Polyus Gold International

Interim Management Report

1H 2015

August 20, 2015

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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 IMR 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 financial position and profit or loss of the Group and its consolidated subsidiaries as required by DTR 4.2.4R;

(b) the IMR 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);

(c) the IMR 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,

Chief Executive Officer and Director

Pavel Grachev

19 August 2015

Management Discussion and Analysis

1H 2015

Highlights

$ mln (if not mentioned otherwise)	1H 2015	1H 2014	y-o-y change	FY 2014
Gold sold (koz)	799	751	6%	1,691
Average realised gold price (excl. effect of Strategic Price Protection Programme[1]) ($/oz)	1,202	1,296	(7%)	1,275
Average realised gold price (incl. effect of Strategic Price Protection Programme) ($/oz)	1,257	1,306	(4%)	1,300
Total revenue	1,019	1,007	1%	2,239
Operating profit	531	278	91%	846
Profit/(loss) for the period	583	253	130%	(182)
Earnings/(loss) per share – basic and diluted (US cents)	18	8	125%	(5)
Adjusted net profit[2]	432	228	89%	615
Adjusted net profit margin (%)	42	23	19 ppts	27
Cash and cash equivalents and bank deposits	1,377	1,177	17%	1,486
Net cash inflow from operations[3]	515	362	42%	866
Capital expenditure[4]	96	287	(67%)	525
Adjusted EBITDA[5]	589	393	50%	1,011
Adjusted EBITDA margin (%)	58	39	19 ppts	45
Net debt[6]	375	370	1%	327
Net debt/adjusted EBITDA (last 12 months) (x)	0.31	0.42	(26%)	0.32
Total cash cost (TCC) per ounce sold ($/oz)[7]	436	662	(34%)	585
All-in sustaining cash cost (AISC) per ounce sold ($/oz)[8]	617	905	(32%)	825

[1] The Strategic Price Protection Programme comprises a series of zero-cost Asian gold collars ("revenue stabiliser") and gold forward contracts covering 288 koz in 1H 2015.
[2] "Adjusted Net Profit" is defined by the Group as a net profit adjusted for reversal of impairment/impairment losses, impact from derivative financial instruments, foreign exchange gain/loss and associated income tax related to one-off items.
[3] Interest paid for the period has been reclassified in the cash flow from operating activities into financing activities. Amounts for the comparative period were also restated.
[4] Capital expenditure figures are presented on an accrual basis.
[5] "Adjusted EBITDA" is defined by the Group as profit before finance costs, income tax, income/(losses) from investments (including derivatives), depreciation, amortisation and interest paid, and is further adjusted for certain items. The Group has made these adjustments in calculating Adjusted EBITDA to provide a clearer view of the performance of its underlying business operations and to generate a metric that it believes will give greater comparability over time with peers in its industry. The Group believes that Adjusted EBITDA is a meaningful indicator of its profitability and performance. This measure should not be considered as an alternative to profit for the period and operating cash flows based on IFRS, and should not necessarily be construed as a comprehensive indicator of the Group's measure of profitability or liquidity.
[6] Net debt is defined as short- and long-term debt, less cash and cash equivalents and short-term bank deposits. Short-term bank deposits with an original maturity of more than three months can be withdrawn on demand and therefore have the same liquidity as cash and cash equivalents. Net debt excludes derivative financial instrument assets/liabilities, site restoration and environmental obligations, deferred tax and other non-current liabilities. Net debt should not be considered as an alternative to current and non-current loans and borrowings, and should not necessarily be construed as a comprehensive indicator of the Group's overall of liquidity.
[7] For a definition and calculation of total cash costs per ounce sold, see the section Total cash costs.
[8] For a definition and calculation of all-in-sustaining costs per ounce sold, see the section All-in-sustaining costs.

1H 2015 – Key highlights

1. Gold sales increased by 6% y-o-y to 799 koz mainly driven by operational improvements at Titimukhta and Verninskoye.
2. Revenue up 1% y-o-y to $1,019 million as a result of higher sales volumes, partly offset by a lower average realized gold price.
3. Adjusted EBITDA up 50% to $589 million y-o-y driven by the rouble depreciation, higher sales volumes and cost optimisations.
4. Headline net profit for the period up by 130% to $583 million due to stronger operating earnings and revaluation gains on derivative financial instruments.
5. Adjusted net profit reached $432 million, an 89% increase y-o-y.
6. Cash and cash equivalents and bank deposits at the end of the period amounted to $1,377 million, a 7% decrease compared to the end of FY 2014 reflecting dividend payments in 2Q 2015.
7. Net cash inflow from operations of $515 million, up 42% y-o-y as a result of higher operating profit and ongoing strict working capital control.
8. Capex of $96 million, down 67% y-o-y owing to continued tight capital control, lower spending on Natalka and a weaker rouble.
9. A final dividend for FY 2014 of $184 million announced and paid in 2Q 2015.
10. Net debt of $375 million, a 15% increase compared to the end of FY 2014 reflecting the dividend payment in 2Q 2015.
11. Net debt/adjusted EBITDA remained flat at 0.31x at the end of the period (0.32x at the end of FY 2014).
12. TCC decreased 34% y-o-y to $436/oz due to the rouble depreciation and the rollout of cost reduction initiatives and AISC reduced 32% y-o-y to $617/oz reflecting in addition lower maintenance capex.
13. The Group continues the technical evaluation of the Natalka project with a view to optimise its configuration and minimise the remaining capital and operating costs. Several options on the processing side are being carefully considered with the engagement of world class third party consultants to develop the most efficient base case scenario for the production start up. In the meantime the construction of certain critical pieces of onsite infrastructure is ongoing. The Group intends to provide an update on the Natalka project in autumn 2015.

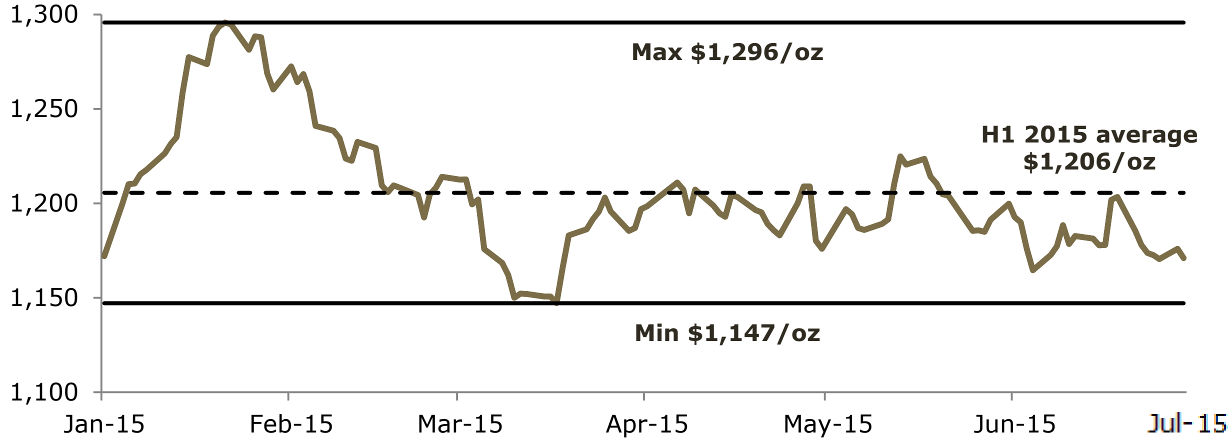
External factors review

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

Gold price dynamics

The market price of gold exerts a significant influence on the Group’s profitability and operating cash flow generation. In 1H 2015, the average London Bullion Market Association (LBMA) gold price was $1,206/oz, compared to $1,291/oz in 1H 2014.

LBMA gold price dynamics in 1H 2015, $/oz

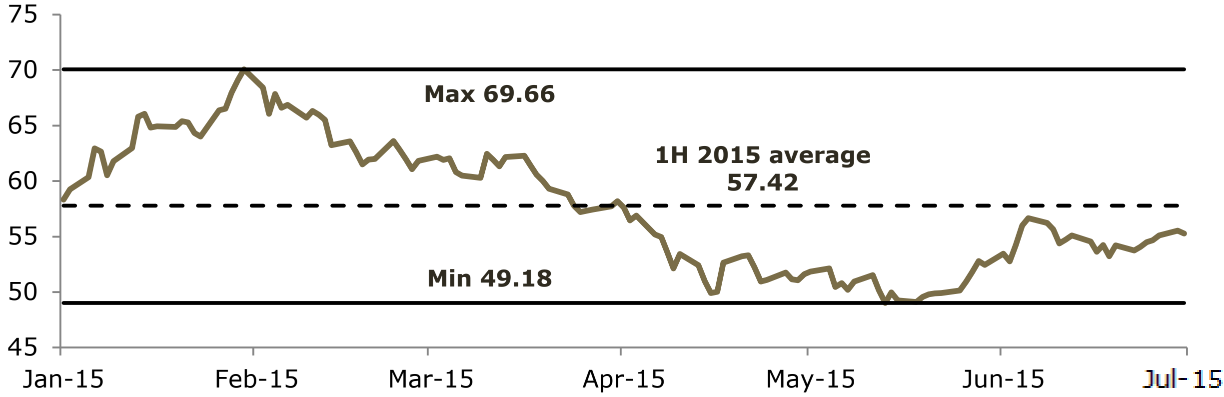


Source: London Bullion Market Association

Rouble exchange rate dynamics

The Group's revenue from gold sales is linked to the US dollar (USD), whereas most of the Group’s operating expenses are denominated in Russian roubles (RUB). The strengthening of the RUB against the USD can negatively impact the Group’s margins by increasing the USD value of its RUB-denominated costs, whilst a stronger USD positively affects its margins as it decreases the USD value of the Group’s RUB-denominated costs. In 1H 2015, the average RUB/USD exchange rate was 57.42, down 39% y-o-y from the 34.95 in 1H 2014. The combination of sanctions imposed on the Russian economy during 2014 (which were extended in 2015), combined with a lower average oil price for the period ($60/bbl in 1H 2015 vs. $100/bbl in 1H 2014), resulted in weaker average exchange rates in 1H 2015. As set out in the following section, the weaker RUB positively affected the Group’s operating margins in 1H 2015, due to the majority of its costs being RUB-denominated, and the USD being the reporting currency.

