and loss within the line *Salaries* included within *Selling, general and administrative expenses* in the amount of USD 7 million.

Weighted average number of ordinary shares for the year ended 31 December 2015 including dilutive effect of potentially issuable shares is presented below:

|                                                                                       | Number of<br>shares,<br>million |
|---------------------------------------------------------------------------------------|---------------------------------|
| Ordinary shares in issue at the beginning of the year ended 31 December 2015          | 3,032                           |
| Dilutive effect of LTIP (9 million shares starting from 19 May 2015)                  | 5                               |
| <b>Weighted average number of ordinary shares for the year ended 31 December 2015</b> | <b>3,037</b>                    |

## 19. Borrowings

|                                                                                                 | Nominal rate %                                                    | 31 December<br>2015 | 2014         |
|-------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|---------------------|--------------|
| Credit facilities with financial institutions<br>nominated in USD with variable interest rates  | USD LIBOR + margins<br>ranging from 0.55% to<br>4.95%             | 785                 | 365          |
| Notes due in 2020 (Eurobonds)                                                                   | 5.625%                                                            | 746                 | 745          |
| Credit facilities with financial institutions<br>nominated in RUR with fixed interest rates     | 10.35%                                                            | 461                 | 596          |
| Notes due in 2025 (Rusbonds) with<br>noteholders' early repayment option in 2021                | 12.1%                                                             | 137                 | –            |
| Letters of credit with deferred payments terms<br>with variable rates                           | Cost of fund (COF) +<br>2.7%, Euribor +1.8%,<br>USD LIBOR + 2.35% | 38                  | 107          |
| Credit facilities with financial institutions<br>nominated in RUR with variable interest rates  | Central bank rate + 2.3%                                          | 18                  | –            |
| <b>Sub-total</b>                                                                                |                                                                   | <b>2,185</b>        | <b>1,813</b> |
| Less: short-term borrowings and current portion<br>of long-term borrowings due within 12 months |                                                                   | (38)                | (90)         |
| <b>Long-term borrowings</b>                                                                     |                                                                   | <b>2,147</b>        | <b>1,723</b> |



# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

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

### **Unused credit facilities**

In 2014, one of the companies of the Group, entered into a five year RUB 40,000 million credit line with a bank to fund its general corporate purposes. As of 31 December 2015 and 31 December 2014, the amount of unused credit facilities was RUB 40,000 million equivalent to USD 549 million and USD 711 million, respectively.

In 2015, one of the companies of the Group, entered into an eleven year RUB 6,054 million credit line with a bank to fund deployment of Razdolinskaya-Taiga power grid construction. As of 31 December 2015, the credit facilities in the amount of USD 65 million (RUB 4,707 million) were unused.

### **Other matters**

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

There were a number of financial covenants under several loan agreements in effect as of 31 December 2015 according to which the respective subsidiaries of the Company and the Company itself are limited:

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

The Group was in compliance with all these covenants as of 31 December 2015.

The fair value of the Notes due in 2020 and 2021 are within Level 1 of the fair value hierarchy. Whilst measured at amortised cost, the fair value of all of the borrowings, except for the Notes, are within Level 2 of the fair value hierarchy in accordance with IFRS 13. The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB interest rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value. The fair value of the borrowings as of 31 December 2015 was equal to USD 2,013 million (31 December 2014: USD 1,437 million).

## **20. Deferred tax assets and liabilities**

The movement in the Group's deferred taxation position was as follows:

|                                                                  | Year ended 31 December |            |
|------------------------------------------------------------------|------------------------|------------|
|                                                                  | 2015                   | 2014       |
| <b>Net deferred tax liability at beginning of the year</b>       | <b>103</b>             | <b>134</b> |
| Recognised in the consolidated statement of profit or loss       | (4)                    | 2          |
| Recognised in the consolidated statement of comprehensive income | 10                     | 19         |
| Effect of translation to presentation currency                   | (22)                   | (52)       |
| <b>Net deferred tax liability at end of the year</b>             | <b>87</b>              | <b>103</b> |

