Polyus Gold International Management Discussion and Analysis 1H 2014

August 22, 2014

Cautionary statement

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

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITY

We confirm that to the best of our knowledge:

(a) the condensed consolidated interim financial statements, which have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and its consolidated subsidiaries as required by DTR 4.2.4R;

(b) the Interim Management Report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board,

Interim Chief Executive Officer and Director

Pavel Grachev

22 August 2014

Highlights

1H 2014 results

$ mln[1], unless otherwise indicated	1H 2014	1H 2013	Change y-o-y, %	FY 2013
Gold production (koz)	746	718	4	1,649
Gold sold (koz)	751	654	15	1,631
Average realised gold price (excl. effect of Strategic Price Protection Program) ($/oz)	1,296	1,513	(14)	1,385
Average realised gold price (incl. effect of Strategic Price Protection Program) ($/oz)	1,306	1,513	(14)	1,385
Total revenue	1,007	1,024	(2)	2,329
Operating profit/ (loss)	278	(156)	N.M.	222
Profit (loss) for the period	253	(167)	N.M.	149
Weighted average number of ordinary shares (mln)	3,032	3,032	-	3,032
Earnings per share – basic and diluted (US cents)	8	(5)	N.M.	4
Cash and cash equivalents	875	1,206	(27)	809
Bank deposits	302	12	N.M.	48
Net cash flow from operations	336	100	236	422
Capital expenditure	287	700	(59)	1,440
Adjusted EBITDA[2]	393	417	(6)	910
Adjusted EBITDA margin, %	39%	41%	(2 ppts)	39%
Net debt/(cash)	370	(15)	N.M.	349
Net debt/(cash)/EBITDA, (x)	0.4	0.0	N.M.	0.4
Total cash cost (TCC) per ounce sold ($/oz)	662	757	(13)	707
All-in sustaining cash cost (AISC) per ounce sold ($/oz)[3]	905	1,103	(18)	1,002

Financial highlights for 1H 2014

1) Gold sales up 15% y-o-y to 751 koz owing to Verninskoye ramp-up and growth at Olimpiada in 1H 2014.
2) Revenue down 2% y-o-y to $1,007 mln from $1,024 mln, due to a decrease in the average realised gold price, which was almost fully offset by an increase in sales volumes.
3) Profit for the period amounted to $253 mln, as compared to the loss of $167 mln in 1H 2013, which was caused by significant impairment charges.
4) Cash and cash equivalents at the end of 1H 2014 amounted to $875 mln, slightly up from $809 mln at the end of FY2013. Bank deposits increased to $302 mln from $48 mln over the corresponding period.
5) Net cash flow from operations up 236% y-o-y due to strict control over working capital.
6) Capex of $287 mln, down 59% y-o-y primarily due to a reduction in spend on Natalka.
7) Adjusted EBITDA down 6% to $393 mln y-o-y on the back of a 14% decline of the average realized gold price, partly offset by lower costs.
8) Net debt of $370 mln at the end of 1H 2014, slightly up from $349 mln at the end of FY 2013.
9) Net debt/adjusted EBITDA of 0.4x at the end of 1H 2014, flat comparing to the end of FY 2013.
10) TCC dropped 13% y-o-y to $662/oz due to cost-cutting initiatives and weaker RUB.
11) AISC declined 18% y-o-y to $905/oz thanks to cost optimization program and RUB depreciation.

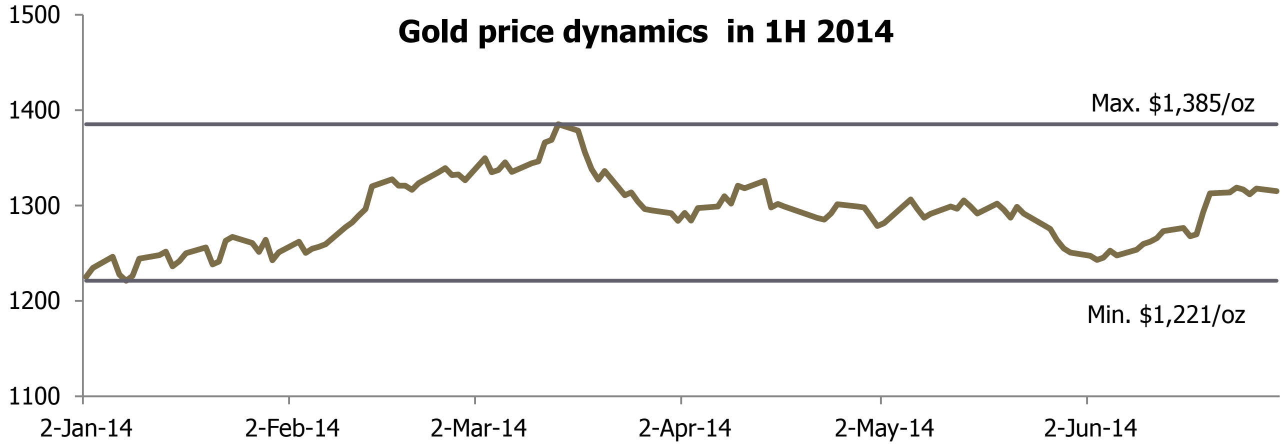
[1] Here and thereafter $ is used for indication of US dollar
[2] For a definition and calculation of Adjusted EBITDA refer to section Adjusted EBITDA
[3] For a definition and calculation of all-in-sustaining costs per ounce sold refer to section All-in-sustaining costs

External factors review

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

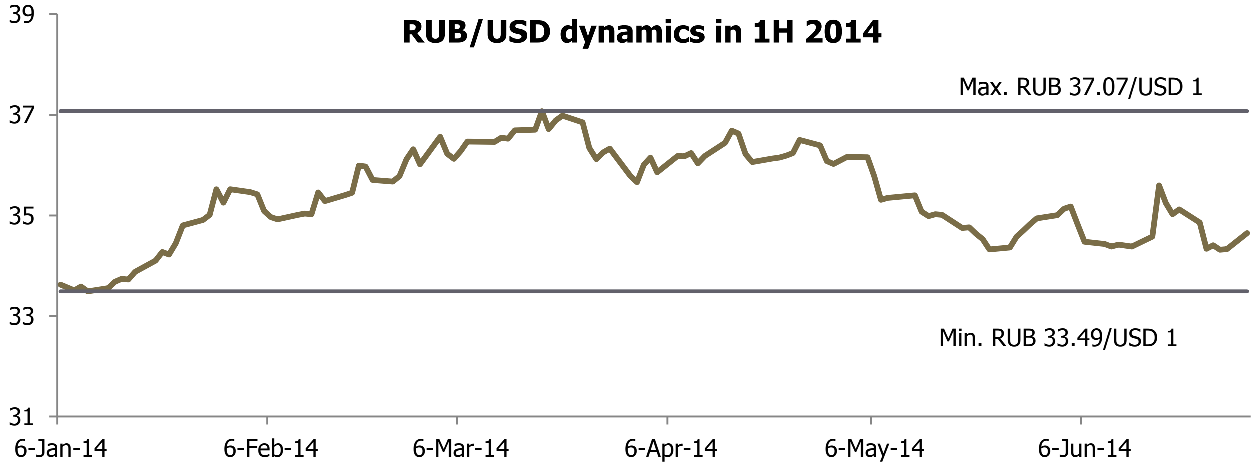
Gold price dynamics

The market price of gold is the most significant factor influencing the profitability and operating cash flow generation of the Group. In 1H 2014, the average afternoon gold price fixing in London was $1,291/oz, as compared to $1,523/oz in 1H 2013.



Rouble exchange rate dynamics

All the Group's revenue from gold sales is denominated in US dollars (USD), whereas most of the Group's operating expenses are denominated in Russian roubles (RUB). Accordingly, the strengthening of the RUB against the USD may negatively affect the Group's margins by increasing the US dollar value of its rouble-denominated costs. Conversely, the strengthening of the USD against the RUB may positively affect the Group's margins by decreasing the US dollar value of its rouble-denominated costs. In 1H 2014, the average RUB/USD exchange rate was 35.39, compared to 31.15 in 1H 2013 representing a 13% fall. In FY 2013 the average RUB/YSD exchange rate was 31.42.



Inflationary trends

All the Group operations are located in Russia. The Russian Consumer Price Index (CPI), calculated by the Russian Central Bank in 1H 2014 was 4.8%, as compared to 3.5% in 1H 2013 and 6.5% for FY 2013. Inflation negatively impacts mining operations and increases the production costs. However the average rate of RUB inflation in Russia in recent years has been moderate allowing the Group to mitigate inflation risk.

Financial review

Profit and loss statement review

Revenue analysis

Gold sales highlights

	1H 2014	1H 2013	Change y-o-y, %	FY 2013
Gold sales ($ mln)	981	989	(1)	2,259
Gold sales (koz)	751	654	15	1,631
Average realised gold price (excl. effect of Strategic Price Protection Program) ($/oz)	1,296	1,513	(14)	1,385
Average realised gold price (incl. effect of Strategic Price Protection Program) ($/oz)	1,306	1,513	(14)	1,385
Average afternoon gold price LBMA fixing ($/oz)(1)	1,291	1,523	(15)	1,411
Premium/(Discount) of average selling price over/(under) average p.m. fixing price ($/oz)	15	(11)	N.A.	(26)

In 1H 2014, the Group gold sales amounted to $981 mln, almost flat in comparison with $989 mln in 1H 2013. The fall in the gold price was almost fully compensated by higher sales volumes. The sales volumes in 1H 2014 amounted to 751 koz, a 15% increase over 1H 2013.

To mitigate the risk of lower gold prices the Group decided to initiate a Strategic Price Protection Programme (SPPP) comprised of a series of zero cost Asian gold collars ("revenue stabiliser") and gold forward contracts.

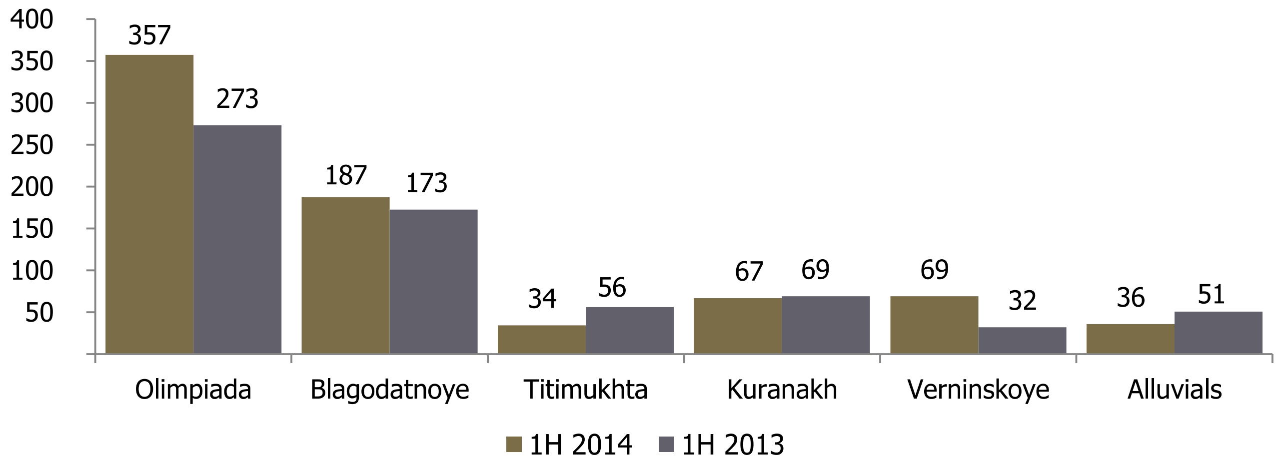
Revenue breakdown by mine

1H 2014	**Olimpiada**	**Blagodatnoye**	**Titimukhta[4]**	**Kuranakh**	**Verninskoye**	**Alluvials**	**Other**
Gold produced (koz)	354	185	32	70	69	36	
Gold sold (koz)	358	187	34	67	69	36	
Gold sales ($ mln)	466	245	45	89	90	46	
Other sales ($ mln)				2	3	5	16
Total sales ($ mln)	**466**	**245**	**45**	**91**	**93**	**51**	**16**

In 1H 2014 Olimpiada remained the major contributor of revenues for Polyus, accounting for 47% of the Group total sales. The second largest revenue contributor was Blagodatnoye, while a substantial increase at Verninskoye sales resulted from the mine's ramp-up to its design capacity.