RUB/USD dynamics, 1H 2015



Source: Central Bank of Russia

Inflationary trends

All of the Group's operations are located in Russia. The Russian Consumer Price Index (CPI), calculated by the Central Bank of Russia, increased to 8.5% in 1H 2015 compared to 4.8% in 1H 2014. Annual inflation in June 2015 was 15.3% (June 2015 on June 2014). Inflation negatively impacts mining operations and increases production costs.

Financial review

Profit and loss statement review

Revenue analysis

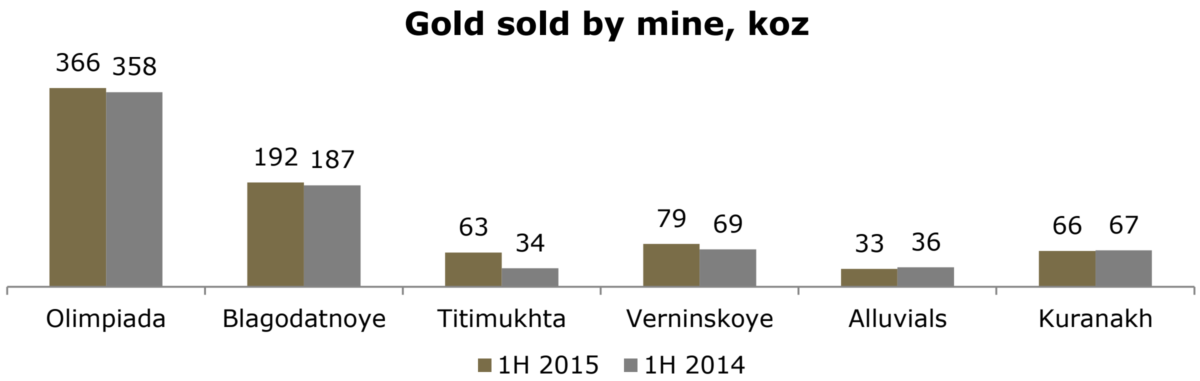
	1H 2015	1H 2014	y-o-y change	FY 2014
Gold sales ($ mln)	1,005	981	2%	2,197
Other sales ($ mln)	14	26	(46%)	42
Gold sales (koz)	799	751	6%	1,691
Average realised gold price (excl. effect of Strategic Price Protection Programme, SPPP) ($/oz)	1,202	1,296	(7%)	1,275
Average realised gold price (incl. effect of SPPP) ($/oz)	1,257	1,306	(4%)	1,300
Average afternoon gold LBMA price fixing ($/oz)	1,206	1,291	(7%)	1,266
Premium/(discount) of av. selling price (incl. effect of SPPP) over/(under) av. LBMA price fixing ($/oz)	51	15	240%	34

The Group's revenue from gold sales in 1H 2015 increased by 2% y-o-y to $1,005 million, as a result of higher sales volumes, notwithstanding lower gold prices. In 1H 2015, gold sales increased 6% y-o-y to 799 koz, while the average realised gold price amounted to $1,257/oz, down 4% y-o-y. The Strategic Price Protection Programme (SPPP) launched by the Group in 2014 mitigated the decrease in gold prices, as the average LBMA price fell 7% y-o-y to $1,206/oz. The Programme covered 288 koz of gold sold during 1H 2015. The positive effect of the SPPP on the 1H 2015 average selling price amounted to $55/oz. The Group's 1H 2015 average selling price was $51/oz above the average LBMA price for the period, compared to a $15/oz premium in 1H 2014.

Revenue breakdown by mine, 1H 2015

$ mln	Olimpiada	Blagodatnoye	Titimukhta[9]	Verninskoye	Alluvials	Kuranakh	Other	Total
Gold sales	467	245	80	96	39	78	-	1,005
Other sales	-	-	-	4	3	1	6	14
Total sales	**467**	**245**	**80**	**100**	**42**	**79**	**6**	**1,019**

[9] 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.



Cash costs analysis

Cost of sales breakdown

$ mln	1H 2015	1H 2014	y-o-y change	FY 2014
Cash operating costs	**353**	**540**	**(35%)**	**1,020**
Depreciation and amortisation (D&A) of operating assets	64	103	(38%)	174
Total cost of production	**417**	**643**	**(35%)**	**1,194**
Increase in gold-in-process and refined gold inventories	(11)	(44)	(75%)	(20)
Cost of gold sales	**406**	**599**	**(32%)**	**1,174**

In 1H 2015 the Group's cash operating costs fell 35% y-o-y to $353 million. Major cost items contributing to the overall decline were labour, consumables and fuel.

The lower rouble and efficiency measures were the main drivers of this sizable cost decrease and helped offset the increase in variable costs (a result of higher production and sales volumes) and also helped mitigate the negative impact of accelerated inflation which amounted to 15.3% in June 2015 on an annual basis.

Cash operating costs breakdown by item

$ mln	1H 2015	1H 2014	y-o-y change	FY 2014
Labour	110	168	(35%)	320
Consumables and spares	94	152	(38%)	281
Tax on mining	70	75	(7%)	154
Fuel	32	77	(58%)	131
Power	17	26	(35%)	44
Outsourced mining services	3	4	(25%)	19
Other	27	38	(29%)	71
Total	**353**	**540**	**(35%)**	**1,020**

As all of the Group's labour expenses are denominated in the local currency, rouble depreciation was a key element in the decrease in labour costs, although this was partially offset by the overall annual salary indexation.

Consumption of consumables and spare parts was reduced owing to the stabilisation of mill processing rates and reagent consumption at Olimpiada and Verninskoye, ongoing fine tuning of equipment and the Group-wide reassessment of planned maintenance and repair works. The increase in the purchase prices of major consumables (cyanide, grinding balls, activated carbon), driven by accelerated rouble inflation was contained to relatively low levels due to procurement efforts, which also had a positive impact on the y-o-y cost dynamics.

Fuel costs fell significantly due to the improvements in procurement resulting in a decrease in the purchase price; as well as the decrease in transportation costs at the Krasnoyarsk Business Unit and the favorable forex effect.

The decrease in power costs resulted from the weaker rouble and efficiencies across the Group, although this was partially offset by an annual tariff indexation and higher ore processing volumes at Olimpiada.

Other costs were down as a result of the rouble weakening and the reduction of insurance, rent, repair and maintenance expenses.

Cash operating costs breakdown by Business unit

$ mln	Krasnoyarsk		Verninskoye		Alluvials		Kuranakh	
	1H 2015	1H 2014	1H 2015	1H 2014	1H 2015	1H 2014	1H 2015	1H 2014
Labour	57	91	11	17	10	17	14	17
Consumables and spares	73	122	13	19	5	7	8	14
Tax on mining	57	58	5	7	3	4	5	6
Fuel	22	48	4	6	5	7	4	9
Power	10	12	2	2	2	1	6	9
Outsourced mining services	-	-	-	-	1	4	1	-
Other	28	48	3	5	4	4	6	10
Total	**247**	**379**	**38**	**56**	**30**	**44**	**44**	**64**

The largest savings at Krasnoyarsk were achieved in consumables, spare parts, labour and fuel. This was due to the weaker rouble and lower consumption of spare parts and decreased maintenance costs.

The major contributors to the decrease in costs at Verninskoye were labour and consumables and spare parts, owing to the weaker rouble, the stabilisation of mill processing rates and reagent consumption, as well as fine tuning initiatives for equipment, combined with cost reductions across the production flow.

Costs were reduced at Alluvials mainly through substituting outsourced mining services by in-house services combined with the positive forex impact.

Cash costs at Kuranakh dropped thanks to the weaker rouble and achievement of an optimal ore mix for the mill leading to lower reagent consumption. Also contributing to the drop in costs were price reductions for the main reagents and headcount optimisation.

Selling, general and administrative expenses

In 1H 2015 the Group's selling, general and administrative expenses (SG&A) expenses were down 20% y-o-y to $74 million due to the weaker rouble and expense optimisation. The major component of SG&A continued to be salaries, which fell 17% y-o-y.

SG&A breakdown by item

$ mln	1H 2015	1H 2014	y-o-y change	FY 2014
Employment costs	53	64	(17%)	124
Taxes other than mining and income taxes	6	12	(50%)	22
Professional services	6	6	-	16
Amortisation and depreciation	2	2	-	4
Other	7	8	(13%)	17
Total	**74**	**92**	**(20%)**	**183**

Total cash costs (TCC)

TCC calculation

$ mln	1H 2015	1H 2014	y-o-y change	FY 2014
Cost of gold sales	**406**	**599**	**(32%)**	**1,174**
– property, plant and equipment depreciation	(64)	(103)	(38%)	(174)
– provision for annual vacation payment	1	(3)	N.M.	1
– employee benefit obligations cost	-	(1)	(100%)	(1)
– change in allowance for obsolescence of inventory	1	(3)	N.M.	(14)
+ non-monetary changes in inventories	5	8	(38%)	3
TCC	**349**	**497**	**(30%)**	**989**
Gold sold (koz)	799	751	6%	1,691
TCC per ounce sold ($/oz)	**436**	**662**	**(34%)**	**585**

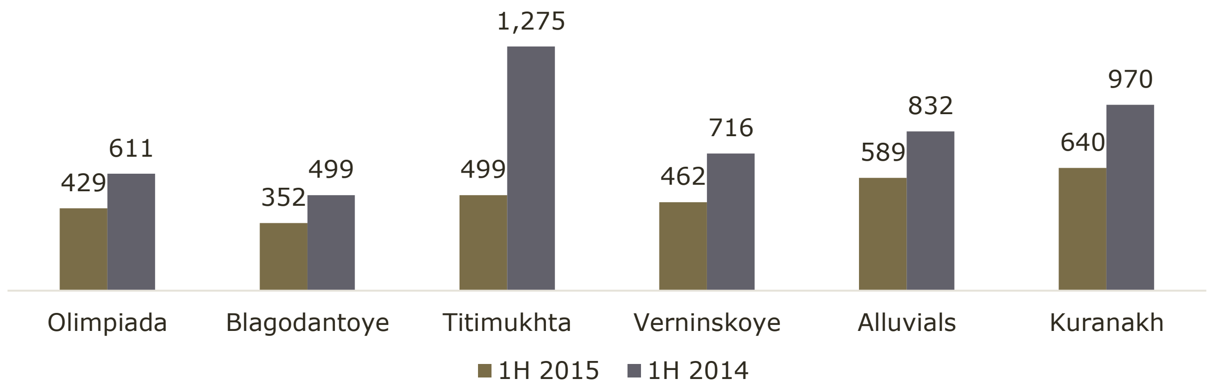
The Group's TCC demonstrated a strong performance in 1H 2015 dropping by 34% y-o-y to $436/oz. All mines showed lower production unit costs, as a result of the weaker local currency, the strong operational performance and the ongoing rollout of cost-reduction initiatives which helped mitigate inflationary pressures.