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

Deferred taxation is attributable to tax losses carried-forward and the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

|                                                                           | 31 December |            |
|---------------------------------------------------------------------------|-------------|------------|
|                                                                           | 2015        | 2014       |
| Property, plant and equipment                                             | 155         | 160        |
| Inventory                                                                 | 43          | 60         |
| Deferred expenditures                                                     | 3           | 3          |
| Derivative financial instruments and investments                          | -           | 27         |
| Offset of deferred tax asset and liability within the same taxable entity | (68)        | (100)      |
| <b>Total deferred tax liabilities</b>                                     | <b>133</b>  | <b>150</b> |
| Tax losses carried-forward                                                | 106         | 131        |
| Property, plant and equipment                                             | 1           | 2          |
| Accrued expenses                                                          | 3           | 4          |
| Payables                                                                  | 4           | 10         |
| Offset of deferred tax asset and liability within the same taxable entity | (68)        | (100)      |
| <b>Total deferred tax assets</b>                                          | <b>46</b>   | <b>47</b>  |

### Unrecognised deferred tax asset

|                                                                                                                             |            |            |
|-----------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Unrecognised deferred tax asset resulting from losses on derivative financial instruments                                   | 115        | 185        |
| Unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit | 18         | 30         |
| Unrecognized deferred tax assets resulted from impairments                                                                  | 33         | 48         |
| <b>Total</b>                                                                                                                | <b>166</b> | <b>263</b> |

Deferred tax assets on losses from derivative financial instruments and those resulted from impairments were not recognised as of 31 December 2015 because there is no enough evidence that those tax losses might be utilised.

Tax losses carried forward expire in periods up to ten years, and some are not recognised as management does not believe it is probable that future taxable profit will be available against which the respective entities can utilise the benefits.

### Unrecognised deferred tax liability

|                                                                                                                       |    |    |
|-----------------------------------------------------------------------------------------------------------------------|----|----|
| The unrecognised deferred tax liability for taxable temporary differences associated with investments in subsidiaries | 16 | 63 |
|-----------------------------------------------------------------------------------------------------------------------|----|----|

The deferred tax liability presented above was not recognised because the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

## 21. Trade, other payables and accrued expenses

|                                                | 31 December |            |
|------------------------------------------------|-------------|------------|
|                                                | 2015        | 2014       |
| Wages and salaries payable                     | 56          | 57         |
| Interest payable                               | 29          | 24         |
| Trade payables to third parties                | 24          | 21         |
| Other accounts payable and accrued expenses    | 24          | 31         |
| Accrued annual leave                           | 16          | 19         |
| Dividends payable to non-controlling interests | 1           | 2          |
| <b>Total</b>                                   | <b>150</b>  | <b>154</b> |

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

The average credit period for trade payables at 31 December 2015 was 21 days, (2014: 18 days). No interest was charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

### 22. Taxes payable

|                    | 31 December |           |
|--------------------|-------------|-----------|
|                    | 2015        | 2014      |
| Tax on mining      | 10          | 11        |
| Value added tax    | 6           | 3         |
| Social taxes       | 5           | 6         |
| Income tax payable | 4           | 11        |
| Property tax       | 2           | 2         |
| Other taxes        | 2           | 3         |
| <b>Total</b>       | <b>29</b>   | <b>36</b> |

### 23. Related parties

Related parties include substantial shareholders, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of business, enter into purchase and service transactions with related parties.

The Group had no transactions with its shareholders during years ended 31 December 2015 and 2014.

#### *Entities under common ownership*

The Group had no balances and transactions with entities under common control as of 31 December 2014 and 2015.