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

Gold sold by mine, koz



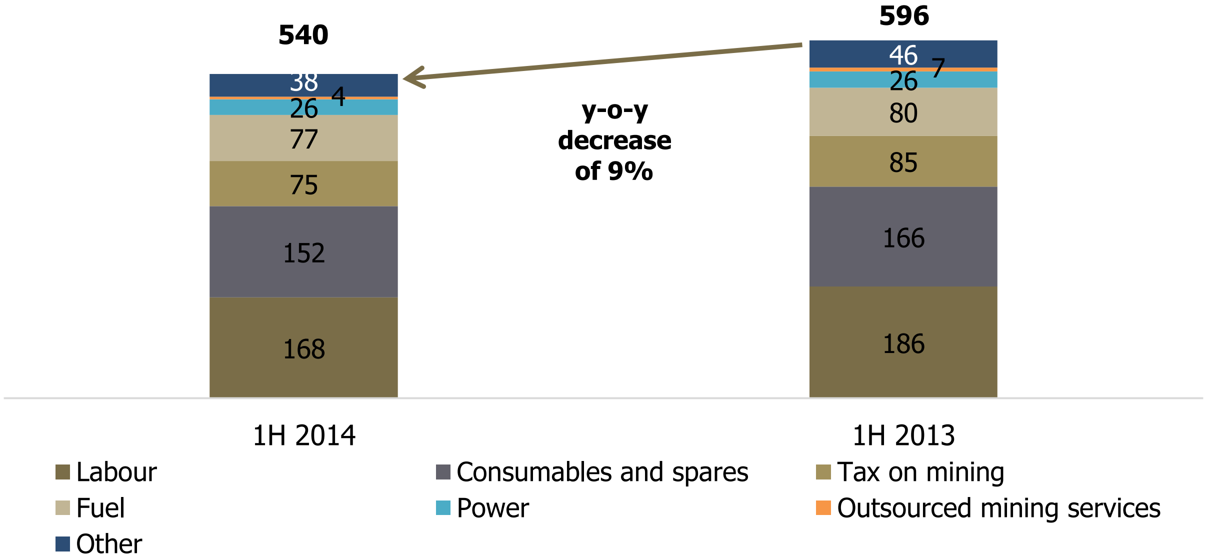
Cost of sales analysis

Cost of sales breakdown

$ mln	1H 2014	1H 2013	Change y-o-y, %	FY 2013
Cash operating costs	**540**	**596**	**(9)**	**1,268**
Depreciation & amortization (D&A) of operating assets	103	101	2	209
Total cost of production	**643**	**697**	**(8)**	**1,477**
Increase in gold-in-process and refined gold	(44)	(114)	(61)	(130)
Cost of gold sales	**599**	**583**	**3**	**1,347**

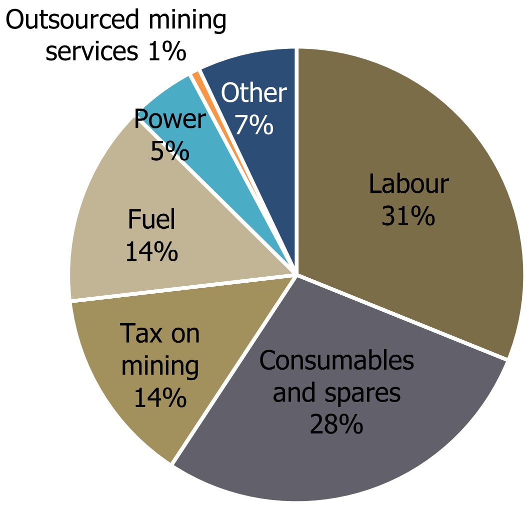
In 1H 2014 the Group cash operating costs were down by 9% to $540 mln, as compared to $596 mln in 1H 2013. The major contributors to the overall decrease, as seen below on the chart were labour expenses, consumables and spares, as well as mining tax. A decrease in gold-in-process and refined gold increased overall cost of gold sales by 3%.

Cash operating costs dynamics with the breakdown by line item, $ mln

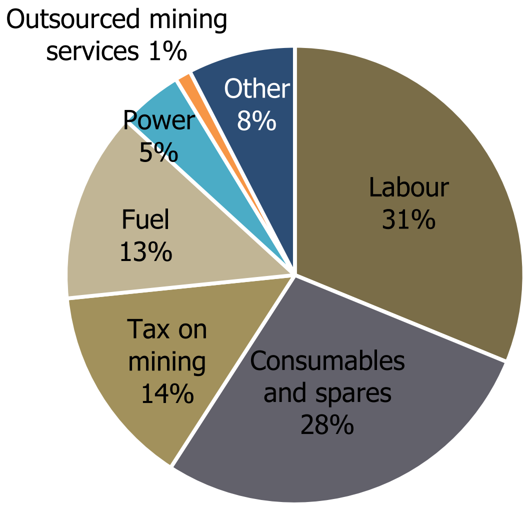


Cost reduction initiatives and RUB weakening against the USD were the major drivers behind the decline of each cost item. Both factors helped offset higher expenses caused by higher sales volumes in 1H 2014. As a result, total cash operating costs were down 9% y-o-y in 1H 2014, despite an increase in gold sales by 15% in the corresponding periods. As for the composition of the operating costs, it remained largely unchanged from 1H 2013.

Cash operating costs breakdown by item, 1H 2013/1H 2014, %



1H 2014



1H 2013

SG&A breakdown by item

1H 2014 Group's selling, general and administrative expenses (SG&A) expenses were down 12% compared to 1H 2013 to $92 mln. The weaker rouble's contribution to this decrease was significant. The Group's focus on the cost control resulted in a material reduction in professional services by 25%.

$ mln		**1H**	**Change y-o-y, %**	**FY**
	2014	**2013**		**2013**
Salaries	64	71	(10)	151
Taxes other than mining and income	12	11	9	25
Professional services	6	8	(25)	21
Amortisation and depreciation	2	2	0	4
Other	8	13	(38)	25
Total	**92**	**105**	**(12)**	**226**

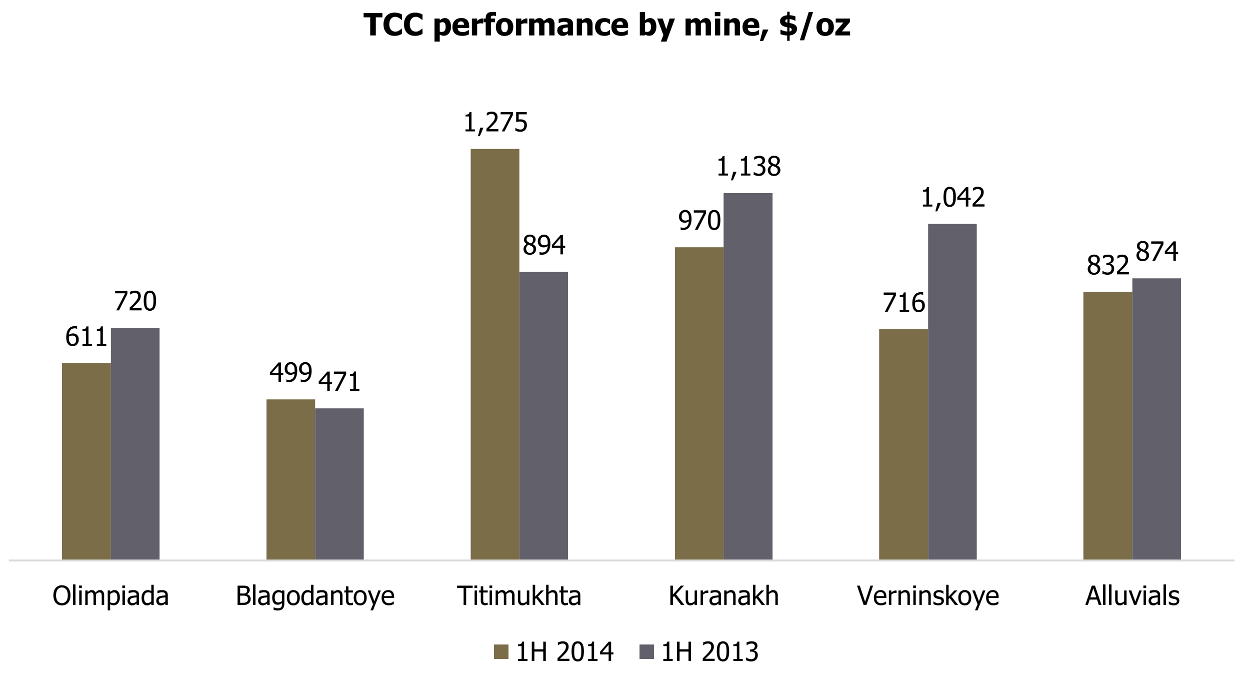
TCC calculation

$ mln, unless otherwise indicated	1H 2014	1H 2013	Change y-o-y, %	FY 2013
Cost of gold sales	599	583	3	1,347
– property, plant and equipment depreciation	(103)	(101)	2	(209)
– provision for annual vacation payment	(3)	(1)	200	(1)
– employee benefit obligations cost	(1)	(6)	(83)	(5)
– change in allowance for obsolescence of inventory	(3)	1	N.M.	3
+ non-monetary changes in inventories	8	19	(58)	18
TCC	**497**	**495**	**0**	**1,153**
Gold sold (koz)	751	654	15	1,631
TCC per ounce sold ($/oz)	**662**	**757**	**(13)**	**707**

The Group managed to decrease TCC by 13% in 1H 2014 to $662/oz, comparing to $757/oz in 1H 2013. As seen below, most of the mines contributed to the overall cost decrease, reflecting the implementation of cost-reduction initiatives and a weaker RUB offset by an increase in inflation and production volumes.
The most significant cost reduction in the reporting period occurred at Verninskoye, where TCC declined 31% y-o-y to $716/oz reflecting completion of the mine optimization and achievement of its design parameters alongside stronger production volumes.

The other sizable decrease was at Kuranakh with TCC down 15% y-o-y to $970/oz. In the end of 2013 the Group started to implement several cost-cutting initiatives at Kuranakh, the benefit from which is expected to be recognised going forward.

The spike in TCC at Titimukhta was mostly attributable to the planned mining at the flanks of the deposit, where ores are characterized by lower grades and lower recoveries. Mining works returned to the main ore body in June.



AISC analysis

In line with TCC reduction the Group was also able to decrease its AISC from $1,103/oz in 1H 2013 to $905/oz in the reported period, or by 18% y-o-y. The decrease came primarily from higher sales volumes, lower sustaining capex, SG&A expenses and weaker RUB. The Group's maintenance capex was down substantially to $64 mln, or 25% y-o-y as a result of the Group's capex optimization program and RUB depreciation.

AISC in 1H 2014 were well below the Group's average realized price of $1,306/oz, reflecting the Group's position of one of the lowest-cost gold producers in the CIS.

All-in sustaining costs calculation

$ mln, unless otherwise indicated	1H		Change y-o-y, %	FY
	2014	2013		2013
Total TCC	**497**	**495**	**0**	**1,153**
+ Selling, general and administrative expenses	92	105	(12)	226
less: amortisation and depreciation	(2)	(2)	N.A.	(4)
+ Research expenses and other sustain expenses	0	2	N.A.	2
+ Stripping activity asset additions	20	27	(26)	38
+ Sustaining capital expenditures	64	85	(25)	210
+ Unwinding of discounts on decommissioning liabilities	2	3	(33)	5
Adding back expenses excluded from costs of gold Sales (COGS)				
+ Provision for annual vacation payment	3	1	200	1
+ Employee benefit obligations cost	1	6	(83)	5
+ Change in allowance for obsolescence of inventory	3	(1)	N.A.	(3)
Total all-in sustaining costs	**680**	**721**	**(6)**	**1,633**
Gold sold (koz)	751	654	15	1,631
All-in-sustaining cost ($/oz)	**905**	**1,103**	**(18)**	**1,002**

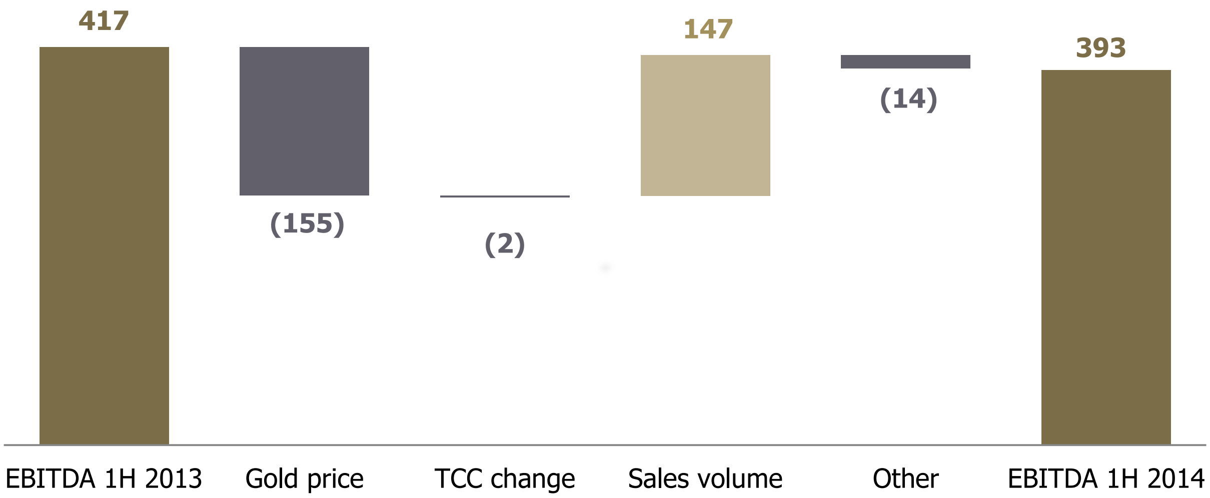
Adjusted EBITDA calculation

$ mln	1H		Change y-o-y, %	FY
	2014	2013		2013
Operating profit/ (loss) for the year	278	(156)	N.A.	222
Depreciation and amortisation	107	103	4	214
Impairments	8	469	N.A.	472
Other	0	1	N.A.	2
Adjusted EBITDA	**393**	**417**	**(6)**	**910**
Adjusted EBITDA margin	39%	40%	(1 ppts)	39%

The Group adjusted EBITDA reduced by 6% y-o-y to $393 mln in 1H 2014 with adjusted EBITDA margin down 2 ppts y-o-y to 39%. The adjusted EBITDA drop was modest, taking into account that gold prices declined 15% over the reported periods. However stringent cost control helped partly offset the negative impact of the gold price effect and contributed to a stable robust adjusted EBITDA margin. Depreciation and amortization was largely flat y-o-y, despite a weaker rouble, which was to a large extent due to higher capitalized stripping at Olimpiada, Titimukhta and Kuranakh.