The greatest cost reduction in the reporting period was achieved at Titimukhta (down 61% y-o-y to $499/oz), where several mining and processing improvements were implemented in 1H 2015, including a switch to selective processing. As a result, in 1H 2015, mining works were optimised which enabled an increase in volumes of ore mined by 52% y-o-y. Ore processed volumes decreased y-o-y by 6%, however that was partly attributable to a lower amount of purchased ore from the third-party Veduga mine. The measures taken led to a substantial increase in the grade of ore processed and recoveries.

Another substantial TCC decrease occurred at Kuranakh (down 34% y-o-y) due to optimisation and improvements on the processing side, which, apart from cost savings, helped increase recovery 1.8 ppts y-o-y to 88.3%.

The successful performance of Verninskoye was mostly due to higher production volumes. This was achieved through improvements in recoveries, which sustainably reached the design target parameter of 86% in 1H 2015.

TCC performance by mine, $/oz



All-in sustaining costs (AISC)

Similar to the TCC dynamics, the Group's AISC demonstrated a notable 32% y-o-y decrease to $617/oz in the reported period. This puts the Group in the first decile on the global AISC curve[10]. Lower TCC, decreased SG&A and a decline in sustaining capex were the key drivers behind the positive performance. Stripping expenses, however, were up 185% y-o-y due to the continuing cutback at Olimpiada which started in the middle of FY 2014.

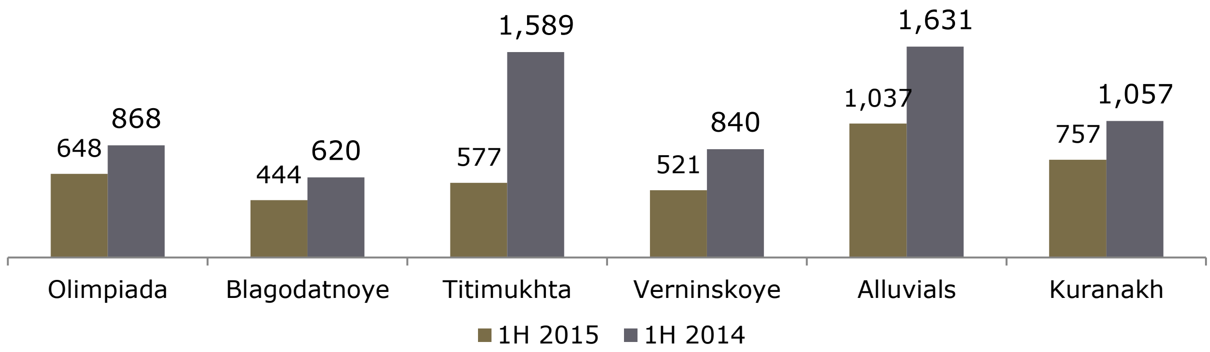
As for the mine by mine performance, the most substantial cost decrease took place at Titimukhta – by 64% y-o-y to $577/oz, broadly in line with the change in TCC.

[10] According to MetalsFocus

All-in sustaining costs calculation

$ mln	1H 2015	1H 2014	y-o-y change	FY 2014
Total TCC	**349**	**497**	**(30%)**	**989**
+ selling, general and administrative expenses	74	92	(20%)	183
- amortisation and depreciation	(2)	(2)	-	(4)
+ stripping activity asset additions	57	20	185%	109
+ sustaining capital expenditures	14	64	(78%)	99
+ unwinding of discounts on decommissioning liabilities	2	2	-	4
Adding back expenses excluded from costs of gold sales				
+ provision for annual vacation payment	(1)	3	N.M.	(1)
+ employee benefit obligations cost	-	1	(100%)	1
+ change in allowance for obsolescence of inventory	(1)	3	N.M.	14
Total all-in sustaining costs	**492**	**680**	**(28%)**	**1,394**
Gold sold (koz)	799	751	6%	1,691
All-in-sustaining cost ($/oz)	**617**	**905**	**(32%)**	**825**

All-in sustaining costs by mine, $/oz

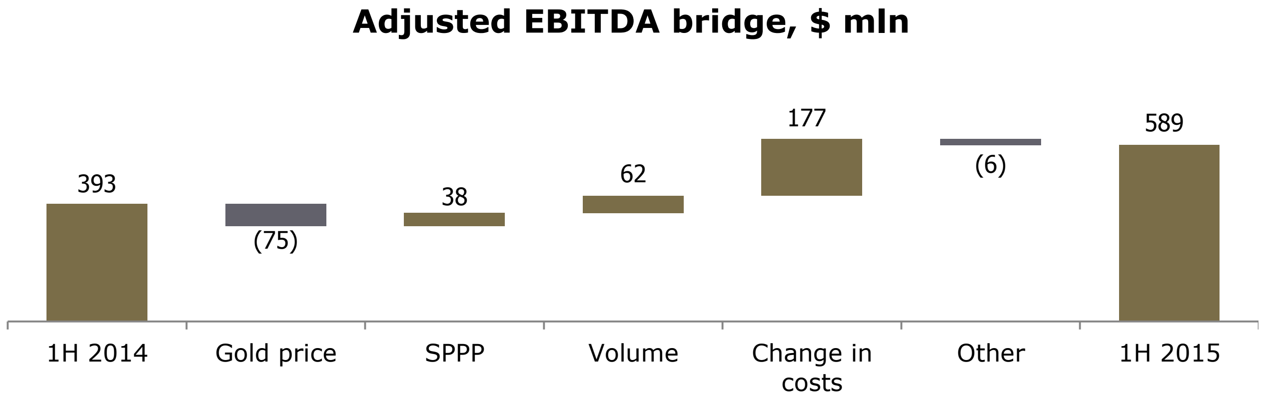


Adjusted EBITDA

The Group's adjusted EBITDA rose 50% y-o-y to $589 million in 1H 2015, with the adjusted EBITDA margin improving by 19 ppts y-o-y to 58%. The y-o-y growth resulted from the weaker rouble, continuing cost optimisations which helped offset inflationary pressures, higher sales volumes and a positive effect from the SPPP of $38 million.

Adjusted EBITDA calculation

$ mln	1H 2015	1H 2014	y-o-y change	FY 2014
Operating profit for the year	**531**	**278**	**91%**	**846**
Depreciation and amortisation	62	107	(42%)	174
(Reversal of impairment)/impairment losses	(4)	8	N.M.	(17)
Other	-	25	(100%)	8
Adjusted EBITDA	**589**	**393**	**50%**	**1,011**
Adjusted EBITDA margin (%)	58	39	19 ppts	45



All of the Group's mines continued to deliver a positive EBITDA result. The positive $43 million at Titimukhta is of special note, as it had had a negative EBITDA of $2 million in 1H 2014. As usual, Olimpiada and Blagodatnoye were the main contributors to the Group's earnings, although the relative improvements at all of the other mines were more substantial.

1H 2015 adjusted EBITDA breakdown by mine, $ mln

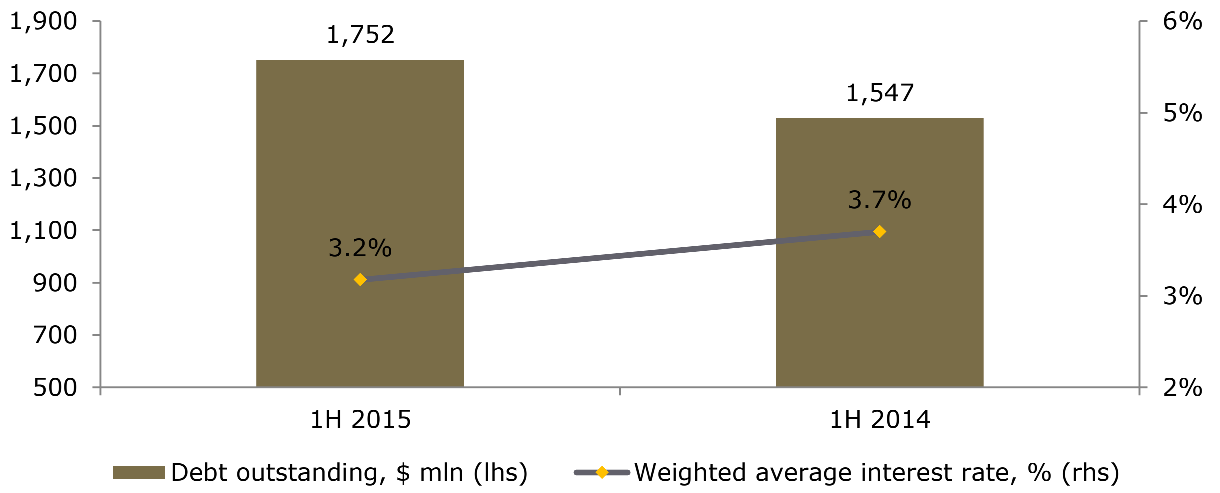
$ mln	1H 2015	1H 2014	y-o-y change	FY 2014
Olimpiada	287	214	34%	490
Blagodatnoye	162	131	24%	305
Titimukhta	43	(2)	N.M.	27
Verninskoye	58	36	61%	89
Alluvials	10	5	100%	70
Kuranakh	33	20	65%	50
Other	(4)	(11)	(64%)	(20)
Total	**589**	**393**	**50%**	**1,011**

Finance cost analysis

$ mln	1H 2015	1H 2014	y-o-y change	FY 2014
Interest on borrowings	65	33	97%	100
Gain on exchange of interest payments under cross currency swap	(18)	-	N.M.	(16)
Gain on exchange of interest payments under interest rate swaps	(6)	-	N.M.	(4)
Unwinding of discounts on decommissioning liabilities	2	2	-	4
Other	-	-	-	2
Sub-total finance cost	**43**	**35**	**23%**	**86**
Interest capitalised in the cost of mine under development and capital construction-in progress	-	(25)	100%	(60)
Total finance cost expensed	**43**	**10**	**330%**	**26**

The Group's total finance costs in 1H 2015 came to $43 million, as compared to $10 million in 1H 2014. As the commissioning of Natalka has been postponed and the construction has slowed down, there has been no material capitalised interest in 1H 2015, whereas there had been $25 million in 1H 2014. Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps), amounted to $41 million in 1H 2015, compared to $33 million in 1H 2014. The growth in interest payments resulted from higher gross debt, while the average interest rate fell to 3.2%, from 3.7% in 1H 2014. This was primarily due to the positive effect from cross-currency and interest rate swaps.