#### **Key management personnel**

|                                                                              | Year ended 31 December |      |
|------------------------------------------------------------------------------|------------------------|------|
|                                                                              | 2015                   | 2014 |
| Short-term compensation of key management personnel including LTIP (Note 18) | 23                     | 31   |
| including termination benefits to the former key management personnel        | 1                      | 8    |

### 24. Commitments and contingencies

#### **Commitments**

#### *Capital commitments*

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

|                                                                                       | 31 December |      |
|---------------------------------------------------------------------------------------|-------------|------|
|                                                                                       | 2015        | 2014 |
| Contracted capital expenditure commitments                                            | 30          | 23   |
| - including contracted capital expenditure commitments related to the Nataika project | 9           | 11   |

#### *Operating leases: Group as a lessee*

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2060.

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

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

|                        | 31 December |           |
|------------------------|-------------|-----------|
|                        | 2015        | 2014      |
| Due within one year    | 4           | 3         |
| From one to five years | 18          | 8         |
| Thereafter             | 17          | 20        |
| <b>Total</b>           | <b>39</b>   | <b>31</b> |

### Contingencies

#### *Litigations*

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

#### *Insurance*

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

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

#### *Taxation contingencies in the Russian Federation*

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. [Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities]. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

#### *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

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

regulations may change. Such change, if it occurs, may require that the Group modernises technology to meet more stringent standards.

The Group is obliged under the terms of various laws, mining licences and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses site restoration, decommissioning and environmental obligations for its operations. Estimations are based on management's understanding of the current legal requirements and the terms of the licence agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional site restoration, decommissioning and environmental obligations.

### ***Operating environment***

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

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies.

In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. In the first quarter of 2015 international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

## **25. Financial instruments risk management activities**

### ***Capital risk management***

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt which is borrowings (note 19) less banks deposits (note 16) and cash and cash equivalents (note 17), and equity of the Group.

### ***Major categories of financial instruments***

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

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

|                                                  | 31 December  |              |
|--------------------------------------------------|--------------|--------------|
|                                                  | 2015         | 2014         |
| <b>Financial assets</b>                          |              |              |
| Cash and cash equivalents                        | 2,039        | 1,217        |
| Derivative financial instruments and investments | 231          | 171          |
| Trade and other receivables                      | 14           | 11           |
| Loans receivable                                 | 1            | 1            |
| Bank deposits                                    | –            | 269          |
| <b>Total financial assets</b>                    | <b>2,285</b> | <b>1,669</b> |
| <b>Financial liabilities</b>                     |              |              |
| Borrowings                                       | 2,185        | 1,813        |
| Derivative financial instruments and investments | 509          | 970          |
| Trade and other payables                         | 134          | 135          |
| <b>Total financial liabilities</b>               | <b>2,828</b> | <b>2,918</b> |

Derivative financial instruments are carried at fair value.

The main risks arising from the Group's financial instruments are gold price, interest rate, foreign currency exchange rates, credit and liquidity risks.

### **Gold price risk**

The Group is exposed to changes in the gold price due to its significant volatility. According to the approved hedging strategy the Group may hedge up to 1/3 of its annual gold sales. During 2014, the Group entered into a number of derivative transactions (revenue stabiliser and gold forward agreements) under a Strategic Price Protection Programme to limit its exposure to future possible fluctuations of gold price (as detailed further in note 13).

Under the terms of the revenue stabiliser the Group ensures a minimum selling gold price in the case of declines in the gold price and at the same time may benefit from increases in the gold price until certain barrier prices are reached on the call options, at which point the sale price is capped.

If the gold price was 10% higher / lower during the year ended 31 December 2015 gold sales for the year would have increased / decreased by USD 134 million / USD 138 million, respectively (the year ended 31 December 2014: USD 181 million / USD 175 million).