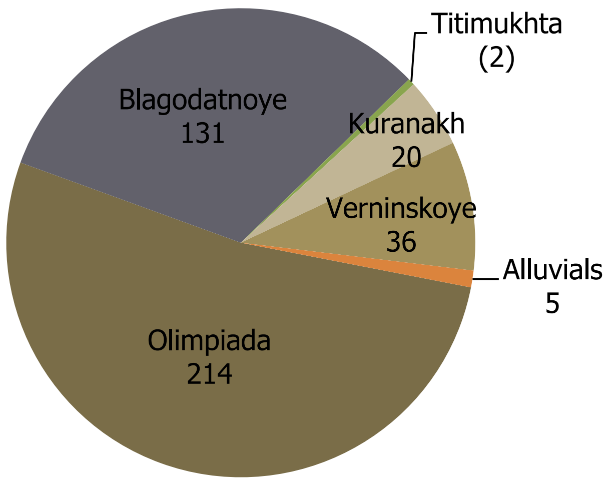
The effect on adjusted EBITDA from the revenue stabilizer program amounted to $7 mln in 1H 2014.

Adjusted EBITDA bridge, $ mln



As for the adjusted EBITDA breakdown Olimpiada as the flagship mine contributed the most. Among the mines only Titimukhta generated negative adjusted EBITDA as a result of large maintenance works at the mine. All other assets, including Kuranakh and Alluvials, delivered a positive result. That happened despite the lower gold price and was due to the Group's cost-cutting initiatives and RUB depreciation in 1H 2014.

Adjusted EBITDA breakdown by mine, $ mln

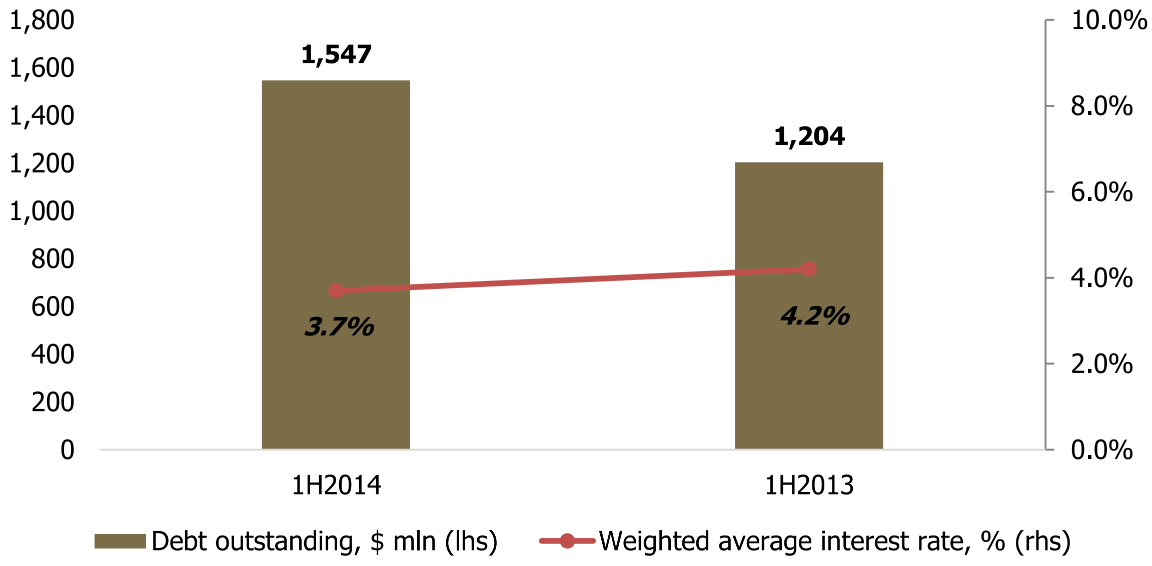


1H 2014

Finance cost analysis

The Group's total finance costs in 1H 2014 remained at a relatively low level of $10 mln, only $3 mln up as compared to 1H 2013. The finance costs were positively affected by the capitalized interest effect, which amounted to ($25) mln in 1H 2014, as compared to ($9) mln in 1H 2013. As for the interest on borrowings, they amounted to $33 mln in 1H 2014, almost 2.5 times higher, than in 1H 2013. This increase in the interest payments resulted from higher gross debt, while average interest rate was down to 3.7%[5], as compared to 4.2% in 1H 2013, partly the effect from cross currency SWAPs and interest rate SWAPs.

Weighted average interest rate dynamics



Derivatives and investments analysis

As stated above, the Group initiated a SPPP (Strategic Price Protection Programme) comprised of a series of 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 to sell call options with "knock-out" and "knock-in" barriers.

Initially, the revenue stabiliser agreements are recognized at cost with subsequent revaluation to fair value using the Monte Carlo simulation method. Input data used in the valuation model (forward gold prices and volatility) corresponds to level 2 of the fair value hierarchy in IFRS 13.

The revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognized in Cash flow hedge revaluation reserve within Equity, whilst the remaining change in the fair value is reflected in the Profit and Loss statement.

In 1H 2014, following the sale of the hedged volume of gold and exercise of certain options under Tranche 1 of the revenue stabiliser, $7 mln was first recognised in the Cash flow hedge revaluation reserve within Equity and then reclassified to Gold sales within the Profit and Loss statement.

Forward contracts

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

[5] The rate includes the effect from cross currency SWAPs and interest rate SWAPs the Group entered into in 1H 2014.

Currency collars

In 1H 2014, in order to reduce the adverse effects associated with the changes in the exchange rates of RUB against USD, the Group simultaneously purchased put options and sold call options for the total amount of $1,600 mln with the exercise dates throughout:

- September 2014 to August 2015, exchange rates for puts 36.83 RUB/USD and for calls 40.06 RUB/USD;
- September 2015 to December 2015, exchange rates for puts 38.23 RUB/USD and for calls 40.56 RUB/USD.

Cross currency SWAPs

In 1H 2014 the Group signed a 5 year RUB 36 billion (approximately $1 billion) credit facility agreement with Sberbank. Interest rate for this credit facility is 10.35%.

The revenue of the Group is linked to US dollars, because the gold price is denominated in US dollars. The Group entered into several cross currency swaps with leading Russian banks to economically hedge interest payments and principal amounts exchange against possible strengthening of RUB against USD. After the balance sheet date remaining exposure under Sberbank credit facility was economically hedged as well.

According to the cross currency swaps the Group will quarterly pay to banks LIBOR+Margin 2.49% in USD and receive from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group will exchange principal amounts paying in USD and receiving RUB.

Interest rate SWAP

In 1H 2014 the Group entered into an interest rate swap agreement with banks, according to which the Group will pay semi-annually and until 29 April 2020 LIBOR+3.65% in USD and get 5.625% in USD in respect of $200 mln nominal amount. The purpose of this swap is to decrease effective interest rate for the $750 mln Eurobonds. After the balance sheet date interest rate for the remaining nominal of $550 mln was swapped as well. As a result, the Group will pay semi-annually until 29 April 2020 LIBOR+Margin 3.55% in USD and receive 5.625% in USD in respect of the $550 mln nominal amount. Following these tranches the Group will pay a weighted average interest rate LIBOR+Margin of 3.58% in USD, while getting 5.625% in USD.

Taxes analysis

The Group's overall income taxes amounted to $68 mln in 1H 2014, as compared to $24 mln in 1H 2013. That resulted mostly from the fact that in 1H 2013 the Group recorded sizable impairment losses and as a result registered a loss before income tax of $148 mln, as compared to a profit before income tax of $321 mln in 1H 2014.

Net profit analysis

The Group's profit for the period amounted to $253 mln, as compared to the loss of $167 mln in 1H 2013. The latter was caused by significant impairment charges, which were insignificant in 1H 2014.

Statement of financial position review

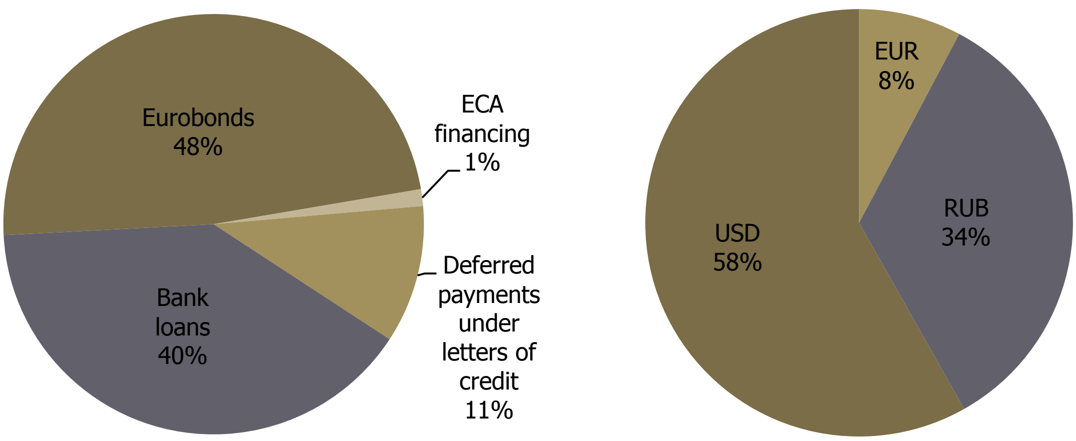
Debt analysis

As of June 30 2014 the Group's gross debt amounted to $1,547 mln, which is 28% higher than in 1H 2013. Only 10% of the current gross debt is short-term debt with the balance long-term, reflecting the Group's strong financial position.

As seen from the charts below, $750m Eurobonds continue to account for a large share of the Group's debt. Bank loans account to 40%. In 1H 2014 the Group obtained a committed credit line from Sberbank for approximately $1 bln (RUB36 bln), which has not been drawn down in full in the reported period.

Currency-wise the Group's debt is mostly USD-denominated, reflecting a large portion of the abovementioned USD Eurobonds.

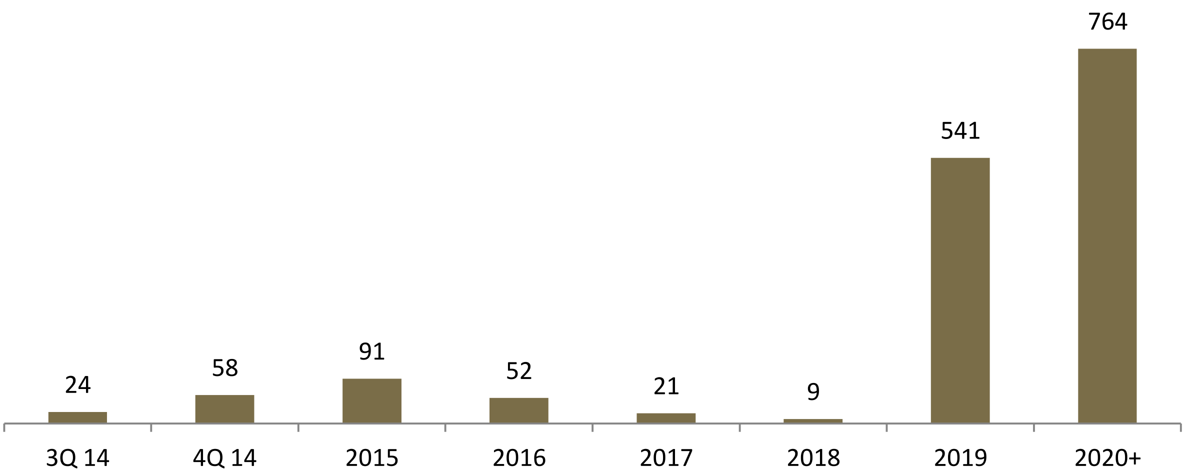
Debt breakdown[6]



By type, % **By currency, %**

As seen from the chart below, the Group's debt repayments are relatively small until 2019-2020 when several bank loans and the Eurobond issue mature. The Group is confident that it will be able to service all of its debt due 2019-2020 either by refinancing it or paying down from its operating cash flow.

Debt maturity schedule, $ mln

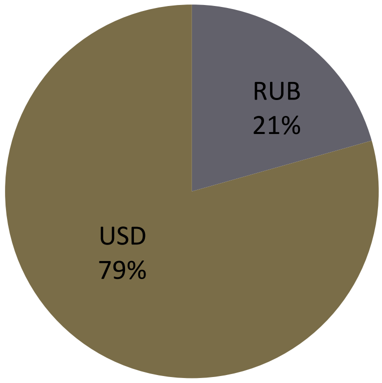


[6] This represents the breakdown of the Group's debt before cross currency SWAPs.

Cash and cash equivalents analysis

As of June 30 2014 the Group cash and cash equivalents position amounted to $875 mln, down 27% from a year ago. On the other hand, the Group increased the amount of bank deposits to $302 mln from $12 mln in 1H 2013, so the overall liquidity position has strengthened. Currency-wise the Group's cash and cash equivalents are mostly US dollar denominated, which is in line with the currency composition of the debt.