Weighted average interest rate dynamics



Foreign exchange gain and derivatives

The Group's foreign exchange loss in 1H 2015 totalled $5 million, compared to the $40 million in 1H 2014.

As mentioned above, in 2014 the Group initiated the SPPP, which is comprised of a series of zero-cost Asian gold collars ("revenue stabiliser") and gold forward contracts.

Valuation and hedge accounting of derivative financial instruments as at 30 June 2015

$ mln	Notional	Asset	Liability	Fair value recorded	Profit & loss (income)	Other comprehensive loss (income)
Revenue stabilizer	-	113	-	113	(42)	5
Gold forwards	-	22	-	22	(9)	8
Cross-currency collars	750	-	(214)	(214)	(116)	-
Cross-currency swaps	1,023	-	(382)	(382)	(39)	-
Interest rate swaps	750	11	-	11	(8)	-
Total	**2,523**	**146**	**(596)**	**(450)**	**(214)**	**13**

Revenue stabiliser

During the six months ended 30 June 2015, a further $30 million was recognised as an increase to the Cash Flow Hedge Revaluation Reserve within Equity reflecting the fall in the market price for gold in the period.

The total positive effect on the statement of profit or loss from the revenue stabiliser programme in 1H 2015 totalled $35 million as a realized gain and $7 million as an unrealized gain.

Forward contracts

During the six months ended 30 June 2015, $1 million was recognised as an increase to the Cash Flow Hedge Revaluation Reserve within Equity. Following the sale of the hedged amount of gold $9 million was also reclassified from the Cash Flow Hedge Revaluation Reserve within Equity to Gold Sales within the condensed consolidated interim statement of profit or loss.

The positive effect from gold forward contracts in 1H 2015 totalled $9 million, as gold traded below the fixed contract price of $1,321/oz.

The combined effect of gold-linked derivatives (Revenue stabiliser and Forward contracts) on revenue in 1H 2015 amounted to $44 million.

Currency collars

Reflecting the macroeconomic conditions and the weaker rouble the options that matured during the six months ended 30 June 2015 resulted in a realised loss of $217 million. The remainder of the options were revalued at the period end, resulting in a total gain on currency collars in the amount of $116 million (as presented in note 8 to the condensed consolidated interim financial statements) following the strengthening of the rouble forward rates by 30 June 2015 when calculating fair value compared to 31 December 2014.

Cross-currency and interest rate swaps

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

The positive effect from cross-currency and interest rate swaps in 1H 2015 amounted to $24 million. This was recorded as a realised gain on the exchange of interest payments under interest rate and cross currency swaps in Finance Costs.

Income taxes

The Group's overall income taxes totalled $76 million in 1H 2015, a 12% increase y-o-y. The current income tax expense increased by 114% y-o-y to $79 million, in line with the growth of the pre-tax profit. The effective tax rate has been significantly reduced as the derivative gains are not subject to tax due to unrecognised carry forward losses.

Net profit

The Group's net profit in 1H 2015 more than doubled y-o-y to $583 million. The result was driven by the overall growth in operating profit and a positive impact from derivatives, including revaluation gains on derivative financial instruments. Adjusting for those items, the Group's net profit for 1H 2015 stood at $432 million.

Adjusted net profit calculation

$ mln	**1H 2015**	**1H 2014**	**y-o-y change**	**FY 2014**
Net profit	**583**	**253**	**130%**	**(182)**
+ (reversal of impairment)/impairment losses	(4)	8	N.M.	(17)
+ impact from derivative financial instruments	(145)	(81)	79%	934
+ impact from forex	5	40	(88%)	(123)
+ income tax related to one-off items	(7)	8	N.M.	3
Adjusted net profit	**432**	**228**	**89%**	**615**

Statement of financial position review

Debt

As of 30 June 2015, the Group's gross debt amounted to $1,752 million, a 3% decrease from the $1,813 million at the end of FY 2014. 98% of the gross debt was long-term, reflecting the Group's robust liquidity position.

The $750 million Eurobond due in 2020 accounted for a large proportion (43%) of the gross debt, while bank loans made up 54% of the debt portfolio, dominated by the credit facility from Sberbank for RUB 36 billion, obtained in April 2014.

Debt breakdown by type

$ mln	1H 2015	FY 2014	1H 2014
Eurobonds	746	745	745
Export credit agency (ECA) financing	8	14	20
Deferred payments under letters of credit	47	107	164
Bank loans	950	947	618
Total	**1,752**	**1,813**	**1,547**

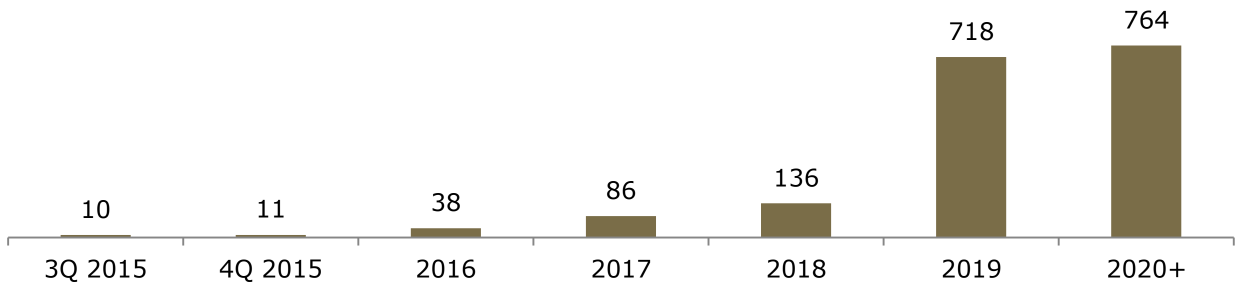
When looking at the currency breakdown, the Group's debt was mostly USD-denominated, reflecting the large portion represented by the USD Eurobonds. As previously mentioned in the cross-currency swaps section, the RUB 36 billion credit facility from Sberbank obtained in April 2014 was economically hedged via cross-currency swaps.

Debt breakdown by currency

$ mln	1H 2015	FY 2014	1H 2014
EUR	16	69	120
RUB	604	596	527
USD	1,132	1,148	900
Total	**1,752**	**1,813**	**1,547**

The Group's debt repayment schedule continues to remain very comfortable with the RUB 36 billion credit facility from Sberbank and the Eurobond issue not due to mature until 2019–2020. Ahead of that, from the second half of 2015 until 2018, debt repayments amount to $282 million, which was 20% of the Group's cash position as of the end of 1H 2015.

Debt maturity schedule[11], $ mln



Cash and cash equivalents and bank deposits

As of 30 June 2015, the Group's cash and cash equivalents and bank deposits amounted to $1,377 million, down 7% from the end of FY 2014, in large part due to the final FY 2014 dividend payment in 2Q 2015. Bank deposits amounted to $49 million. The Group believes that a sizeable cash position is necessary in the current market conditions in which access to capital could prove limited. The Group's cash position is dominated by the USD, as revenue is fully linked to the USD-nominated gold price, while the RUB exchange rate is subject to significant volatility.

Cash, cash equivalents and bank deposits breakdown by currency as at 30 June 2015

$ mln	1H 2015	FY 2014	1H 2014
RUB	164	63	241
USD	1,213	1,406	936
EUR	-	17	-
Total	**1,377**	**1,486**	**1,177**

Net debt

As of 30 June 2015, the Group's net debt stood at $375 million, slightly up from the end of FY 2014, while remaining almost flat versus the end of 1H 2014, notwithstanding the $184 million dividend payment.

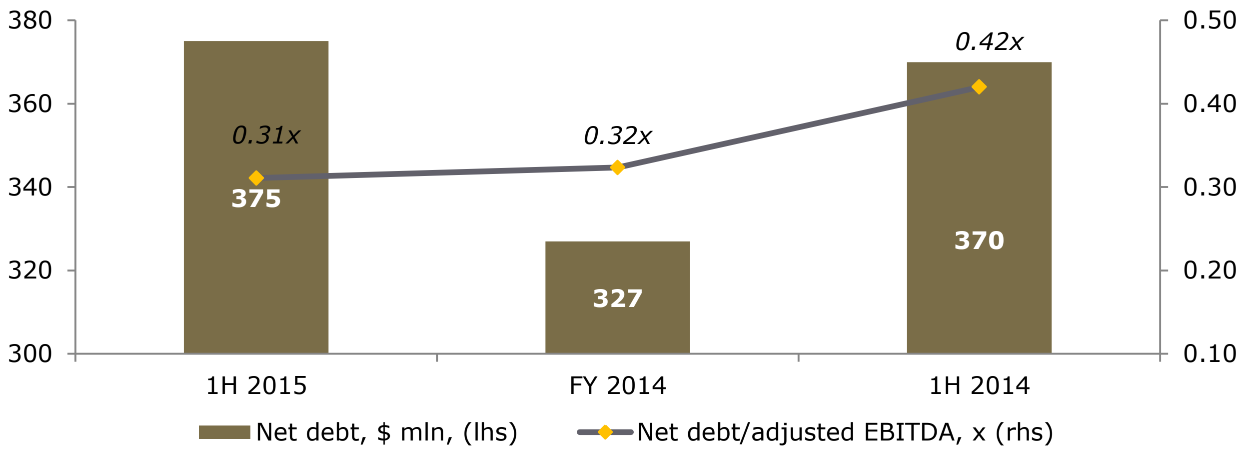
[11] The breakdown is based on actual maturities and excludes $11 million of bank commissions included in borrowings, in accordance with IFRS.