### **Interest rate risk**

The Group is exposed to interest rate risk as it borrows funds. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's current policy considering the relatively low LIBOR rates is to borrow funds in USD with floating interest rates. During the year ended 31 of December 2014 and 2015, the Group, in order to align its borrowings with the policy, entered into a number of derivative transactions (note 13):

- to swap cash flows under a Rouble denominated credit facility with a fixed interest rate of 10.35% into USD dollar denominated cash flows with a floating interest rate of LIBOR+2.32%. The credit facility was initially arranged in RUB with the view to swapping it into a USD denominated cash flow, because this was more cost effective than obtaining funding directly in USD (note 19);
- to swap interest payments under the 750 million Eurobond from a fixed rate of 5.625% into a floating rate of LIBOR+3.55% (note 19);
- to swap cash flows under a 10 billion Rouble denominated bonds with a fixed coupon of 12.1% into USD dollar denominated cash flows with a floating interest rate of 6MLIBOR+4.45%. The bond was initially arranged in RUB with the view to swapping it into a USD denominated cash flow, because this was more cost effective than obtaining funding directly in USD (note 19).

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

If the interest rate was 0.5% higher / lower during the year ended 31 December 2015 interest expense excluding effect of change in fair value of interest rate and cross currency swaps for year ended 31 December 2015 would have increased / decreased by USD 8 million (the year ended 31 December 2014: USD 5 million).

If interest rates used in calculations of fair values of interest rate and cross currency swaps as of 31 December 2015 would be 0.5% higher / lower, the gain on revaluation would be USD 39 million lower / higher, respectively (31 December 2014: USD 44 million).

0.5% is the sensitivity rate used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible / negative change in interest rates.

### Foreign currency exchange rate risk

Currency risk is the risk that the financial results of the Group will be adversely affected by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. Prices for gold are quoted in USD based on international quoted market prices. The majority of the Group's expenditures are denominated in RUB, accordingly, operating profits are adversely impacted by appreciation of the RUB against the USD. In assessing this risk, management takes into consideration changes in the gold price.

During 2014, the Group entered into a number of derivative agreements, in the form of currency collars (note 13) in order to economically hedge its Russian rouble denominated expenses. As of 31 December 2015, no currency collars remained outstanding.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than the functional currencies of the individual Group entities were as follows:

|                                                  | 31 December  |              |
|--------------------------------------------------|--------------|--------------|
|                                                  | 2015         | 2014         |
| <b>Assets</b>                                    |              |              |
| USD                                              | 2,135        | 1,581        |
| EURO (presented in USD at closing exchange rate) | 1            | 17           |
| <b>Total</b>                                     | <b>2,136</b> | <b>1,598</b> |
| <b>Liabilities</b>                               |              |              |
| USD                                              | 2,084        | 2,135        |
| EURO (presented in USD at closing exchange rate) | 14           | 71           |
| <b>Total</b>                                     | <b>2,098</b> | <b>2,206</b> |

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

The table below details the Group's sensitivity to changes in exchange rates by 25% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in the respective currencies.

If the USD or EURO exchange rate had increased by 25% for the year ended 31 December 2015 and year ended 31 December 2014 compared to RUB as of the end of respective year, the Group would have incurred the following (gain) / loss:

|                                                             | 31 December |      |
|-------------------------------------------------------------|-------------|------|
|                                                             | 2015        | 2014 |
| Gain / (loss) (USD exchange rate increased compared to RUB) | (13)        | 139  |
| Loss (EURO exchange rate increased compared to RUB)         | 3           | 13   |

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

### **Credit risk**

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. Credit risk arises from cash, cash equivalents and deposits kept with banks, derivative agreements, loans granted, advances paid, trade and other receivables.

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

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

Credit risk inherent to the contract was incorporated in the fair value of derivative financial instruments at the reporting date. The credit risk incorporated into valuations is based on the quoted counterparty CDS for the counterparty risk.

The Group's credit risk profile is regularly monitored by management in order to avoid undesirable increases in risk, to limit concentration of credit and to ensure compliance with the above mentioned policies and procedures.

Deposits, current bank accounts and derivative financial instruments are held with major Russian and international banks, with reasonable and appropriate diversification, which decreases concentration risk by spreading the credit risk exposure across several top rated banks.