Breakdown by currency, %



Net debt analysis

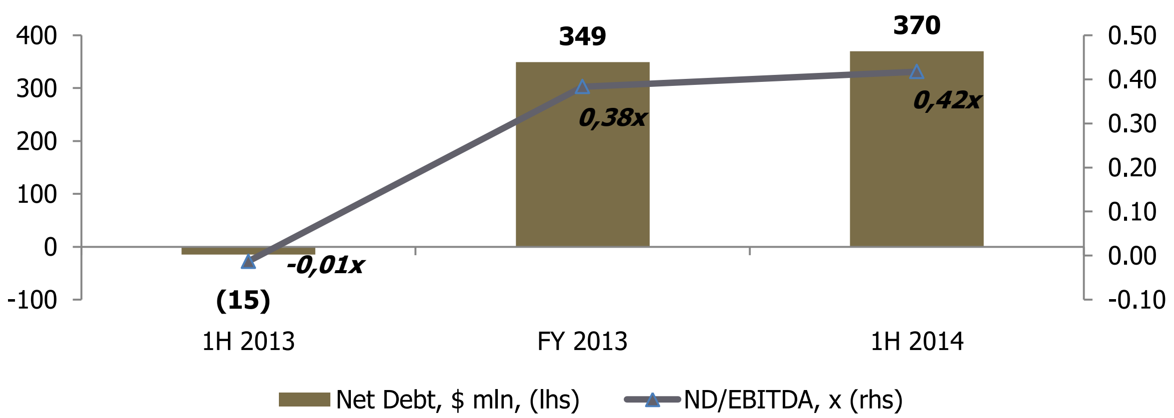
As of June 30 2014 the Group's net debt stood at $370 mln, largely flat comparing with the end of FY 2013. At 30 June 2013 the Group enjoyed a net cash position of $15 mln, which turned to net debt in 2H 2013 following large expenditures on Natalka.

Net debt evolution

$ mln	**1H 2014**	**FY 2013**	**1H 2013**
Non-current borrowings	(1,390)	(937)	(932)
+ Current borrowings	(157)	(269)	(272)
– Cash and cash equivalents	875	809	1,206
– Bank deposits	302	48	12
Net debt	**(370)**	**(349)**	**15**

The Group's net debt/adjusted EBITDA ratio in 1H 2014 remained almost unchanged at 0.4x, as compared to the end of 2H 2013, and up from 0,0x at the end of 1H 2013, primarily due to large investments to Natalka in 2H 2013. The Group's leverage ratio stays at a very comfortable level and remains one of the lowest in the industry.

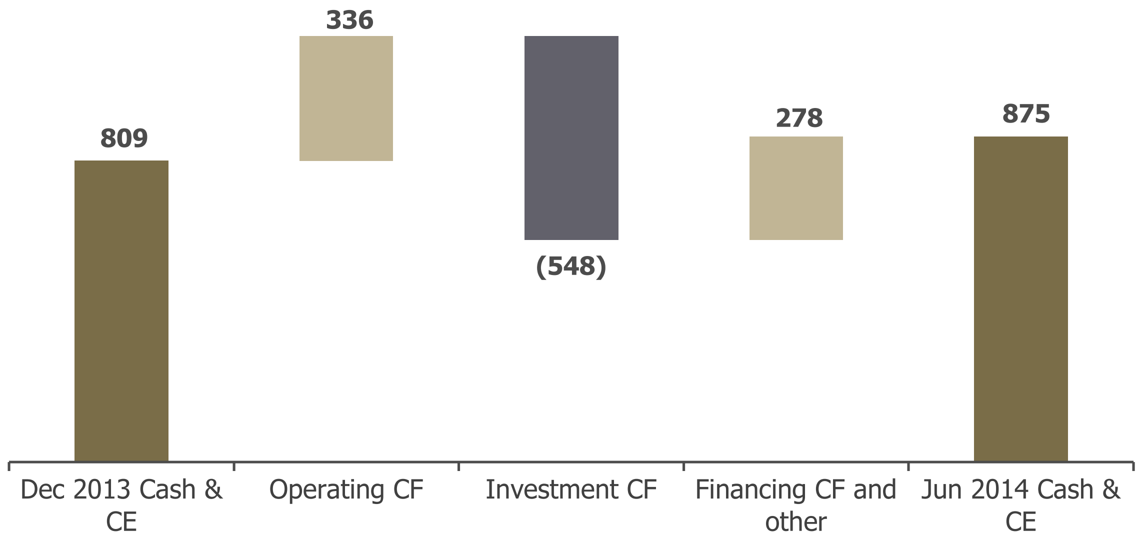
Net debt and net debt/adjusted EBITDA evolution



Cash flow review

The Group delivered solid operating cash flow of $336 mln in 1H 2014, fully covering the Group's capex of $287 mln. Overall high cash flow in investments was mostly due to an increase in bank deposits in 1H 2014 of $320 mln. Higher proceeds from borrowings led to a positive financing cash flow of $278 mln. That altogether contributed to an increase at cash and cash equivalents in 1H 2014 of $66 mln to $875 mln compared with $1,206 mln in 1H 2013 and $809 mln in FY 2013.

1H 2014 cash flow bridge, $ mln



Operating cash flow analysis

The Group generated strong operational cash flow in 1H 2014 of $336 mln, almost 2.5 times higher, than in 1H 2013, when it was $100 mln. One of the major reasons for this difference was strict control over net working capital with only a modest outflow of $12 mln recorded in 1H 2014, comparing to $218 mln in 1H 2013. Working capital remains one of the primary focuses of the management and will remain under strict control going forward.

Capex analysis

The Group's capex in 1H 2014 amounted to $287 mln, down 59% from 1H 2013. Natalka re-sequencing followed by the reduction in the investment program resulted in a smoother capex spend, primarily on the Natalka project.

As seen below Olimpiada remains the second-largest capex project of the Group. The decrease in the Verninskoye capex was due to the completion of the mine optimization in 1H 2014. Other projects in capex imply mainly the electricity project, i. e. the Peledui-Mamakan grid.

1H 2013/1H 2014 capex breakdown[7]

$ mln	1H 2014	1H 2013	Change y-o-y, %	FY 2013
Natalka	172	524	(67)	1,059
Olimpiada	38	41	(7)	146
Blagodatnoye	13	21	(38)	54
Verninskoye	12	35	(66)	53
Alluvials	15	16	(6)	18
Titimukhta	6	5	20	2
Kuranakh	2	10	(80)	16
Exploration	5	16	(69)	26
Other	24	32	(25)	66
Total	**287**	**700**	**(59)**	**1,440**

Financing cash flow analysis

The Group financing cash flow in 1H 2014 was $327 mln, a 36% decrease from a year-ago level of $513 mln. That resulted from significantly lower proceeds from borrowings, while debt repayments remained largely at the same level.

Related party transactions

Related party transactions are disclosed in note 19 to consolidated interim financial statements. The Group had no transactions with its shareholders during the 1H 2014, 1H 2013 and for the FY 2013.

Going concern

As stated in note 2 to the financial statements, 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 interim financial statements and that it is appropriate to adopt the going concern basis in preparing these consolidated interim financial statements.

[7] For the MD&A purposes CAPEX considers allocation of Capital Construction unit by other business units as opposite to the Consolidated Interim Financial Statements where Capital Construction is presented as a separate business unit

Risks and uncertainties

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

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

The directors do not consider that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 December 2013, other than abovementioned sanctions against the Russian Federation. The major risks include and associated with: mineral resources and ore reserves, mining and production activity, counterparties and supply chains, macroeconomics, regulatory risks, environmental risks, project risks and political risks. A detailed explanation of the risks summarised below, and how the Group seeks to mitigate the risks, can be found on pages 20-22 of the annual report which is available at http://www.polyusgold.com/.

Outlook

Based on 1H 2014 output numbers the Company confirms its guidance to produce 1.58-1.65 moz of gold in FY 2014. The Company is satisfied with results to date of the cost cutting initiatives implemented across its assets in 1H 2014 enabling all of the operations to maintain solid profitability despite depressed gold prices.

In 1H 2014, the Company launched major initiatives on strategic funding and financial risk management, including securing a USD 1 bln 5-year (RUB 36 bln) facility from Sberbank and implementing the Strategic Price Protection Programme, to maintain the stability of its balance sheet and cash flows.

The Board reviewed the progress with regard to the Natalka project in June 2014, leaving summer 2015 as the target for the launch of the operation. The management's focus continues to be optimisation of the construction activities to ensure they are completed in the most cost effective manner. The Company is currently studying opportunities to optimise the project, both operationally and financially.

Cost discipline remains a priority for the Company and the management anticipates the cost initiatives will continue to result in savings going forward.

Polyus Gold International Limited

Condensed consolidated interim financial statements for the six months ended 30 June 2014 (unaudited)

Polyus Gold International Limited

Condensed consolidated interim financial statements for the six months ended 30 June 2014 (unaudited)

Polyus Gold International Limited

Condensed consolidated interim statement of profit or loss for the six months ended 30 June 2014 (unaudited)
(in millions of US Dollars, except for earnings per share data)

	Notes	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
Continuing operations				
Gold sales		981	989	2,259
Other sales		26	35	70
Total revenue		**1,007**	**1,024**	**2,329**
Cost of gold sales	4	(599)	(583)	(1,347)
Cost of other sales		(23)	(18)	(47)
Gross profit		**385**	**423**	**935**
Selling, general and administrative expenses	5	(92)	(105)	(226)
Other expenses, net		(7)	(5)	(15)
Impairment losses		(8)	(469)	(472)
Operating profit / (loss)		**278**	**(156)**	**222**
Finance costs	6	(10)	(7)	(14)
Interest income on bank deposits		12	12	27
Gain / (loss) on derivatives and investments	7	81	(1)	(5)
Foreign exchange (loss) / gain		(40)	4	4
Profit / (loss) from continuing operations before income tax		**321**	**(148)**	**234**
Current income tax expense		(37)	(47)	(132)
Deferred income tax (expense) / gain		(31)	23	41
Profit / (loss) from continuing operations		**253**	**(173)**	**143**
Profit from discontinued operations, net of tax		-	6	6
Profit / (loss) for the period / year		**253**	**(167)**	**149**
Profit / (loss) for the period / year from continuing operations attributable to:				
Shareholders of the Company		241	(159)	134
Non-controlling interests		12	(14)	9
		253	**(173)**	**143**
Profit / (loss) for the period / year from discontinued operations attributable to:				
Shareholders of the Company		-	6	6
Non-controlling interests		-	-	-
		-	**6**	**6**
Weighted average number of ordinary shares in issue during the period / year (million)		3,032	3,032	3,032
Earnings / (loss) per share (US Cents) from continuing operations, basic and diluted*		8	(5)	4
Earnings per share (US Cents) from discontinued operations, basic and diluted*		-	-	-

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

Polyus Gold International Limited

Condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2014 (unaudited)
(in millions of US Dollars)

		Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
Profit / (loss) for the period / year		**253**	**(167)**	**149**
Items that may be subsequently or already reclassified to profit or loss:				
Increase in revaluation of cash flow hedge reserve	12	5	-	-
Cash flow hedge reserve reclassified to statement of profit or loss	12	(7)	-	-
		(2)	-	**-**
Items that will not be reclassified subsequently through profit or loss:				
Effect of translation to presentation currency		(104)	(314)	(319)
Other comprehensive loss for the period / year		**(106)**	**(314)**	**(319)**
Total comprehensive income / (loss) for the year		**147**	**(481)**	**(170)**
Total comprehensive income / (loss) for the period / year from continuing operations attributable to:				
Shareholders of the Company		142	(471)	(185)
Non-controlling interests		5	(16)	9
		147	**(487)**	**(176)**
Total comprehensive income for the period / year from discontinued operations attributable to:				
Shareholders of the Company		-	6	6
Non-controlling interests		-	-	-
		-	**6**	**6**

Polyus Gold International Limited

Condensed consolidated interim statement of financial position at 30 June 2014 (unaudited)
(in millions of US Dollars)

Assets	**Notes**	**30 June 2014**	**30 June 2013**	**31 December 2013**
Non-current assets				
Property, plant and equipment	8	1,442	1,476	1,506
Capital construction-in-progress	9	291	224	278
Mine under development	10	1,709	1,048	1,573
Exploration and evaluation assets	11	178	166	175
Derivatives and investments	12	90	15	2
Inventories	13	324	198	295
Other non-current assets		1	-	-
		4,035	**3,127**	**3,829**
Current assets				
Derivatives and investments	12	-	7	-
Inventories	13	756	719	702
Deferred expenditures		41	44	16
Trade and other receivables		17	36	27
Advances paid to suppliers and prepaid expenses		29	29	28
Taxes receivable		135	236	250
Bank deposits	14	302	12	48
Cash and cash equivalents	15	875	1,206	809
		2,155	**2,289**	**1,880**
Total assets		**6,190**	**5,416**	**5,709**
Equity and liabilities				
Capital and reserves				
Share capital	16	1	1	1
Additional paid-in capital		2,152	2,152	2,152
Cash flow hedge revaluation reserve	12	(2)	-	-
Translation reserve		(493)	(389)	(396)
Retained earnings		2,163	1,629	1,922
Equity attributable to shareholders of the Company		**3,821**	**3,393**	**3,679**
Non-controlling interests		278	270	275
		4,099	**3,663**	**3,954**
Non-current liabilities				
Site restoration and environmental obligations	17	69	70	69
Borrowings	18	1,390	932	937
Derivatives and investments	12	9	-	-
Deferred tax liabilities		163	146	134
Other non-current liabilities		32	32	33
		1,663	**1,180**	**1,173**
Current liabilities				
Borrowings	18	157	272	269
Trade, other payables and accrued expenses		225	235	260
Taxes payable		46	66	53
		428	**573**	**582**
Total liabilities		**2,091**	**1,753**	**1,755**
Total equity and liabilities		**6,190**	**5,416**	**5,709**

Polyus Gold International Limited

Condensed consolidated interim statement of changes in equity for the six months ended 30 June 2014 (unaudited)

(in millions of US Dollars)