Net debt evolution

$ mln	1H 2015	FY 2014	1H 2014
Non-current borrowings	**1,714**	**1,723**	**1,390**
+ Current borrowings	38	90	157
– Cash and cash equivalents	(1,328)	(1,217)	(875)
– Bank deposits	(49)	(269)	(302)
Net debt	**375**	**327**	**370**

The net debt/adjusted EBITDA ratio in 1H 2015 remained flat to the FY 2014 level of 0.3x, notwithstanding a $184 million dividend payment in 2Q 2015.

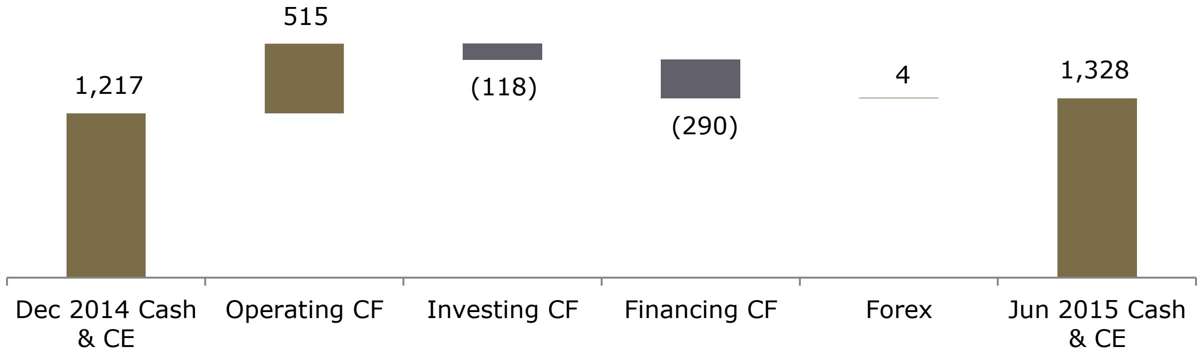
Net debt and net debt/adjusted EBITDA ratio



Cash flow review

The Group's operating cash flow[12] in 1H 2015 increased by 42% y-o-y to $515 million. Cash utilised in investing activities stood at $118 million, compared to $548 million in 1H 2014. The lower y-o-y spending on investing activities was due to lower capex, especially on the Natalka project. Cash outflow from financing activities amounted to $290 million in 1H 2015 compared to an inflow of $301 million in 1H 2014. These factors led cash and cash equivalents to grow by $111 million to $1,328 million at the end of 1H 2015.

1H 2015 cash flow bridge, $ mln



Operating cash flow

The Group generated robust operational cash flow in 1H 2015 of $515 million, 42% above the 1H 2014 level of $362 million. The increase resulted from strong EBITDA generation, driven by lower costs, higher sales volumes, benefits from the SPPP and a weaker rouble. There was also a $12 million release of working capital, compared to a working capital build up in 1H 2014. Strict control over working capital continues to remain a priority for the Group.

Capex

The Group's capex in 1H 2015 declined by 67% to $96 million from $287 million in 1H 2014 as a result of lower spending on the Natalka project, stringent capital control, both over development and maintenance capex, and the rouble depreciation.

The Group spent $38 million on Natalka in 1H 2015, down 78% y-o-y following the decision to slow down its development after a reassessment of the deposit's reserves in 2H 2014. Spending at Natalka in 1H 2015 was related to works inside the production units and buildings, the construction of the tunnel and spending on the pilot plant.

Spending on Olimpiada decreased 74% y-o-y, as a number of development projects which commenced in FY 2013, including the automation of the mill, were completed in 1H 2014.

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

Among the largest projects in the reported period were preparation works for the connection to the new Razdolinskaya-Taiga grid.

Blagodatnoye capex declined 69% y-o-y to $4 million, as the construction of a large dormitory for personnel was included in 1H 2014 investments. In 1H 2015, the major capex project at the mine was the upgrade and expansion of the Blagodatnoye mill.

At Alluvials, capital spending dropped 80% y-o-y, as a large portion of equipment was acquired in advance in 1H 2014, thereby providing a high-base effect for the 1H 2015 number.

Among other projects, the leading contributors to capex were the construction of two electricity grids – Peleduy-Mamakan in the Irkutsk Region and Razdolinskaya-Taiga in the Krasnoyarsk Region. The former was nearly completed in 1H 2015 and is now being prepared for launch.

1H 2015/1H 2014 capex breakdown[13]

$ mln	1H 2015	1H 2014	y-o-y change	FY 2014
Natalka	38	172	(78%)	310
Olimpiada	10	38	(74%)	56
Blagodatnoye	4	13	(69%)	17
Verninskoye	8	12	(33%)	38
Alluvials	3	15	(80%)	17
Titimukhta	-	6	N.M.	6
Kuranakh	2	2	-	6
Exploration	1	5	(80%)	6
Other (incl. power projects)	30	24	25%	69
Total	**96**	**287**	**(67%)**	**525**

Financing cash flow

Cash outflow from financing activities amounted to $290 million in 1H 2015 versus the cash inflow of $301 million in 1H 2014. This was a result of the FY 2014 dividend payment in 2Q 2015 and a lack of new borrowings in 1H 2015 (compared to RUB 36 billion in proceeds from the Sberbank credit facility in 1H 2014).

Dividends

On 10 April 2015, Polyus Gold's Board of Directors adopted a new dividend policy. The Group will pay 30% of its adjusted net profit as a regular dividend. Polyus Gold will also consider paying a special dividend, subject to the Group's financial position, FCFs, leverage and outlook. In line with the adopted dividend policy the Board recommended a final dividend of 6.08 US cents per ordinary share, or $184 million in total for the year ended 31 December 2014, which amounts to 30% of the adjusted net income for the year 2014. The proposed

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

final dividend and its payment date were approved by the shareholders at the Annual General Meeting held on 15 May 2015.

Related-party transactions

Related-party transactions are disclosed in note 20 to the condensed consolidated interim financial statements. The Group had no transactions with its shareholders during 1H 2015 and FY 2014.

Going concern

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in this MD&A on pages 18 to 22. As at 30 June 2015, the Group held $1,377 million of cash and cash equivalents and bank deposits and had a net debt of $375 million with $720 million of undrawn but committed facilities available subject to covenant compliance. Details on borrowings and credit facilities are disclosed in note 19 of the financial statements. In assessing its going concern status, the directors have considered the uncertainties affecting future cash flows and have taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. In the event of certain reasonably possible adverse pricing and forex scenarios and the risks and uncertainties below, management has within its control the option of deferring uncommitted capital expenditure or managing the dividend payment profile to maintain the Group's funding position.

Having examined all scenarios the Group concluded, that no covenants will be breached in any of these adverse pricing scenarios. Accordingly, the Board is satisfied that the Group's forecasts and projections, having taken account of reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of signing the condensed consolidated interim financial statements and that it is appropriate to adopt the going concern basis in preparing the condensed consolidated interim financial statements for the six months ended 30 June 2015.

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, a number of sanction packages have been imposed by the US and the EU on certain Russian officials, businessmen and companies. In March 2015 the US extended imposed sanctions by one year, and in late June 2015 the EU announced the extension of sanctions by six months until 31 January 2016.

In 2014, the credit agency Standard & Poor's downgraded Russia's long-term foreign currency sovereign rating from BBB to BBB- with a negative outlook. Previously, Fitch credit agency had also revised Russia's creditworthiness outlook from stable to negative. These events, including the official sanctions, particularly if further extended, may adversely affect the Russian economy through reduced access for Russian businesses to international capital and export markets, capital flight, weakening of the rouble, and other negative economic consequences. The impact of these developments on the operations and financial position of the Group is difficult to predict at this stage. The situation and availability of relevant operating equipment are being actively monitored.

The Directors do not consider that the principal risks and uncertainties have changed materially since the publication of the annual report for the year ended 31 December 2014. A detailed explanation of the risks summarized below, and how the Group seeks to mitigate the risks, can be found on pages 14 to 19 of the Annual Report which is available at http://www.polyusgold.com/.

- **Mineral resources and ore reserves**
  The Group's activities are reliant on the quantity and quality of the mineral resources and ore reserves available to it. If the quantity and quality of mineral resources and ore reserves are not as expected, the gold deposit may not be economically viable to mine and the mineral reserves could consequently be re-evaluated downward.

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

- **Capital construction and project risks**
  Implementation of the Group's investment projects is subject to geological, market, operational and compliance risks. Occurrence of identified risks may result in late commissioning, increased cost of projects, reduced profitability and lower efficiency of projects and revocation of mining and exploration licenses.

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

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

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

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

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

- **Environmental risk**
  Mining operations create physical damage to the soil, subsoil and underlying strata, damage flora and fauna and result in the loss of habitats. Spoils from mining operations and the waste products of processing may be toxic, requiring careful handling and disposal. The reputational and financial costs of environmental failures can be significant.

- **Macroeconomic risks**
  Macroeconomic risks that apply to the Group include: price risk, foreign exchange risk, interest rate risk, inflation and certain other macroeconomic factors.

Outlook

The Group confirms its plan to produce 1.63-1.71 moz of gold in FY 2015. The 1H 2015 strong financial and operational results provide a good foundation for a solid financial performance in FY 2015.