Although the Group sells more than 90% of the total gold sales to 4 major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore the credit risk related to trade receivables is minimal. There were no outstanding receivables for gold sales as of 31 December 2015.

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

|                   | Year ended 31 December |              |
|-------------------|------------------------|--------------|
|                   | 2015                   | 2014         |
| Otkritie Bank     | 668                    | 704          |
| Sberbank          | 651                    | 220          |
| VTB Bank          | 493                    | 841          |
| MDM Bank          | 166                    | 298          |
| Bank of Moscow    | –                      | 85           |
| Other             | 181                    | 49           |
| <b>Gold sales</b> | <b>2,159</b>           | <b>2,197</b> |

### **Liquidity risk**

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

For assessing own credit risk, a proxy CDS for the industry is used since Polyus does not have quoted CDS.



# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

The Group's cash management procedures include medium-term forecasting (a budget approved each financial year and updated on a quarterly basis), short-term forecasting (monthly cash-flow budgets are established for each business unit and a review of each entity's daily cash position is performed using a two-week rolling basis).

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2015 based on undiscounted contractual payments / (receipts), including interest payments:

|                                                | <b>Borrowings</b> |                 | <b>Trade and other payables</b> | <b>Total</b> |
|------------------------------------------------|-------------------|-----------------|---------------------------------|--------------|
|                                                | <b>Principal</b>  | <b>Interest</b> |                                 |              |
| Due in the first year                          | 38                | 138             | 105                             | 281          |
| Due in the second year                         | 258               | 135             | –                               | 393          |
| Due in the third year                          | 418               | 129             | –                               | 547          |
| Due in the fourth year                         | 578               | 86              | –                               | 664          |
| Due in the fifth year                          | 762               | 38              | –                               | 800          |
| Due in the period between sixth to eight years | 144               | 17              | –                               | 161          |
| <b>Total</b>                                   | <b>2,198</b>      | <b>543</b>      | <b>105</b>                      | <b>2,846</b> |

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2014 based on undiscounted contractual payments, including interest payments:

|                                                | <b>Borrowings</b> |                 | <b>Trade and other payables</b> | <b>Total</b> |
|------------------------------------------------|-------------------|-----------------|---------------------------------|--------------|
|                                                | <b>Principal</b>  | <b>Interest</b> |                                 |              |
| Due in the first year                          | 90                | 118             | 111                             | 319          |
| Due in the second year                         | 38                | 116             | –                               | 154          |
| Due in the third year                          | 87                | 115             | –                               | 202          |
| Due in the fourth year                         | 136               | 111             | –                               | 247          |
| Due in the fifth year                          | 710               | 76              | –                               | 786          |
| Due in the period between sixth to eight years | 764               | 22              | –                               | 786          |
| <b>Total</b>                                   | <b>1,825</b>      | <b>558</b>      | <b>111</b>                      | <b>2,494</b> |

Maturity of the derivative financial instruments is presented within Note 13.

## 26. Events after the reporting date

In January 2016, the Group completed an execution of a joint venture agreement with Polymetal International plc ("Polymetal"), under which Polymetal will participate in advancing the development of the Group's Nezhdaninskoye gold deposit in Yakutia, Russia. The arrangement will allow Polymetal to acquire up to 50% in the joint venture entity holding 100% of JSC South-Verkhoyansk Mining Company through an earn-in mechanism.

In January and February 2016, the Group signed the following new credit facility agreements with banks:

- USD 2,500 million credit facility agreement with maturity in 2023 at LIBOR + 4.5%;
- USD 100 million credit facility agreement with maturity in 2019 at LIBOR + 4.5%.

In February 2016, the Group continued to economically hedge its gold sales by entering into the new revenue stabilizer agreements for an annual amount of 100 thousand ounces during the first three years and 300 thousand ounces during the fourth year.