	Number of outstanding shares, (million)	Equity attributable to shareholders of the Company						Non-controlling interests	Total
		Share capital	Additional paid-in capital	Cash flow hedge revaluation reserve	Translation reserve	Retained earnings	Total		
Balance at 31 December 2012	**3,032**	**1**	**2,152**	**-**	**(77)**	**2,111**	**4,187**	**282**	**4,469**
Loss for the six months ended 30 June 2013	-	-	-	-	-	(153)	**(153)**	(14)	**(167)**
Other comprehensive loss	-	-	-	-	(312)	-	**(312)**	(2)	**(314)**
Total comprehensive loss	**-**	**-**	**-**	**-**	**(312)**	**(153)**	**(465)**	**(16)**	**(481)**
Effect of disposal of subsidiaries	-	-	-	-	-	(9)	**(9)**	9	**-**
Dividends declared to shareholders of the Company	-	-	-	-	-	(320)	**(320)**	-	**(320)**
Dividends declared to shareholders of non-controlling interests	-	-	-	-	-	-	**-**	(5)	**(5)**
Balance at 30 June 2013	**3,032**	**1**	**2,152**	**-**	**(389)**	**1,629**	**3,393**	**270**	**3,663**
Profit for the six months ended 31 December 2013	-	-	-	-	-	293	**293**	23	**316**
Other comprehensive (loss) / income	-	-	-	-	(7)	-	**(7)**	2	**(5)**
Total comprehensive (loss) / income	**-**	**-**	**-**	**-**	**(7)**	**293**	**286**	**25**	**311**
Dividends declared to shareholders of non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(20)	**(20)**
Balance at 31 December 2013	**3,032**	**1**	**2,152**	**-**	**(396)**	**1,922**	**3,679**	**275**	**3,954**
Profit for the six months ended 30 June 2014	-	-	-	-	-	241	**241**	12	**253**
Other comprehensive loss	-	-	-	(2)	(97)	-	**(99)**	(7)	**(106)**
Total comprehensive (loss) / income	**-**	**-**	**-**	(2)	(97)	241	**142**	5	**147**
Dividends declared to shareholders of non-controlling interests	-	-	-	-	-	-	**-**	(2)	**(2)**
Balance at 30 June 2014	**3,032**	**1**	**2,152**	**(2)**	**(493)**	**2,163**	**3,821**	**278**	**4,099**

Polyus Gold International Limited

Condensed consolidated interim statement of cash flows for the six months ended 30 June 2014 (unaudited)
(in millions of US Dollars)

	Notes	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
Profit / (loss) from continuing operations before income tax		**321**	**(148)**	**234**
Adjustments for:				
Impairment losses		8	469	472
Finance costs	6	10	7	14
Interest income on bank deposits		(12)	(12)	(27)
(Gain) / loss on derivatives and investments	7	(81)	1	5
Amortisation and depreciation		107	103	214
Foreign exchange loss / (gain), net		40	(4)	(4)
Other		2	2	2
		395	**418**	**910**
Movements in working capital				
Inventories		(109)	(171)	(246)
Deferred expenditures		(24)	(28)	1
Trade and other receivables		7	1	11
Advances paid to suppliers and prepaid expenses		(3)	3	(6)
Taxes receivable		88	(11)	(32)
Trade and other payables and accrued expenses		32	(29)	16
Other non-current liabilities		-	9	9
Taxes payable		(3)	8	(37)
Cash flows from operations		**383**	**200**	**626**
Interest paid		(26)	(5)	(32)
Income tax paid		(21)	(98)	(175)
Net cash generated from continuing operations		336	97	419
Net cash generated from discontinued operations		-	3	3
Net cash generated from operating activities		**336**	**100**	**422**
Investing activities				
Proceeds from subsidiaries' disposal, net of cash disposed (USD 6 million during 6 months ended 30 June 2013 and year ended 31 December 2013)		-	291	291
Purchases of capital construction-in-progress, exploration and evaluation assets and assets for mine under development		(283)	(686)	(1,347)
Payments for stripping activity asset		(20)	(27)	(37)
Interest received		12	11	31
Increase in bank deposits		(320)	(11)	(147)
Proceeds from redemption of bank deposits		63	70	186
Proceeds from derivatives		1	-	-
Payment for derivatives		(6)	-	-
Other		5	-	3
Net cash utilised in continuing operations		(548)	(352)	(1,020)
Net cash utilised in discontinued operations		-	(4)	(3)
Net cash utilised in investing activities		**(548)**	**(356)**	**(1,023)**
Financing activities				
Dividends paid to shareholders of the Company		-	(320)	(320)
Dividends paid to non-controlling interests		(2)	(23)	(43)
Proceeds from borrowings	18	537	914	1,092
Repayment of borrowings	18	(208)	(58)	(236)
Net cash generated from continuing operations		327	513	493
Net cash utilised in discontinued operations		-	-	-
Net cash generated from financing activities		**327**	**513**	**493**
Net increase / (decrease) in cash and cash equivalents		**115**	**257**	**(108)**
Cash and cash equivalents at beginning of the period / year		**809**	**960**	**960**
Effect of foreign exchange rate changes on cash and cash equivalents		(49)	(11)	(43)
Cash and cash equivalents at end of the period / year		**875**	**1,206**	**809**

1. General

Polyus Gold International Limited (the "Company") was incorporated on 26 September 2005 and re-registered as a public limited company under Companies (Jersey) Law 1991 on 18 November 2005.

On 19 June 2012, the Company was admitted to the Official List of the UK Listing Authority and commenced trading on the London Stock Exchange's premium listed market.

The principal activities of the Company and its controlled entities (the "Group") are the extraction, refining and sale of gold. Mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and Sakha Republic of the Russian Federation.

The Group also performs research, exploration and development works, primarily at the Natalka licence area located in the Magadan region. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 23.

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 and available credit facilities and its capital expenditure commitments, considerations of gold price, together with other risks facing the Group. After making appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of signing these condensed consolidated interim financial statements and that it is appropriate to adopt the going concern basis in preparing these condensed consolidated interim financial statements.

Compliance with International Financial Reporting Standards

The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated interim financial statements as were applied in the Group's audited consolidated financial statements for the year ended 31 December 2013.

Starting from 1 January 2014, the basis of amortisation for the Stripping activity assets has changed from straight-line to unit of production method. The effect of the application of this method is an increase in the depreciation charge by USD 4 million during the six months ended 30 June 2014.

The condensed consolidated interim financial statements have been prepared in compliance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting", as adopted by the European Union (EU).

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 condensed consolidated interim financial statements are presented in accordance with IFRS as adopted by the EU.

The condensed consolidated interim 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.

(in millions of US Dollars)

2. Basis of preparation and presentation (continued)

Standards and interpretations issued during the six months ended 30 June 2014

The following new or amended IFRS standards have been issued by the International Accounting Standards Board (IASB) and endorsed by the EU or became effective during the six months ended 30 June 2014:

Title	Subject	Effective for annual periods beginning on or after	Effect on the condensed consolidated interim financial statements in current and / or future periods
IAS 27 (revised May 2011)	Separate Financial Statements	1 January 2014	Adopted. No effect.
IAS 28 (revised May 2011)	Investments in Associates and Joint Ventures	1 January 2014	Adopted. No effect.
Amendments to IAS 32 (Dec 2011)	Offsetting Financial Assets and Financial Liabilities	1 January 2014	Adopted. No effect.
Amendments to IAS 36 (May 2013)	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014	Adopted. No effect.
Amendments to IAS 39 (Jun 2013)	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	Adopted. No effect.
Amendments to IFRS 10, IFRS 12 and IAS 27 (Oct 2012)	Investment Entities	1 January 2014	Adopted. No effect.
IFRS 10	Consolidated Financial Statements	1 January 2014	Adopted. No effect.
IFRS 11	Joint Arrangements	1 January 2014	Adopted. No effect.
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014	Early adopted in 2013. Additional disclosure of information on non-controlling interests was presented in the 2013 consolidated financial statements. Not required under IAS 34 for interim financial statements.

Exchange rates

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

	Six months ended		Year ended
	30 June 2014	30 June 2013	31 December 2013
Russian Rouble/US Dollar			
Period end rate	33.63	32.71	32.73
Average for the period	34.98	31.02	31.85

Critical accounting judgements, estimates and assumptions

The critical accounting judgements, estimates and assumptions made by management of the Group and applied in the accompanying condensed consolidated interim financial statements for the six months ended 30 June 2014 are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2013.

During the six months ended 30 June 2014, the Group entered into a number of derivative transactions (note 12).

2. Basis of preparation and presentation (continued)

Cash flow hedge

The Group uses derivatives for hedge accounting as determined in accordance with IAS 39.

The Group started applying hedge accounting on 19 March 2014 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. Derivatives used for hedging purposes are measured at fair value in the condensed consolidated interim 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 Statement of profit or loss.

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

Where the above option based financial instruments are used as a cash flow hedging instrument the Group designates and recognises only their intrinsic value for hedging purposes. All changes in intrinsic value are recognised in Equity through Condensed consolidated interim statement of comprehensive income, whereas, all changes in time value are recognised directly in the Statement of profit or loss. The amount recognised in Equity is reclassified into the Statement of profit or loss in the same period as the hedged cash flows affect the 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 profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in Equity is recognised immediately in the Statement of profit or loss.

3. Segment information

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

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

The reportable gold production segments derive their revenue primarily from gold sales. Starting from 1 January 2014, the CODM performs an analysis of the operating results based on these separate business units and evaluates the reporting segment's results, for purposes of resource allocation, based on the IFRS segment measures: gold sales, total cash cost per ounce of gold sold (TCC), earnings before interest, tax, depreciation and amortisation and other items (Adjusted EBITDA) and capital expenditures (CAPEX). Accordingly information presented in this note is restated from that provided in prior periods.

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

(in millions of US Dollars)

3. Segment information (continued)

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

	Gold sales	Gold sales thousand ounces[1]	Adjusted EBITDA[1]	Total cash cost per ounce of gold sold (USD per ounce)[1]	Capital expenditures
For the six months ended 30 June 2014					
Business units					
Krasnoyarsk	756	579	343	614	56
Irkutsk alluvial	46	36	5	832	15
Irkutsk ore	90	69	36	716	12
Yakutia Kuranakh	89	67	20	970	2
Magadan	-	-	(2)	-	170
Exploration	-	-	(3)	-	5
Capital construction	-	-	1	-	23
Unallocated	-	-	(7)	-	4
Total	**981**	**751**	**393**	**662**	**287**
For the six months ended 30 June 2013					
Business units					
Krasnoyarsk	768	502	380	654	68
Irkutsk alluvial	71	51	16	874	16
Irkutsk ore	48	32	12	1,042	39
Yakutia Kuranakh	102	69	14	1,138	10
Magadan	-	-	-	-	495
Exploration	-	-	6	-	13
Capital construction	-	-	1	-	38
Unallocated	-	-	(12)	-	21
Total	**989**	**654**	**417**	**757**	**700**
For the year ended 31 December 2013					
Business units					
Krasnoyarsk	1,669	1,198	772	633	217
Irkutsk alluvial	277	205	80	880	18
Irkutsk ore	122	89	37	869	59
Yakutia Kuranakh	191	139	29	1,085	16
Magadan	-	-	-	-	1,024
Exploration	-	-	6	-	20
Capital construction	-	-	(9)	-	68
Unallocated	-	-	(5)	-	18
Total	**2,259**	**1,631**	**910**	**707**	**1,440**

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales during the six month periods ended 30 June 2014 and 2013 and the year ended 31 December 2013.

[1] Unaudited and not reviewed

(in millions of US Dollars)

3. Segment information (continued)

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

	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
Profit / (loss) for the period / year	**253**	**(173)**	**143**
Income tax	68	25	91
Depreciation and amortisation	107	103	214
Finance costs	10	7	14
Interest income on bank deposits	(12)	(12)	(27)
(Gain) / loss on derivatives and investments	(81)	1	5
Foreign exchange loss / (gain)	40	(4)	(4)
Loss from disposal of property, plant and equipment	-	1	2
Impairments	8	469	472
Adjusted EBITDA[2]	**393**	**417**	**910**

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

	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
Cost of gold sales	**599**	**583**	**1,347**
Adjusted for:			
Depreciation and amortisation	(103)	(101)	(209)
Other non-cash items in cost of gold sales	1	13	15
TCC	**497**	**495**	**1,153**
Thousand ounces of gold sold	751	654	1,631
TCC per ounce of gold sold (USD per ounce)[2]	**662**	**757**	**707**

Group's non-current assets other than financial instruments are located in the Russian Federation.