Independent Review Report to Polyus Gold International Limited

We have been engaged by the Company to review the condensed consolidated set of interim financial statements in the Interim Management Report for the six months ended 30 June 2015 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 24. We have read the other information contained in the Interim Management Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of interim 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 Management Report is the responsibility of, and has been approved by, the directors. The Directors are responsible for preparing the Interim Management 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 consolidated set of interim financial statements included in this Interim Management 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 interim financial statements in the Interim Management 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 interim financial statements in the Interim Management Report for the six months ended 30 June 2015 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
19 August, 2015

Polyus Gold International Limited

Condensed consolidated interim financial statements for the six months ended 30 June 2015 (unaudited)

Polyus Gold International Limited

Condensed consolidated interim statement of profit or loss for the six months ended 30 June 2015 (unaudited)
(in millions of US Dollars, except for earnings per share data)

	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014	Year ended 31 December 2014
Gold sales	3	1,005	981	2,197
Other sales		14	26	42
Total revenue		**1,019**	**1,007**	**2,239**
Cost of gold sales	4	(406)	(599)	(1,174)
Cost of other sales		(12)	(23)	(33)
Gross profit		**601**	**385**	**1,032**
Selling, general and administrative expenses	5	(74)	(92)	(183)
Other expenses, net		-	(7)	(20)
Reversal of impairment / (impairment losses)	6	4	(8)	17
Operating profit		**531**	**278**	**846**
Finance costs	7	(43)	(10)	(26)
Interest income on bank deposits		31	12	31
Gain / (loss) on derivative financial instruments and investments, net	8	145	81	(934)
Foreign exchange (loss) / gain		(5)	(40)	123
Profit before income tax		**659**	**321**	**40**
Current income tax expense		(79)	(37)	(220)
Deferred income tax benefit / (expense)		3	(31)	(2)
Profit / (loss)		**583**	**253**	**(182)**
Attributable to:				
Shareholders of the Company		552	241	(164)
Non-controlling interests		31	12	(18)
		583	**253**	**(182)**
Weighted average number of ordinary shares for diluted earnings per share (million)	17	3,034	3,032	3,032
Earnings / (loss) per share (US Cents), basic		18	8	(5)
Earnings / (loss) per share (US Cents), diluted[1]		18	8	(5)

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

Polyus Gold International Limited

Condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2015 (unaudited)
(in millions of US Dollars)

	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014	Year ended 31 December 2014
Profit / (loss)		**583**	**253**	**(182)**
Other comprehensive income / (loss)				
Items that may be subsequently reclassified to profit or loss:				
Increase in revaluation of cash flow hedge reserve on revenue stabiliser	13	30	7	132
Increase in revaluation of cash flow hedge reserve on gold forward	13	1	(2)	36
Deferred tax relating to increase in revaluation of cash flow hedge reserve		-	-	(26)
Effect of translation to presentation currency		41	(104)	(1,751)
		72	**(99)**	**(1,609)**
Items that have been reclassified through profit or loss:				
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser	13	(35)	(7)	(35)
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward	13	(9)	-	(6)
Deferred tax relating to cash flow hedge reserve reclassified to consolidated statement of profit or loss		19	-	7
		(25)	**(7)**	**(34)**
Other comprehensive income / (loss)		**47**	**(106)**	**(1,643)**
Total comprehensive income / (loss)		**630**	**147**	**(1,825)**
Attributable to:				
Shareholders of the Company		594	142	(1,705)
Non-controlling interests		36	5	(120)
		630	**147**	**(1,825)**

Polyus Gold International Limited

Condensed consolidated interim statement of financial position at 30 June 2015 (unaudited)
(in millions of US Dollars)

Assets	Notes	30 June 2015	30 June 2014	31 December 2014
Non-current assets				
Property, plant and equipment	9	976	1,442	950
Capital construction-in-progress	10	200	291	189
Mine under development	11	1,158	1,709	1,102
Exploration and evaluation assets	12	115	178	110
Derivative financial instruments and investments	13	148	90	172
Inventories	14	236	324	227
Deferred tax assets		62	-	47
Other non-current assets		4	1	3
		2,899	**4,035**	**2,800**
Current assets			-	
Inventories	14	428	756	440
Deferred expenditures		26	41	13
Other receivables		15	17	11
Advances paid to suppliers and prepaid expenses		16	29	16
Taxes receivable		54	135	48
Bank deposits	15	49	302	269
Cash and cash equivalents	16	1,328	875	1,217
		1,916	**2,155**	**2,014**
Total assets		**4,815**	**6,190**	**4,814**
Equity and liabilities				
Capital and reserves				
Share capital	17	1	1	1
Additional paid-in capital	17	2,153	2,152	2,152
Cash flow hedge revaluation reserve	13	114	(2)	108
Translation reserve		(2,009)	(493)	(2,045)
Retained earnings		1,626	2,163	1,258
Equity attributable to shareholders of the Company		**1,885**	**3,821**	**1,474**
Non-controlling interests		176	278	146
		2,061	**4,099**	**1,620**
Non-current liabilities				
Site restoration, decommissioning and environmental obligations	18	46	69	49
Borrowings	19	1,714	1,390	1,723
Derivative financial instruments	13	382	9	423
Deferred tax liabilities		144	163	150
Other non-current liabilities		23	32	22
		2,309	**1,663**	**2,367**
Current liabilities				
Borrowings	19	38	157	90
Derivative financial instruments	13	214	-	547
Trade, other payables and accrued expenses		148	225	154
Taxes payable		45	46	36
		445	**428**	**827**
Total liabilities		**2,754**	**2,091**	**3,194**
Total equity and liabilities		**4,815**	**6,190**	**4,814**

Polyus Gold International Limited

Condensed consolidated interim statement of changes in equity for the six months ended 30 June 2015 (unaudited)

(in millions of US Dollars)

	Notes	Number of outstanding shares, (million)	Share capital	Additional paid-in capital	Cash flow hedge revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
			Equity attributable to shareholders of the Company							
Balance at 31 December 2013		**3,032**	**1**	**2,152**	**-**	**(396)**	**1,922**	**3,679**	**275**	**3,954**
Profit		-	-	-	-	-	241	**241**	12	**253**
Decrease in cash flow hedge revaluation reserve		-	-	-	(2)	-	-	**(2)**	-	**(2)**
Other comprehensive loss		-	-	-	-	(97)	-	**(97)**	(7)	**(104)**
Total comprehensive 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**
Loss		-	-	-	-	-	(405)	**(405)**	(30)	**(435)**
Increase in cash flow hedge revaluation reserve		-	-	-	110	-	-	**110**	-	**110**
Other comprehensive loss		-	-	-	-	(1,552)	-	**(1,552)**	(95)	**(1,647)**
Total comprehensive income		**-**	**-**	**-**	**110**	**(1,552)**	**(405)**	**(1,847)**	**(125)**	**(1,972)**
Dividends declared and paid to shareholders of the Company		-	-		-	-	(500)	**(500)**	-	**(500)**
Dividends declared and paid to shareholders of non-controlling interests		-	-		-	-	-	**-**	(7)	**(7)**
Balance at 31 December 2014		**3,032**	**1**	**2,152**	**108**	**(2,045)**	**1,258**	**1,474**	**146**	**1,620**
Profit		-	-	-	-	-	552	552	31	583
Increase in cash flow hedge revaluation reserve	13	-	-	-	6	-	-	6	-	6
Other comprehensive income		-	-	-	-	36	-	36	5	41
Total comprehensive income		**-**	**-**	**-**	**6**	**36**	**552**	**594**	**36**	**630**
Equity-settled share-based payment plans (Long Term Incentive Plan)	17	-	-	1	-	-	-	1	-	1
Dividends declared and paid to shareholders of the Company	17	-	-	-	-	-	(184)	(184)	-	(184)
Dividends declared to shareholders of non-controlling interests		-	-	-	-	-	-	-	(6)	(6)
Balance at 30 June 2015		**3,032**	**1**	**2,153**	**114**	**(2,009)**	**1,626**	**1,885**	**176**	**2,061**

Polyus Gold International Limited

Condensed consolidated interim statement of cash flows for the six months ended 30 June 2015 (unaudited)

(in millions of US Dollars)

	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014	Year ended 31 December 2014
Operating activities				
Profit before income tax		**659**	**321**	**40**
Adjustments for:				
(Reversal of impairment) / impairment losses	6	(4)	8	(17)
Finance costs	7	43	10	26
Interest income on bank deposits		(31)	(12)	(31)
(Gain)/ loss on derivative financial instruments and investments	8	(145)	(81)	934
Amortisation and depreciation	9	62	107	182
Foreign exchange loss / (gain)		5	40	(123)
Other		(2)	2	10
		587	**395**	**1,021**
Movements in working capital				
Inventories		15	(109)	(121)
Deferred expenditures		(12)	(24)	(5)
Other receivables		(2)	7	6
Advances paid to suppliers and prepaid expenses		(2)	(3)	(2)
Taxes receivable		2	88	123
Trade and other payables and accrued expenses		8	32	54
Taxes payable		3	(3)	(25)
Cash flows from operations		**599**	**383**	**1,051**
Income tax paid		(84)	(21)	(185)
Net cash generated from operating activities		**515**	**362**	**866**
Investing activities				
Payments for acquisition of capital construction-in-progress, exploration and evaluation assets and assets for mine under development		(100)	(283)	(461)
Payments for stripping activity asset		(54)	(20)	(109)
Interest received		30	12	29
Increase in bank deposits		(71)	(320)	(475)
Proceeds from redemption of bank deposits		291	63	248
Proceeds from derivatives		-	-	43
Payment for the currency collars	13	(217)	(5)	(55)
Other		3	5	6
Net cash utilised in investing activities		**(118)**	**(548)**	**(774)**
Financing activities				
Interest paid[2]		(62)	(26)	(77)
Net proceeds on exchange of interest payments under interest and cross currency rate swaps	13	24	-	20
Dividends paid to shareholders of the Company	17	(184)	-	(500)
Dividends paid to non-controlling interests		-	(2)	(10)
Proceeds from borrowings	19	-	537	1,254
Repayment of borrowings	19	(68)	(208)	(294)
Net cash (utilised in) / generated from financing activities		**(290)**	**301**	**393**
Net increase in cash and cash equivalents		**107**	**115**	**485**
Cash and cash equivalents at beginning of the year	16	**1,217**	**809**	**809**
Effect of foreign exchange rate changes on cash and cash equivalents		4	(49)	(77)
Cash and cash equivalents at end of the year	16	**1,328**	**875**	**1,217**

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

1. General

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

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

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

The Group also performs research, exploration and development works, the development works being primarily at the Natalka licence area located in the Magadan region of the Russian Federation. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 24.