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

### 27. Investments in significant subsidiaries

#### 27.1 Information about significant subsidiaries of the Group

| Subsidiaries <sup>2</sup>              | Nature of business         | Effective % held <sup>1</sup> at |                  |
|----------------------------------------|----------------------------|----------------------------------|------------------|
|                                        |                            | 31 December 2015                 | 31 December 2014 |
| Incorporated in Russian Federation     |                            |                                  |                  |
| PJSC “Polyus Gold”                     | Management company         | 95                               | 95               |
| JSC “Gold Mining Company Polyus”       | Mining (open pit)          | 95                               | 95               |
| JSC “Aldanzoloto GRK”                  | Mining (open pit)          | 95                               | 95               |
| JSC “Pervenets”                        | Mining (open pit)          | 95                               | 95               |
| PJSC “Lenzoloto”                       | Market agent               | 61                               | 61               |
| JSC “ZDK Lenzoloto”                    | Mining (alluvial)          | 63                               | 63               |
| JSC “Svetliy”                          | Mining (alluvial)          | 53                               | 53               |
| JSC “Matrosova Mine”                   | Mining (development stage) | 95                               | 95               |
| LLC “Polyus Stroy”                     | Construction               | 95                               | 95               |
| CJSC “TaigaEnergostroy”                | Construction               | 95                               | 95               |
| Incorporated in British Virgin Islands |                            |                                  |                  |
| Polvus Exploration Limited             | Geological research        | 95                               | 98               |

#### 27.2 Summarised financial information of each of the Group's subsidiary that have a material non-controlling interest

The summarised financial information below represents amounts before intragroup eliminations.

| Summarized statements                                     | PJSC "Polyus Gold" consolidated |         | PJSC "Lenzoloto" consolidated |      |
|-----------------------------------------------------------|---------------------------------|---------|-------------------------------|------|
|                                                           | 2015                            | 2014    | 2015                          | 2014 |
| <b>Information as of 31 December</b>                      |                                 |         |                               |      |
| Current assets                                            | 2,438                           | 2,009   | 179                           | 155  |
| Non-current assets                                        | 2,672                           | 2,996   | 51                            | 46   |
| Current liabilities                                       | 217                             | 830     | 15                            | 16   |
| Non-current liabilities                                   | 2,845                           | 2,373   | 11                            | 10   |
| Equity attributable to the shareholders of the subsidiary | 1,900                           | 1,656   | 136                           | 110  |
| Non-controlling interests                                 | 148                             | 146     | 68                            | 65   |
| <b>Information for the years ended 31 December</b>        |                                 |         |                               |      |
| Revenue                                                   | 2,189                           | 2,197   | 197                           | 234  |
| Profit / (loss) for the year                              | 1,061                           | (1,081) | 72                            | 89   |
| Profit / (loss) attributable to non-controlling interests | 14                              | (18)    | 15                            | 37   |
| Total comprehensive income / (loss)                       | 459                             | (2,720) | 72                            | 89   |
| Net cash inflow from operating activities                 | 1,100                           | 673     | 56                            | 65   |
| Net cash (outflow) / inflow from investing activities     | (677)                           | (1,169) | 70                            | (61) |
| Net cash inflow / (outflow) from financing activities     | 223                             | 992     | (12)                          | (10) |
| Dividends paid to non-controlling interests               | 12                              | 10      | 12                            | 10   |

<sup>1</sup> Effective % held by the Company, including holdings by other subsidiaries of the Group.

<sup>2</sup> Following change in legislation, most of the significant subsidiaries were renamed from open joint stock company (OJSC) and from closed joint stock company (CJSC) into joint stock company (JSC).

# Polyus Gold International Limited

## Notes to the consolidated financial statements for the year ended 31 December 2015 (in millions of US Dollars)

---

### **27.3 Significant restrictions on the Company's ability to access or use the assets and settle the liabilities of the group**

The basis of distribution of accumulated retained earnings for companies operating in the Russian Federation is defined by legislation as the current year net profit of the company, as calculated in accordance with Russian accounting standards. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.