[2] Unaudited and not reviewed

(in millions of US Dollars)

4. Cost of gold sales

	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
Labour	168	186	386
Consumables and spares	152	166	362
Fuel	77	80	184
Tax on mining	75	85	166
Power	26	26	58
Outsourced mining services	4	7	23
Refining costs	2	3	6
Other	36	43	83
Sub-total	**540**	**596**	**1,268**
Amortisation and depreciation of operating assets	103	101	209
Total cost of production	**643**	**697**	**1,477**
Increase in stockpiles, gold-in-process and refined gold inventories	(44)	(114)	(130)
Total	**599**	**583**	**1,347**

5. Selling, general and administrative expenses

	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
Salaries	64	71	151
Taxes other than mining and income taxes	12	11	25
Professional services	6	8	21
Amortisation and depreciation	2	2	4
Other	8	13	25
Total	**92**	**105**	**226**

6. Finance costs

	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
Interest on borrowings	33	13	43
Unwinding of discounts on decommissioning liability	2	3	5
Sub-total finance cost	**35**	**16**	**48**
Interest capitalised in the cost of Mine under development and Capital construction-in progress	(25)	(9)	(34)
Total finance cost expensed	**10**	**7**	**14**

(in millions of US Dollars)

7. Gain / (loss) on derivatives and investments

	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
Gain on currency collars (note 12)	65	-	-
Gain on cross currency swaps (note 12)	10	-	-
Unrealised gain on ineffective part of the revenue stabiliser (note 12)	2	-	-
Unrealised loss on interest rate swap (note 12)	(1)	-	-
Loss from revaluation and sale of investments	-	(2)	(6)
Other	5	1	1
Total	**81**	**(1)**	**(5)**

8. Property, plant and equipment

	Mining assets	Non-mining assets	Stripping activity asset	Total
Cost				
Balance at 31 December 2012	**2,580**	**78**	**199**	**2,857**
Additions	-	-	27	27
Transfers from capital construction-in-progress (note 9)	229	18	-	247
Change in decommissioning liabilities	(5)	-	-	(5)
Disposals	(4)	(1)	-	(5)
Disposals of subsidiaries	(353)	(3)	-	(356)
Effect of translation to presentation currency	(169)	(6)	(16)	(191)
Balance at 30 June 2013	**2,278**	**86**	**210**	**2,574**
Additions	-	-	11	11
Transfers from capital construction-in-progress (note 9)	142	(2)	-	140
Reclassifications	22	(22)	-	-
Change in decommissioning liabilities	(1)	-	-	(1)
Disposals	(38)	(3)	-	(41)
Effect of translation to presentation currency	2	2	-	4
Balance at 31 December 2013	**2,405**	**61**	**221**	**2,687**
Additions	-	-	20	20
Transfers from capital construction-in-progress (note 9)	82	2	-	84
Disposals	(10)	-	-	(10)
Effect of translation to presentation currency	(61)	(2)	(5)	(68)
Balance at 30 June 2014	**2,416**	**61**	**236**	**2,713**
Accumulated amortisation, depreciation and impairment				
Balance at 31 December 2012	**(1,003)**	**(28)**	**(23)**	**(1,054)**
Charge	(114)	(2)	(9)	(125)
Disposals	3	1	-	4
Disposals of subsidiaries	91	-	-	91
Impairment of continuing operations	(59)	-	(28)	(87)
Effect of translation to presentation currency	70	2	1	73
Balance at 30 June 2013	**(1,012)**	**(27)**	**(59)**	**(1,098)**
Charge	(109)	(2)	(9)	(120)
Reclassifications	(5)	5	-	-
Disposals	35	1	-	36
Effect of translation to presentation currency	1	-	-	1
Balance at 31 December 2013	**(1,090)**	**(23)**	**(68)**	**(1,181)**
Charge	(110)	(2)	(13)	(125)
Disposals	9	-	-	9
Effect of translation to presentation currency	24	1	1	26
Balance at 30 June 2014	**(1,167)**	**(24)**	**(80)**	**(1,271)**
Net book value				
30 June 2013	**1,266**	**59**	**151**	**1,476**
31 December 2013	**1,315**	**38**	**153**	**1,506**
30 June 2014	**1,249**	**37**	**156**	**1,442**

(in millions of US Dollars)

8. Property, plant and equipment (continued)

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

	30 June 2014	30 June 2013	31 December 2013
Mineral rights	46	51	49

Amortisation and depreciation charge is allocated as follows:

	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
Cost of gold sales			
continuing operations	103	101	209
discontinued operations	-	4	4
Selling, general and administrative expenses			
continuing operations	2	2	4
discontinued operations	-	-	-
Cost of other sales	2	-	-
Capitalised within capital construction-in-progress	18	18	28
Total	**125**	**125**	**245**

(in millions of US Dollars)

9. Capital construction-in-progress

	Business units					
	Krasnoyarsk	**Capital construction**	**Irkutsk ore**	**Yakutia Kuranakh**	**Other**	**Total**
Balance at 31 December 2012	**78**	**37**	**147**	**36**	**66**	**364**
Additions	65	38	35	10	37	185
Transfers to property, plant and equipment (note 8)	(59)	(38)	(117)	(9)	(24)	(247)
Disposals of subsidiaries	-	-	-	-	(41)	(41)
Impairment	(1)	-	-	(17)	-	(18)
Effect of translation to presentation currency	(6)	(3)	(6)	(3)	(1)	(19)
Balance at 30 June 2013	**77**	**34**	**59**	**17**	**37**	**224**
Additions	145	30	17	6	-	198
Transfers to property, plant and equipment (note 8)	(54)	(17)	(32)	(17)	(20)	(140)
Impairment	(1)	-	-	-	-	(1)
Effect of translation to presentation currency	(3)	1	(1)	1	(1)	(3)
Balance at 31 December 2013	**164**	**48**	**43**	**7**	**16**	**278**
Additions	53	23	12	2	19	109
Transfers to property, plant and equipment (note 8)	(39)	(13)	(13)	(1)	(18)	(84)
Impairment	-	(6)	-	-	-	(6)
Effect of translation to presentation currency	(4)	(1)	(1)	-	-	(6)
Balance at 30 June 2014	**174**	**51**	**41**	**8**	**17**	**291**

The principal projects in Capital construction-in-progress within:

- the Krasnoyarsk business unit projects relate to the construction of additional dormitories at Olimpiada, expansion of the bio-oxidation facility at Olimpiada and Blagodatnoye and sustaining capital expenditure;
- the Capital Construction business unit projects relate to the construction of the Peleduy-Mamakan grid. The construction of the grid is aimed at bringing cheaper and more reliable grid power to Verninskoye;
- the Irkutsk ore business unit projects relate to the finalisation and fine tune of the Pervenets processing plant, as well as contain items for sustaining capital expenditure.

(in millions of US Dollars)

10. Mine under development

	Total
Balance at 31 December 2012	**624**
Additions	495
New decommissioning liabilities raised	(1)
Effect of translation to presentation currency	(70)
Balance at 30 June 2013	**1,048**
Additions	529
Effect of translation to presentation currency	(4)
Balance at 31 December 2013	**1,573**
Additions	170
Effect of translation to presentation currency	(34)
Balance at 30 June 2014	**1,709**

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

	30 June 2014	30 June 2013	31 December 2013
Mineral rights	61	63	63

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

Polyus Gold International Limited

Notes to the condensed consolidated interim financial statements
for the six months ended 30 June 2014 (unaudited)
(in millions of US Dollars)

11. Exploration and evaluation assets

	Chertovo Korito	Razdo-linskoye	Panimba	Olympiada	Bamsky	Smezhny	Medvezhy Zapadny	Blagodat-noye	Other	Nezhda-ninskoye	Degdekan-skoye	Total
Balance at 31 December 2012	**47**	**27**	**29**	**24**	**22**	**10**	**5**	**-**	**40**	**263**	**52**	**519**
Additions	-	4	-	2	1	4	-	2	-	7	-	**20**
Change in decommissioning liabilities	-	-	-	-	-	-	-	-	-	(3)	-	**(3)**
Impairment	-	-	-	-	-	-	-	-	(19)	(248)	(48)	**(315)**
Disposals of subsidiaries	-	-	-	-	-	-	-	-	(19)	-	-	**(19)**
Effect of translation to presentation currency	(3)	(2)	(2)	(2)	(2)	(1)	-	-	(1)	(19)	(4)	**(36)**
Balance at 30 June 2013	**44**	**29**	**27**	**24**	**21**	**13**	**5**	**2**	**1**	**-**	**-**	**166**
Additions	**4**	**1**	**-**	**1**	**-**	**2**	**-**	**3**	**2**	**-**	**-**	**13**
Impairment	-	-	-	-	-	-	-	-	(2)	-	-	**(2)**
Effect of translation to presentation currency	-	-	-	-	-	-	-	(1)	(1)	-	-	**(2)**
Balance at 31 December 2013	**48**	**30**	**27**	**25**	**21**	**15**	**5**	**4**	**-**	**-**	**-**	**175**
Additions	4	-	-	1	-	-	1	2	-	-	-	8
Impairment	(1)	-	-	-	-	-	-	-	-	-	-	(1)
Effect of translation to presentation currency	(1)	(1)	(1)	-	(1)	-	-	-	-	-	-	(4)
Balance at 30 June 2014	**50**	**29**	**26**	**26**	**20**	**15**	**6**	**6**	**-**	**-**	**-**	**178**

(in millions of US Dollars)

12. Derivatives and investments

	30 June 2014	30 June 2013	31 December 2013
Non-current assets			
Currency collars	65	-	-
Cross currency swaps	16		
Revenue stabiliser	8	-	-
Loans receivable	1	2	2
Loan participation notes	-	13	-
Total	**90**	**15**	**2**
Current assets			
Equity investments in listed companies held for trading	-	6	-
Other	-	1	-
Total	**-**	**7**	**-**
Non-current liabilities			
Revenue stabiliser	6	-	-
Gold forward	2		
Interest rate swaps	1	-	-
Total	**9**	**-**	**-**

Strategic Price Protection Programme

In March 2014, CJSC “Gold Mining Company Polyus”, a subsidiary of the Group, initiated a Strategic Price Protection Programme (the “Programme”).

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

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

Revenue stabiliser

The revenue stabiliser component represents a series of zero cost Asian barrier collar agreements to purchase put options and sell call options with “knock-out” and “knock-in” barriers. Allocation of volumes and strikes and barriers per years under the revenue stabiliser agreements is presented below:

(in millions of US Dollars)

12. Derivatives and investments (continued)

	Years ended 31 December					
	2014	**2015**	**2016**	**2017**		**2018**
Revenue stabiliser volumes under put and call option agreements (thousand ounces)						
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)						
Total as per options agreements	225	300	300	75	675	225
Exercised during the six months 30 June 2014	(75)	-	-	-	-	-
Outstanding as of 30 June 2014	150	300	300	75	675	225
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)						
Options agreements outstanding as of 30 June 2014	60	120	120	60	180	180
Outstanding as of 30 June 2014 under Tranches 1 and 2	**210**	**420**	**420**	**135**	**855**	**405**
Strikes as per put and call option agreements (USD per ounces)						
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)						
Leg 1 (put)						
Strike	1,383	1,383	1,383	1,383	-	-
Knock-out barrier	950	950	950	950	-	-
Leg 2 (call)						
Strike	1,518	1,518	1,518	1,518	-	-
Knock-in barrier	1,662	1,662	1,662	1,662	-	-
Leg 3 (put)						
Strike	-	-	-	-	1,037	1,037
Knock-out barrier	-	-	-	-	907	907
Leg 4 (call)						
Strike	-	-	-	-	1,559	1,559
Knock-in barrier	-	-	-	-	1,748	1,748
Tranche 2 (covering the period 1 July 2014 – 29 June 2018)						
Leg 1 (put)						
Strike	1,359	1,359	1,359	1,359	-	-
Knock-out barrier	950	950	950	950	-	-
Leg 2 (call)						
Strike	1,425	1,425	1,425	1,425	-	-
Knock-in barrier	1,525	1,525	1,525	1,525	-	-
Leg 3 (put)						
Strike	-	-	-	-	1,100	1,100
Knock-out barrier	-	-	-	-	900	900
Leg 4 (call)						
Strike	-	-	-	-	1,500	1,500
Knock-in barrier	-	-	-	-	1,650	1,650
Weighted average strikes for Tranches 1 and 2						
Leg 1 (put)						
Strike	1,377	1,377	1,377	1,373	-	-
Knock-out barrier	950	950	950	950	-	-
Leg 2 (call)						
Strike	1,491	1,491	1,491	1,476	-	-
Knock-in barrier	1,623	1,623	1,623	1,601	-	-
Leg 3 (put)						
Strike	-	-	-	-	1,050	1,065
Knock-out barrier	-	-	-	-	905	903
Leg 4 (call)						
Strike	-	-	-	-	1,546	1,533
Knock-in barrier	-	-	-	-	1,728	1,705

(in millions of US Dollars)

12. Derivatives and investments (continued)

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 950 per ounce. During the first three years the Group will benefit from price increases until the gold price reaches USD 1,662 per ounce, in which case the weighted average price will be capped at USD 1,518 per ounce. In the fourth year of the Programme, the Group ensures a minimum weighted average price of USD 1,037 per ounce for the price-protected amount of 900 thousand ounces, provided the gold price does not fall below USD 907 per ounce. Additionally, in the fourth year of the Programme, the Group will have an obligation to sell 900 thousand ounces of gold at USD 1,559 per ounce should the gold price exceed USD 1,748 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 will benefit from price increases until the gold price reaches USD 1,525 per ounce, in which case the weighted average price will be 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.

Revenue stabiliser options are exercised quarterly in equal amounts.

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

The revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in Cash flow hedge revaluation reserve within Equity, whilst the remaining change in the fair value is reflected in the Statement of profit or loss (note 7).

During the six months ended 30 June 2014, following the sale of the hedged volume of gold and the exercise of certain options under Tranche 1, USD 7 million was recognised in the Cash flow hedge revaluation reserve within Equity and then subsequently reclassified to Gold sales within the Statement of profit or loss.

Gold forward

During the six months ended 30 June 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. Gold forward will be exercised in the following years:

	Years ended 31 December		
	2014	**2015**	**2016**
Forward agreements outstanding as of 30 June 2014 (thousand ounces)	77.5	155.0	77.5

The gold forward contract is designated as a cash flow hedge. Any change in the forward fair value is recognised in Cash flow hedge revaluation reserve within Equity. During the six months ended 30 June 2014, USD 2 million were recognised in the Cash flow hedge revaluation reserve within Equity, and are expected to be monthly and evenly reclassified to the Statement of profit or loss during the next two years.