2. Basis of preparation and presentation

Going concern

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

During the review of the preparation of the financial statements for the six months ended 30 June 2015 the Directors have reconsidered the previous presentation of interest paid in the cash flow statement as an operating cash flow and concluded that it should now more appropriately be included as a financing cash flow as this provides a better reflection of the current financing position of the Group. The Group's debt facilities not only ensure finance for ongoing operational requirements but also provide sufficient financial resources to support expected and potential investment plans and have secured certainty of financing at a more challenging time for obtaining debt in Russia. This change is presentational only and the change has no impact on any of the primary statements other than the statement of cash flows, nor does it have any impact on the overall net increase in cash and cash equivalents disclosed.

(in millions of US Dollars)

IFRS standards update

There were no IFRS standards endorsed by the EU during the six months ended 30 June 2015.

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

Title	**Subject**	**Effective for annual periods beginning on or after**	**Effect on the condensed consolidated interim financial statements in future periods**
IFRS 9	Financial instruments	1 January 2018	To be determined
IFRS 14	Regulatory deferral accounts	1 January 2016	To be determined
IFRS 15	Revenue with contracts from customers	1 January 2017	To be determined
Amendments to IFRS 10, IFRS 12 and IAS 28:	Investment entities: applying the consolidation exception	1 January 2016	To be determined
Amendments to IAS 1:	Disclosure Initiative	1 January 2016	To be determined
Annual Improvements to IFRSs 2012–2014 Cycle	-	1 January 2016	To be determined
Amendments to IAS 27	Equity method in separate financial statements	1 January 2016	To be determined
Amendments to IAS 16 and 41	Bearer plants	1 January 2016	To be determined
Amendments to IAS 16 and 38	Clarification of acceptable methods of depreciation and amortisation	1 January 2016	To be determined
Amendments to IFRS 11	Joint arrangements	1 January 2016	To be determined

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

Exchange rates

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

	Six months ended		**Year ended 31**
	30 June 2015	**30 June 2014**	**December 2014**
Russian Rouble/US Dollar			
Period end rate	55.52	33.63	56.26
Average for the period	57.42	34.98	38.42

Starting from 1 January 2015, all income and expenses are translated at the average quarterly exchange rates.

Critical accounting judgements, estimates and assumptions

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

Critical judgements in applying accounting policies

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

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

Key sources of estimation uncertainty

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

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

The use of inaccurate assumptions in assessments made for any of these judgements and estimates could result in a significant impact on financial results.

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 2015 are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2014.

3. Segment information

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

- ***Krasnoyarsk business unit*** (Krasnoyarsk region of the Russian Federation)
  Extraction, refining and sale of gold from the Olimpiada, Blagodatnoye and Titimukhta mines, as well as research, exploration and development work at the Olimpiada and Blagodatnoye deposits;
- ***Irkutsk alluvial business unit*** (Irkutsk region, Bodaibo district of the Russian Federation)
  Extraction, refining and sale of gold from several alluvial deposits;
- ***Irkutsk ore business unit*** (Irkutsk region, Bodaibo district of the Russian Federation)

Extraction, refining and sale of gold from the Verninskoye mine, research, exploration and development works at the Smezhny and Medvezhy Zapadny deposits;

- ***Yakutia Kuranakh business unit*** (Sakha Republic of the Russian Federation)

  Extraction, refining and sale of gold from the Kuranakh mines;

- ***Magadan business unit*** (Magadan region of the Russian Federation)

  Represented by JSC “Matrosova Mine” which performs development works at the Natalka deposit;

- ***Exploration business unit*** (Krasnoyarsk region, Irkutsk region, Amur region, and others)

  Research and exploration works in several regions of the Russian Federation;

- ***Capital construction unit*** (Magadan region, Krasnoyarsk region, Irkutsk region and others)

  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. The CODM performs an analysis of the operating results based on these separate business units and evaluates the reporting segment’s results, for purposes of resource allocation, based on the measurements of:

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

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

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

	Gold sales	Ounces of gold sold in thousands[3]	Adjusted EBITDA[3]	Total cash cost per ounce of gold sold (USD per ounce)[3]	Capital expenditures
For the six months ended 30 June 2015					
Business units					
Krasnoyarsk	792	621	492	413	15
Irkutsk alluvial	39	33	10	589	3
Irkutsk ore	96	79	58	462	8
Yakutia Kuranakh	78	66	33	640	2
Magadan	-	-	-	-	38
Exploration	-	-	(1)	-	1
Capital construction	-	-	1	-	28
Unallocated	-	-	(4)	-	1
Total	**1,005**	**799**	**589**	**436**	**96**
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 year ended 31 December 2014					
Business units					
Krasnoyarsk	1,602	1,219	822	541	84
Irkutsk alluvial	234	190	70	735	17
Irkutsk ore	186	146	89	594	38
Yakutia Kuranakh	175	136	50	868	6
Magadan	-	-	(5)	-	308
Exploration	-	-	(5)	-	6
Capital construction	-	-	(3)	-	54
Unallocated	-	-	(7)	-	12
Total	**2,197**	**1,691**	**1,011**	**585**	**525**

Gold sales reported above represent revenue generated from external customers (note 22). There were no inter-segment gold sales during the six months ended 30 June 2015 and 2014. Included within gold sales in the six months ended 30 June 2015 are realised gains on derivatives of USD 44 million (note 13) (the six months ended 30 June 2014: USD 9 million; the year ended 31 December 2014: USD 41 million).

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

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

[3] Unaudited and not reviewed

Polyus Gold International Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2015 (unaudited)
(in millions of US Dollars)

	Six months ended 30 June		Year ended 31 December
	2015	**2014**	**2014**
Profit / (loss)	**583**	**253**	**(182)**
ncome tax	76	68	222
Depreciation and amortisation (note 9)	62	107	182
Finance costs (note 7)	43	10	26
Interest income on bank deposits	(31)	(12)	(31)
(Gain)/ loss on derivative financial instruments and investments (note 8)	(145)	(81)	934
Foreign exchange loss / (gain)	5	40	(123)
(Reversal of impairment) / impairment losses	(4)	8	(17)
Adjusted EBITDA[4]	**589**	**393**	**1,011**

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

Cost of gold sales	**406**	**599**	**1,174**
Adjusted for:			
Depreciation and amortisation (note 4)	(64)	(103)	(174)
Other non-cash items in cost of gold sales	7	1	(11)
TCC	**349**	**497**	**989**
Ounces of gold sold, in thousands	799	751	1,691
TCC per ounce of gold sold (USD per ounce)[4]	**436**	**662**	**585**

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

[4] Unaudited and not reviewed

(in millions of US Dollars)

4. Cost of gold sales

	Six months ended 30 June		Year ended 31 December
	2015	**2014**	**2014**
Labour	110	168	320
Consumables and spares	94	152	281
Fuel	32	77	131
Tax on mining	70	75	154
Power	17	26	44
Outsourced mining services	3	4	19
Refining costs	2	2	4
Other	25	36	67
Total cash operating costs	**353**	**540**	**1,020**
Amortisation and depreciation of operating assets (note 9)	64	103	174
Total cost of production	**417**	**643**	**1,194**
Increase in stockpiles, gold-in-process and refined gold inventories	(11)	(44)	(20)
Total	**406**	**599**	**1,174**

5. Selling, general and administrative expenses

	Six months ended 30 June		Year ended 31 December
	2015	**2014**	**2014**
Salaries	53	64	124
Taxes other than mining and income taxes	6	12	22
Professional services	6	6	16
Amortisation and depreciation (note 9)	2	2	4
Other	7	8	17
Total	**74**	**92**	**183**

6. Reversal of impairment / (impairment losses)

Natalka mine under development

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

Impairment test was performed as of 30 June 2015.

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

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

The financial assumptions include significant judgements associated with forecast gold prices determined at a volatile time for our markets. For instance the RUB has varied between 36 RUB to the USD in August 2014 to 69 in January 2015, and gold prices have been above USD 1,800 and below USD 1,150 per ounce over the past 4 years.

(in millions of US Dollars)

The key long-term assumptions that were used in the impairment testing were a weighted average long-term gold price of USD 1,271 per ounce, exchange rate of 60 RUB for 1 USD and a post-tax discount rate of approximately 9.8%. The assumptions are provided in real terms. The impairment test is particularly sensitive to the assumption for the RUB to USD exchange rate, gold price and discount rate. An impairment would be required:

- if the Rouble strengthened to below 57.8 RUB for 1 US Dollar; or
- if the gold price decreased below US Dollar 1,241 per oz; or
- if the discount rate increased above 10.6%.

During the six months ended 30 June 2015, certain previously impaired items were requested for use in construction of the Natalka mine and accordingly, a reversal of impairment for USD 4 million was made (the six months ended 30 June 2014: impairment losses USD 8 million; the year ended 31 December 2014: reversal of impairment losses USD 17 million).