(in millions of US Dollars)

12. Derivatives and investments (continued)

The fair value is determined using 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 six months ended 30 June 2014, in order to reduce the adverse effects associated with the strengthening of the exchange rate of the Russian rouble against the US dollar, CJSC “Gold Mining Company Polyus” simultaneously purchased put options and sold call options for the total amount of USD 1,600 million allocated by USD 100 million monthly with the exercise dates throughout:

	September-December 2014	**January – August 2015**	**September – December 2015**
Volume of option agreements (million USD)	400	800	400
Exchange rates for puts, RUB/USD	36.83	36.83	38.23
Exchange rates for calls, RUB/USD	40.06	40.06	40.56

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

Cross currency SWAPs

During the six months ended 30 June 2014, CJSC “Gold Mining Company Polyus”, a subsidiary of the Group, signed a 5 year RUB 36 billion (approximately USD 1 billion) credit facility agreement with Sberbank (note 18). The interest rate for this credit facility is 10.35%.

The revenue of the Group is linked to US dollars, because the gold price is denominated in US dollars. The Group entered into cross currency swaps with leading Russian banks for a total amount of USD 633 million to economically hedge interest payments and principal amounts exchange against the possible weakening of the US dollar against the Russian rouble.

According to the cross currency swap agreements effective as of 30 June 2014 the Group will quarterly pay to banks LIBOR + Margin 2.49% in USD and receive from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group will exchange principal amounts paying USD 633 million and receiving RUB 22,244 million.

After the balance sheet date remaining exposure under the Sberbank credit facility was economically hedged as well (note 22).

According to IAS 39 the swaps were not designated as cash flow or fair value hedges. The Group accounted for these derivatives at fair value which was determined using a discounted cash flow valuation technique. Changes in the fair value of the swaps are recognised in the Statement of profit or loss (note 7). The gain or loss on the exchange of interest payments will be recognised within the Finance cost (note 6).

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.

(in millions of US Dollars)

12. Derivatives and investments (continued)

Interest rate SWAP

During the six months ended 30 June 2014, CJSC “Gold Mining Company Polyus”, a subsidiary of the Group, entered into an interest rate swap agreement with a bank, according to which the Group will pay semi-annually and until 29 April 2020 LIBOR+3.65% in USD and receive 5.625% in USD in respect of a USD 200 million nominal amount. The purpose of this swap is to decrease the effective interest rate for the USD 750 million Eurobonds (note 18).

After the balance sheet date the interest rate for the remaining nominal of USD 550 million was swapped as well (note 22).

According to IAS 39 the swap was not designated as either a cash flow or fair value hedge. The Group accounts for it at fair value which was determined using a discounted cash flow valuation technique.

Changes in the fair value of the swap are recognised in the condensed consolidated Statement of profit or loss (note 7). The gain or loss of the interest rate swaps will be recognised within the Finance cost (note 6).

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

The fair value of the financial instruments were not adjusted for credit risk as the effect was insignificant.

13. Inventories

	30 June 2014	30 June 2013	31 December 2013
Inventories expected to be recovered after 12 months			
Stockpiles	321	196	292
Gold-in-process	3	2	3
Sub-total	**324**	**198**	**295**
Inventories expected to be recovered in the next 12 months			
Stockpiles	148	88	111
Gold-in-process	109	112	87
Refined gold	20	58	28
Stores and materials	479	461	476
Sub-total	**756**	**719**	**702**
Total	**1,080**	**917**	**997**

(in millions of US Dollars)

14. Bank deposits

	30 June 2014	30 June 2013	31 December 2013
Bank deposits denominated in:			
- USD	288	-	-
- RUB	14	12	48
Total	**302**	**12**	**48**

Bank deposits will mature within period of three to twelve months after the balance sheet date, or longer if there is a possibility of earlier repayment and accrue the interest at the following rates:

Bank deposits denominated in:			
- USD	1.9-4.0%	-	-
- RUB	8.2-9.5%	6.4-8.7%	6.6-7.1%

15. Cash and cash equivalents

	30 June 2014	30 June 2013	31 December 2013
Bank deposits denominated in:			
(on demand or with original maturity less than 3 month)			
- RUB	138	164	453
- USD	500	140	191
Current bank accounts denominated in:			
- RUB	89	82	73
- USD	141	820	91
Other cash and cash equivalents	7	-	1
Total	**875**	**1,206**	**809**

Bank deposits within Cash and cash equivalents includes deposits with original maturity less than 3 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:

Bank deposits denominated in:			
- USD	0.2-1.1%	5.4-5.6%	4.0-5.1%
- RUB	6.5-9.3%	5.7-7.1%	4.0-7.5%

(in millions of US Dollars)

16. Share capital

The authorised share capital of the Company comprises 3,600 million ordinary shares with a par value of GBP0.0001 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 2,152 million.

Dividends to shareholders of the Company

	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
Dividend declared and paid during the period / year, USD million	-	320	320
Dividend declared and paid during the period / year, US cents per share	-	0.11	0.11

(in millions of US Dollars)

17. Site restoration and environmental obligations

	Business units							
	Krasnoyarsk	**Irkutsk alluvial**	**Irkutsk ore**	**Yakutia Kuranakh**	**Magadan**	**Exploration**	**Kazakhstan**	**Total**
Balance at 31 December 2012	**41**	**7**	**14**	**12**	**2**	**8**	**35**	**119**
Change in estimation	(6)	-	(1)	-	(1)	(3)	-	**(11)**
Unwinding of discount on decommissioning obligations	2	1	-	-	-	-	-	**3**
Disposal of subsidiaries	-	-	-	-	-	-	(35)	**(35)**
Effect of translation to presentation currency	(3)	(1)	(1)	(1)	-	-	-	**(6)**
Balance at 30 June 2013	**34**	**7**	**12**	**11**	**1**	**5**	**-**	**70**
Change in estimation	(2)	-	-	(1)	-	(1)	-	**(4)**
Unwinding of discount on decommissioning obligations	1	-	-	2	-	-	-	**3**
Balance at 31 December 2013	**33**	**7**	**12**	**12**	**1**	**4**	**-**	**69**
Change in estimation	1	(1)	-	-	-	-	-	**-**
Unwinding of discount on decommissioning obligations	2	-	-	-	-	-	-	**2**
Effect of translation to presentation currency	(2)	-	-	-	-	-	-	**(2)**
Balance at 30 June 2014	**34**	**6**	**12**	**12**	**1**	**4**	**-**	**69**

The principal assumptions used for the estimation of site restoration and environmental obligations were as follows:

	30 June 2014	**30 June 2013**	**31 December 2013**
Discount rates	7.8 - 8.8%	6.3 - 8.8%	5.8 - 8.7%
Inflation rates	5.1 - 6.1%	6.0 - 6.3%	5.0 - 6.5%
Expected mine closure dates	2016 - 2045	2014 - 2050	2014 - 2045

The present value of costs to be incurred for settlement of the site restoration and environmental obligations is as follows:

Due from 2nd to 5th year	9	3	8
Due from 6th to 10th year	24	15	15
Due from 11th to 15th year	26	28	28
Due from 16th to 20th year	9	18	17
Due thereafter	1	6	1
Total	**69**	**70**	**69**

(in millions of US Dollars)

18. Borrowings

		Nominal rate %	30 June 2014	30 June 2013	31 December 2013
Notes due in 2020 (USD 750 million Eurobonds)	(i)	5.625%	745	744	744
Sberbank credit facility to CJSC "Gold Mining Company Polyus"	(ii)	10.35%	527	-	-
Unicredit Bank credit facility to OJSC "Pervenets"	(iii)	3 months USD LIBOR + 2.4%	11	33	22
Unicredit Bank credit facility to OJSC "Matrosova Mine"	(iii)	6 months USD LIBOR + 2.02%	52	-	56
Unicredit Bank credit facility	(iii)	3 months USD LIBOR+2.95%	-	100	-
Société Générale credit facility to OJSC "Pervenets"	(iv)	3 months USD LIBOR + 2.4%	11	33	22
Société Générale export financing credit facility agreement to CJSC "Gold Mining Company Polyus"	(iv)	6 months USD LIBOR + 0.55%	20	31	26
Deutsche Bank credit facility to OJSC "Matrosova Mine"	(v)	6 months USD LIBOR + 1.35%	17	-	20
Deutsche Bank letters of credit with deferred payment issued by the order of OJSC "Matrosova Mine"	(v)				
- nominated in USD		6 month USD LIBOR + 2.4%	-	65	21
- nominated in EUR		Cost of fund (COF) + 2.7%	92	22	92
VTB Bank letters of credit with deferred payment issued by the order of OJSC "Matrosova Mine"	(vi)				
- nominated in USD		6 months USD LIBOR + 1.7%	-	49	49
- nominated in EUR		Euribor +1.8%	28	27	32
Rosbank letters of credit with deferred payment issued by the order of CJSC "Gold Mining Company Polyus"	(vii)	6 months USD LIBOR + 2.35%	44	-	22
HSBC credit facility	(viii)	3 months USD LIBOR+3%	-	100	100
Sub-total			**1,547**	**1,204**	**1,206**
Less: Current portion due within 12 months			(157)	(272)	(269)
Long-term borrowings			**1,390**	**932**	**937**

Summary of borrowing agreements

(i) Notes due in 2020 (USD 750 million Eurobonds)

On 29 April 2013, the Company issued USD 750 million Notes maturing in 2020 with a fixed coupon rate of 5.625% paid semi-annually. The Notes are accounted for at amortised cost at the effective interest rate. Proceeds from the Notes were utilised on the Natalka construction project. Interest expense in the amount of USD 21 million (six months ended 30 June 2013: USD 7 million; year ended 31 December 2013: USD 29 million) was fully capitalised into the Mine under development balance at the effective interest rate of 5.835%.

(ii) Sberbank

On 11 April 2014, CJSC "Gold Mining Company Polyus", subsidiary of the Group, entered into a five year RUB 36 billion (USD 1,070 million) credit facility agreement with Sberbank as a lender. The Group intends to use the proceeds for refinancing of its existing loans and for general corporate purposes, including financing of capital investment projects.

18. Borrowings (continued)

The facility has a bullet principal repayment at 10 April 2019 with prepayment options for the borrower. As of 30 June 2014, USD 527 million had been drawn down.

(iii) Unicredit Bank

On 4 October 2011, OJSC "Pervenets", a subsidiary of the Group, entered into a three year USD 100 million term loan facility agreement with Société Générale as a lender to fund general corporate purposes. On 6 October 2011, Société Générale transferred USD 50 million of the facility [see note (iv) below] to a new lender Unicredit Bank. The facility is to be repaid in nine equal instalments in intervals of three months starting from 4 October 2012. As of 30 June 2014, USD 50 million had been drawn down and seven repayments made.

On 26 April 2013, OJSC "Matrosova Mine", a subsidiary of the Group, entered into a USD 59 million (USD equivalent of EUR 45 million) credit facility agreement arranged by Unicredit Bank and guaranteed by OeKB (the Austrian export credit agency) to fund the acquisition of mining equipment. Scheduled repayments were made in the six months ended 30 June 2014. The maturity of the outstanding amounts varies from 2014 to 2021.

On 29 December 2011, the Company entered into a two year USD 100 million facility agreement arranged by Unicredit Bank to fund the redemption of Guaranteed senior notes, which were redeemed early in 2012. The facility was fully repaid in 2013.

(iv) Société Générale

On 4 October 2011, OJSC "Pervenets" entered into a three year USD 100 million term loan facility agreement with Société Générale as a lender to fund general corporate purposes. On 6 October 2011, Société Générale transferred USD 50 million of the facility to a new lender, Unicredit Bank [see note (iii) above]. The facility is to be repaid in nine equal instalments in intervals of three months starting from 4 October 2012. As of 30 June 2014, USD 50 million had been drawn down and seven repayments made.

As of 30 June 2014, USD 20 million was outstanding out of a USD 68 million export financing credit facility agreement between CJSC "Gold Mining Company Polyus" and Société Générale for financing to be used for the purchase of mining equipment. The facility was established for facilitation of exports from the United States of America and guaranteed by Export-Import Bank of the United States. The maturity of the outstanding amounts varies from 2014 to 2016. The credit facility is secured by the pledge of plant and equipment with a net book value of USD 37 million (31 December 2013: USD 47 million, 30 June 2013: USD 56 million).

(v) Deutsche Bank

On 7 August 2013, OJSC "Matrosova Mine" entered into a USD 22 million credit facility agreement arranged by Deutsche Bank and guaranteed by EKN (the Swedish export credit agency) to fund the acquisition of mining equipment. Scheduled repayments were made during the six months ended 30 June 2014. The maturity of the outstanding amounts varies from 2014 to 2018.

As of 30 June 2014, OJSC "Matrosova Mine" had outstanding a number of letter of credit agreements with Deutsche Bank nominated in Euro for the acquisition of mining equipment with deferred payment terms. The maturity of the outstanding amounts varies from 2014 to 2017.

During the six months ended 30 June 2014, letters of credit nominated in USD issued by Deutsche Bank to OJSC "Matrosova Mine" were fully repaid.

18. Borrowings (continued)

(vi) VTB Bank

As of 30 June 2014, OJSC "Matrosova Mine" had outstanding a number of letter of credit agreements with VTB Bank for the acquisition of mining equipment with deferred payment terms. The maturity of the outstanding amounts varies from 2014 to 2017. Letters of credit nominated in USD were fully repaid.

(vii) Rosbank

As of 30 June 2014, CJSC "Gold Mining Company Polyus" had an outstanding letter of credit agreement with Rosbank for the acquisition of mining equipment with deferred payment terms. The maturity of the outstanding amounts varies from 2014 to 2016.

(viii) HSBC

During the six months ended 30 June 2014, a three year USD 100 million credit facility with HSBC was fully repaid.

(ix) Unused credit facilities

On 15 March 2012, CJSC "Gold Mining Company Polyus" entered into a three year RUB 10 billion (approximately USD 306 million) credit line with VTB Bank to fund its general corporate purposes. The interest rate is subject to a separate agreement under each of the credit line drawdowns.

On 25 July 2012, OJSC "Matrosova Mine" entered into a finance agreement with VTB Bank for a total amount of up to RUB 5 billion (approximately USD 153 million). The facility is used to support the purchase of equipment for the Natalka project.

(x) Other matters

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

There were a number of covenants in effect as of 30 June 2014 under several loan agreements according to which the respective subsidiaries of the Company and Company itself are limited in 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 addition, in accordance with certain bank covenants the Company is restricted in the right to dispose of the controlling share in certain significant subsidiaries of the Group. Also, there is a restriction on transfer of non-core assets between certain subsidiaries of the Group.

The Group was in compliance with these covenants as of 30 June 2014.

Whilst measured at amortised cost, the fair value of the Notes due in 2020 are within level 1 and its fair value as of 30 June 2014 was equal to USD 750 million.

Whilst measured at amortised cost, the fair value of all of the borrowings, except for the Notes due in 2020, are within level 2 of the fair value hierarchy in accordance with IFRS 13, and their fair value approximates the carrying amounts.

(in millions of US Dollars)

19. 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 the six months ended 30 June 2014 and 2013 and for the year ended 31 December 2013.

Entities under common ownership

The Group had no balances and investments with entities under common control during the six months ended 30 June 2014 and 2013 and for the year ended 31 December 2013.

Following the disposal of the Company's shares by one of the principal shareholders in February 2013 certain entities ceased to be related parties.

Transactions with entities under common control:

	Six months ended		Year ended
	30 June 2014	**30 June 2013**	**31 December 2013**
Interest income	-	1	1
Short-term compensation of key management personnel			
Short-term compensation of key management personnel amounted to	11	29	48

(in millions of US Dollars)

20. Commitments and contingencies

Commitments

Capital commitments

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

	30 June 2014	30 June 2013	31 December 2013
Contracted capital expenditure commitments	89	212	146
- including contracted capital expenditure commitments related to the Natalka project	44	172	69

Operating leases: Group as a lessee

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

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

	30 June 2014	30 June 2013	31 December 2013
Due within one year	4	3	4
From one to five years	13	10	14
Thereafter	31	21	35
Total	**48**	**34**	**53**

Contingencies

Litigations

In the ordinary course of business, the Group is subject to litigation in a number of jurisdictions, the outcome of which is uncertain and could give rise to adverse outcomes. At the date of issuance of these condensed consolidated interim financial statements there were no material claims and litigation applicable to the Group, except for the lawsuit related to the additional dividends distribution attributable to preferred shares of OJSC "Lenzoloto" for the amount of USD 14 million.

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.

20. Commitments and contingencies (continued)

Taxation contingencies in the Russian Federation

Commercial legislation in the Russian Federation, including tax legislation, is subject to varying interpretations and frequent changes. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed with additional taxes, penalties and interest.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also, according to the clarification of the Russian Constitutional Court, the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayer has obstructed or hindered a tax inspection.

Management of the Group is confident that applicable taxes have all been accrued and, consequently, creation of provisions is not required.

Under the Russian tax legislation, the authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by the authorities could affect the Group's previously submitted and assessed tax declarations.

With regards to matters where practice concerning payment of taxes is unclear, management considered that there were no significant tax exposures at 30 June 2014 and 2013 and 31 December 2013.

Environmental matters

The Group is subject to extensive federal and local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns.

The Group's management believes that its mining and production technologies are in compliance with existing Russian environmental legislation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernises technology to meet more stringent standards.

The Group is obliged under the terms of various laws, mining licences and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses site restoration 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 and environmental obligations.

(in millions of US Dollars)

21. Financial instruments risk management activities

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt which is borrowings (note 18) less banks deposits (note 14) and cash and cash equivalents (note 15), and equity of the Group.

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, derivatives 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, derivatives and investments.

	30 June 2014	30 June 2013	31 December 2013
Financial assets			
Financial assets at FVTPL			
Derivatives	89	-	-
Equity investments in listed companies held for trading	-	6	-
Cash and cash equivalents, bank deposits, trade and other receivables and other			
Cash and cash equivalents	875	1,206	809
Bank deposits	302	12	48
Trade and other receivables	17	36	27
Loans receivable	1	3	2
Loan Participation Notes accounted for at amortised cost	-	13	-
Total financial assets	**1,284**	**1,276**	**886**
Financial liabilities			
Borrowings	1,547	1,204	1,206
Trade and other payables	187	200	224
Derivatives and investments	9	-	-
Total financial liabilities	**1,743**	**1,404**	**1,430**

Except for derivatives, all of the financial assets and liabilities carrying values approximate their 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

During the six months ended 30 June 2014, the Group entered into a number of derivative transactions to limit its exposure to future possible fluctuations of gold price (note 12). Gold forward stabilises gold price at USD 1,321 per ounce, while revenue stabiliser allows to stabilise the price at average USD 1,376 per ounce and provides an opportunity to benefit from possible upward movement of prices up to USD 1,616 per ounce during the first three years of the instrument. For details, see note 12.

The agreements are concluded considering appropriate level of diversification between a number of major Russian and international banks holding investing grade rating.

(in millions of US Dollars)

21. Financial instruments risk management activities (continued)

Interest rate risk

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings considering current market rates. In order to get lower effective interest rate the Group swapped fixed rates into floating to maintain optimal exposure for interest rate structure for a gold mining company.

During the six months ended 30 June 2014 and after the balance sheet date (note 22), the Group entered into interest rate swaps and cross currency swaps (note 12) to change fixed interest rates into floating ones (note 18).

The agreements are concluded considering appropriate level of diversification between a number of major Russian and international banks holding investment grade rating.

If the interest rate was 1% higher / lower during the six months ended 30 June 2014 interest expense for the period would increase / decrease by USD 7 million.

Foreign currency 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 prices. The majority of the Group’s expenditures are denominated in RUB, accordingly, operating profits are adversely impacted by appreciation of RUB against USD. In assessing this risk, management takes into consideration changes in gold price.

During the six months ended 30 June 2014, in order to economically hedge the Group against possible weakening of USD against RUB the Group entered into cross currency swaps and currency collars (note 12).

Currency collars are effective throughout September 2014 to December 2015. As the gold sales are nominated in USD, the purpose of the currency collars is to economically hedge the Group’s costs from possible weakening of USD against RUB.

Cross currency swaps were concluded to swap interest payments from RUB nominated into USD nominated and to decrease effective nominal interest rate on RUB 36 billion credit facility from Sberbank. At maturity of the credit facility 9 April 2019, the Group will exchange nominal amounts paying USD and receiving RUB which will be used to repay Sberbank credit facility nominated in RUB. Considering that gold price are nominated in USD, the Group effectively economically hedges its exposure to fluctuations in USD/RUB exchange rate, while at the same time expose itself to certain risk of losing opportunity of gaining from RUB depreciation against USD to the maturity date.

The agreements are concluded considering appropriate level of diversification between a number of major Russian and international banks holding investment grade rating.

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

Assets	**30 June 2014**	**30 June 2013**	**31 December 2013**
USD	929	983	292
EURO (presented in USD at closing exchange rate)	-	1	2
Total	**929**	**984**	**294**

(in millions of US Dollars)

21. Financial instruments risk management activities (continued)

Liabilities	**30 June 2014**	**30 June 2013**	**31 December 2013**
USD	923	1,169	1,099
EURO (presented in USD at closing exchange rate)	123	66	94
Total	**1,046**	**1,235**	**1,193**

Currency risk is monitored on a monthly basis by performing 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 of exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

If USD or EURO exchange rate increased at 10% compared to RUB as of the end of respective period/year, the Group would have incurred the following gains / (losses):

	Six months ended		**Year ended**
	30 June 2014	**30 June 2013**	**31 December 2013**
Gain / (loss) (10% depreciation RUB to USD)	1	(19)	(81)
Gain / (loss) (10% depreciation RUB to EURO)	(12)	(6)	(13)

Credit risk

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

In order to mitigate the credit risk, the Group conducts its business with creditworthy and reliable counterparties, minimises the advance payments to suppliers, and actively uses letters of credit and other trade finance instruments.

The Group employs a methodology for in-house financial analysis of banks and non-banking counterparties, which enables the 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.

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

Deposits, current bank accounts and derivatives are kept with major Russian and international banks holding investment grade rating, with reasonable and appropriate diversification, which decreases concentration risk by spreading the credit risk exposure across several top rated banks.

Although the Group sold more than 91% of the total gold sales in the six months ended 30 June 2014 to four major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore credit risk related to trade receivables is minimal. There were no outstanding receivables for gold sales as of 30 June 2014.

(in millions of US Dollars)

21. Financial instruments risk management activities (continued)

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

	Six months ended 30 June 2014	**Six months ended 30 June 2013**	**Year ended 31 December 2013**
Nomos Banks	402	466	1,057
VTB Bank	288	141	446
MDM bank	136	59	125
Bank of Moscow	76	314	391
Gold sales to the major customers	**902**	**980**	**2,019**

Other receivables include amounts due in respect of the sale of electricity, transportation, handling and warehousing services and other services. The procedures for accepting a new customer include checks by the security department and responsible on-site management for business reputation, licences and certification, creditworthiness and liquidity.

Management of the Group believes that there is no other significant concentration of credit risk.

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.

Historically the Group has not relied extensively on external financing. Following the development of new capital projects during 2013, the Group issued notes in 2013 and arranged certain external finance facilities with the banks during the six months ended 30 June 2014 (note 18).

Management believes that, in case of need, the Group would be able to raise sufficient funding within a reasonable timeframe, and on favourable terms, due to its strong historical operations and positive operating cash flow.

The Group's cash management procedures include medium-term forecasting (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 using a two-week rolling basis).

Presented below is the maturity profile of the Group's financial liabilities as at 30 June 2014 based on undiscounted contractual payments, including interest payments:

	Borrowings		**Trade and other payables**	
	Principal	**Interest**		**Total**
Due in the first year	157	118	187	**462**
Due in the second year	58	101	-	**159**
Due in the third year	21	101	-	**122**
Due in the fourth year	15	100	-	**115**
Due in the fifth year	541	87	-	**628**
Due in the period between sixth to eight years	768	36	-	**804**
Total	**1,560**	**543**	**187**	**2,290**

22. Events after the reporting date

In July-August 2014, until the date of issue of these condensed consolidated interim financial statements the Group entered into the following derivative transactions:

- cross currency swaps for a total notional amount of USD 390 million, to economically hedge interest payments and principal amounts exchange under Sberbank RUB 36 billion credit facility (note 18) against possible weakening of the US dollar against the Russian rouble. The Group will quarterly pay to banks LIBOR + Margin 2.44% in USD and receive from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group will exchange principal amounts paying in USD and receiving RUB;

- interest rate swaps for a total notional amount USD 550 million, with the purpose being to decrease the effective interest rate for the USD 750 million Eurobonds (note 18). The Group will pay semi-annually until 29 April 2020 LIBOR + Margin 3.55% in USD and receive 5.625% in USD in respect of the USD 550 million nominal amount.

(in millions of US Dollars)

23. Investments in significant subsidiaries

23.1 Information about significant subsidiaries of the Group

		Effective % held[1]		
Subsidiaries	**Nature of business**	**30 June 2014**	**30 June 2013**	**31 December 2013**
Incorporated in Russian Federation				
OJSC "Polyus Gold"[2]	Management company	95	95	95
CJSC "Gold Mining Company Polyus"	Mining (open pit)	95	95	95
OJSC "Aldanzoloto GRK"	Mining (open pit)	95	95	95
OJSC "Lenzoloto"	Market agent	61	61	61
CJSC "ZDK Lenzoloto"	Mining (alluvial)	63	63	63
CJSC "Lensib"[3]	Mining (alluvial)	38	38	38
CJSC "Svetliy"	Mining (alluvial)	53	53	53
CJSC "Marakan"	Mining (alluvial)	53	53	53
CJSC "Dalnaya Taiga"	Mining (alluvial)	52	52	52
CJSC "Sevzoto"[3]	Mining (alluvial)	41	41	41
OJSC "Matrosova Mine"	Mining (development stage)	95	95	95
CJSC "Tonoda"	Mining (exploration stage)	95	95	95
OJSC "Pervenets"	Mining (open pit)	95	95	95
OJSC "South-Verkhoyansk Mining Company"	Mining (exploration stage)	95	95	95
LLC "Polyus Stroy"	Construction	95	95	95
Incorporated in British Virgin Islands				
Polyus Exploration Limited	Geological research	95	95	95
Jenington International Incorporated	Market agent	95	95	95

23.2 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 condensed consolidated interim financial statements.

1 Effective % held by the Company, including holdings by other subsidiaries of the Group.

2 Effective % includes 92.95% of ordinary shares held directly by the Company as at 30 June 2014 and 2013 and at 31 December 2013.

3 The Company maintains control of these entities as it continues to govern their financial and operating policies and manage returns from them through its ability to appoint the majority in the Board of Directors. A majority of the Board members for these entities are representatives of the Company and are therefore consolidated even though the effective interest is less than 50% as at 30 June 2014 and 2013 and at 31 December 2013 and for the periods / years then ended. Direct ownership in those subsidiaries by immediate parent is in each case exceeds 50%, and there are no other additional agreements or other instances which could have set limits on the Company's ability to execute its control over its subsidiaries.

Independent Review Report to Polyus Gold International Limited

We have been engaged by the company to review the condensed set of financial statements in the consolidated interim financial report for the six months ended 30 June 2014 which comprises the condensed consolidated interim statement of profit or loss, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of financial position, the condensed consolidated interim statement of changes in equity, the condensed consolidated interim cash flow statement and related notes 1 to 23. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of consolidated financial statements in the interim financial report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the interim financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
22 August, 2014