7. Finance costs

	Six months ended 30 June		Year ended 31 December
	2015	**2014**	**2014**
Interest on borrowings	65	33	100
Gain on exchange of interest payments under interest rate and cross currency swaps (note 13)	(24)	-	(20)
Unwinding of discounts on site restoration, decommissioning and environmental liabilities (note 18)	2	2	4
Other	-	-	2
Sub-total finance cost	**43**	**35**	**86**
Interest capitalised in the cost of Mine under development and Capital construction-in progress	**-**	(25)	(60)
Total finance cost expensed	**43**	**10**	**26**

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

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

	Six months ended 30 June		Year ended 31 December
	2015	**2014**	**2014**
Gain / (loss) on currency collars (note 13)	116	65	(594)
Revaluation gain / (loss) on cross currency swaps (note 13)	21	10	(403)
Revaluation gain on ineffective part of the revenue stabiliser (note 13)	7	2	15
Revaluation gain / (loss) on interest rate swap (note 13)	2	(1)	9
Other	(1)	5	5
Gain on initial exchange of cross currency swaps	-	-	34
Total	**145**	**81**	**(934)**

(in millions of US Dollars)

9. Property, plant and equipment

	Mining assets	Non-mining assets	Stripping activity assets	Total
Cost				
Balance at 31 December 2013	**2,405**	**61**	**221**	**2,687**
Additions	-	-	20	20
Transfers from capital construction-in-progress (note 10)	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**
Additions	-	-	89	89
Transfers from capital construction-in-progress and reclassifications (note 10)	76	3	-	79
Change in decommissioning liabilities (note 18)	8	-	-	8
Disposals	(9)	-	-	(9)
Effect of translation to presentation currency	(992)	(25)	(122)	(1,139)
Balance at 31 December 2014	**1,499**	**39**	**203**	**1,741**
Additions	-	-	57	57
Transfers from capital construction-in-progress (note 10)	42	1	-	43
Change in site restoration, decommissioning and environmental obligations (Note 18)	(5)	-	-	(5)
Disposals	(12)	-	-	(12)
Effect of translation to presentation currency	24	(1)	5	28
Balance at 30 June 2015	**1,548**	**39**	**265**	**1,852**
Accumulated amortisation, depreciation and impairment				
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)**
Charge	(98)	(4)	(3)	(105)
Disposals	8	-	-	8
Reversal of impairment	29	-	13	42
Effect of translation to presentation currency	493	10	32	535
Balance at 31 December 2014	**(735)**	**(18)**	**(38)**	**(791)**
Charge	(69)	(2)	(11)	(82)
Disposals	9	-	-	9
Effect of translation to presentation currency	(13)	1	-	(12)
Balance at 30 June 2015	**(808)**	**(19)**	**(49)**	**(876)**
Net book value				
30 June 2014	**1,249**	**37**	**156**	**1,442**
31 December 2014	**764**	**21**	**165**	**950**
30 June 2015	**740**	**20**	**216**	**976**

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

	30 June 2015	30 June 2014	31 December 2014
Mineral rights	43	46	45

(in millions of US Dollars)

Amortisation and depreciation charge is allocated as follows:

	Six months ended 30 June		Year ended 31 December
	2015	**2014**	**2014**
Cost of gold sales	59	103	174
Depreciation in change in inventory	5	-	-
Sub-total: Cost of production (note 4)	**64**	**103**	**174**
Selling, general and administrative expenses	2	2	4
Cost of other sales	1	2	4
Capitalised within capital construction-in-progress	15	18	48
Total	**82**	**125**	**230**

(in millions of US Dollars)

10. Capital construction-in-progress

	Business units					
	Krasnoyarsk	**Capital construction**	**Irkutsk ore**	**Yakutia Kuranakh**	**Other**	**Total**
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 9)	(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**
Additions	25	31	26	4	10	96
Transfers to property, plant and equipment (note 9)	(48)	-	(22)	(3)	(6)	(79)
Impairment	(6)	1	-	5	-	-
Effect of translation to presentation currency	(60)	(31)	(18)	(3)	(7)	(119)
Balance at 31 December 2014	**85**	**52**	**27**	**11**	**14**	**189**
Additions	13	28	8	2	4	55
Transfers to property, plant and equipment (note 9)	(31)	-	(8)	(1)	(3)	(43)
Effect of translation to presentation currency	(2)	2	(1)	-	-	(1)
Balance at 30 June 2015	**65**	**82**	**26**	**12**	**15**	**200**

Capital construction-in progress principally relates to the following projects:

- completion of the Peleduy-Mamakan and deployment of Razdolinskaya-Taiga grids construction by the Construction BU in order to provide cheaper and more reliable power supply to Verninskoye and Krasnoyarsk BU, respectively;
- commissioning of automatisation system and modernisation of air handling units at Olimpiada mills, start of construction of additional tailing facilities, finalisation of sulfuric acid warehouses (Krasnoyarsk BU);
- start of upgrade and expansion of the flotation scheme of Blagodatnoye mill; heap-leaching tests (Krasnoyarsk BU);
- preparation works for the connection to the new Razdolinskaya-Taiga grid (Krasnoyarsk BU);
- commissioning of a number of projects aimed at improving processing plant efficiency giving an increase of recovery rate at Verninskoye mill (Irkutsk BU).

(in millions of US Dollars)

11. Mine under development

	Six months ended 30 June		Year ended 31 December
	2015	**2014**	**2014**
Balance at the beginning of the period	**1,102**	**1,573**	**1,573**
Additions	38	170	308
Disposals	(1)	-	-
Change in site restoration, decommissioning and environmental obligations (note 18)	-	-	1
Reversal of impairment / (impairment losses) (note 6)	4	-	(37)
Effect of translation to presentation currency	15	(34)	(743)
Balance at the end of the period	**1,158**	**1,709**	**1,102**

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

	30 June 2015	**30 June 2014**	**31 December 2014**
Mineral rights	37	61	37

Mine under development includes only the Natalka mine (Magadan business unit). The reduction in the amount is due to the effect of translation to the presentation currency.

Following temporary cessation of the active construction at Natalka during the six months ended 30 June 2015 borrowing costs capitalization has been suspended.

(in millions of US Dollars)

12. Exploration and evaluation assets

	Chertovo Korito	Razdo-linskoye	Panimba	Olympiada	Bamsky	Smezhny	Medvezhy Zapadny	Blagodat-noye	Other	Total
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**
Additions	-	-	-	1	-	-	-	2	1	4
Impairment	-	-	-	-	-	-	-	-	-	-
Effect of translation to presentation currency	(20)	(11)	(11)	(11)	(8)	(7)	(2)	(2)	-	(72)
Balance at 31 December 2014	**30**	**18**	**15**	**16**	**12**	**8**	**4**	**6**	**1**	**110**
Additions	-	1	-	-	-	-	-	2	-	3
Effect of translation to presentation currency	-	1	1	-	1	1	(1)	(1)	-	2
Balance at 30 June 2015	**30**	**20**	**16**	**16**	**13**	**9**	**3**	**7**	**1**	**115**

(in millions of US Dollars)

13. Derivative financial instruments and investments

	30 June 2015	30 June 2014	31 December 2014
Non-current assets			
Revenue stabiliser	113	8	132
Gold forward	22	-	30
Interest rate swaps	11	-	9
Loans receivable	2	1	1
Currency collars	-	65	-
Cross currency swaps	-	16	-
Total assets	**148**	**90**	**172**
Non-current liabilities			
Cross currency swaps	382	-	403
Revenue stabiliser	-	6	20
Gold forward	-	2	-
Interest rate swaps	-	1	-
Sub-total	**382**	**9**	**423**
Current liabilities			
Currency collars	214	-	547
Total liabilities	**596**	**-**	**970**

Revenue stabiliser

The revenue stabiliser arrangements are designated as a cash flow hedge. Any change in the intrinsic value of the collars is recognised in the Cash flow hedge revaluation reserve within Equity, whilst the remaining change in the fair value of USD 7 million gain is reflected in the Condensed consolidated interim statement of profit or loss (note 8) (the six months ended 30 June 2014: gain of USD 2 million; the year ended 31 December 2014: gain of USD 15 million).

During the six months ended 30 June 2015, under Tranches 1 and 2, USD 30 million of increase was recognised in the Cash flow hedge revaluation reserve within Equity (the six months ended 30 June 2014: USD 7 million; the year ended 31 December 2014: USD 132 million) and following the sale of the hedged volume of gold and the exercise of certain options USD 35 million was subsequently reclassified to Gold sales within the Condensed consolidated interim statement of profit or loss (the six months ended 30 June 2014: USD 7 million; the year ended 31 December 2014: USD 35 million).

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

Gold forward

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 2015, USD 1 million was recognised as an increase to the Cash flow hedge revaluation reserve within Equity (the six months ended 30 June 2014: loss USD 2 million; the year ended 31 December 2014: USD 36 million) and following the sale of the hedged amount of gold USD 9 million was reclassified from the Cash flow hedge revaluation reserve within Equity into Gold sales within the Condensed consolidated interim statement of profit or loss (the six months ended 30 June 2014: nil; the year ended 31 December 2014: USD 6 million). The remaining balance is expected to be evenly reclassified monthly to the Condensed consolidated interim statement of profit or loss through to June 30, 2016.

The fair value is determined using the Black-Scholes valuation technique. Input data used in the valuation model (forward gold prices and volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13.

The Group performs prospective and retrospective effectiveness testing for the instruments designated as a cash flow hedge at least at each reporting date.

Currency collars

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

USD 750 million options matured during the six months ended 30 June 2015 resulting in a realised loss of USD 217 million (the six months ended 30 June 2014: nil; the year ended 31 December 2014: loss USD 47 million). The remainder of the options were revalued at the period end, resulting in a gain on currency collars in the amount of USD 116 million (note 8) (the six months ended 30 June 2014: gain USD 65 million; the year ended 31 December 2014: loss USD 594 million).

Cross currency swaps

According to IAS 39 the swaps were not eligible to be designated as cash flow or fair value hedges. The Group accounted for these derivative financial instruments at fair value which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps for the six months ended 30 June 2015 resulted in a revaluation gain of USD 21 million recognised in the Condensed consolidated interim statement of profit or loss (note 8) (the six months ended 30 June 2014: gain USD 10 million; the year ended 31 December 2014: loss USD 403 million). The gain on the exchange of interest payments in amount of USD 18 million is recognised within the Finance cost (note 7) (the six months ended 30 June 2014: nil; the year ended 31 December 2014: USD 16 million).

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

Interest rate swaps

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

Gain on changes in the fair value of the interest rate swaps in the amount of USD 2 million is recognised in the Condensed consolidated interim statement of profit or loss (note 8) (the six months ended 30 June 2014: loss USD 1 million; the year ended 31 December 2014: gain USD 9 million). The gain on the exchange of interest payments in amount of USD 6 million is recognised within the Finance cost (note 7) (the six months ended 30 June 2014: nil; the year ended 31 December 2014: USD 4 million).

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

Maturity profile of undiscounted contractual payments on derivative financial instruments outstanding as of 30 June 2015

Presented below is the maturity profile of undiscounted contractual receipts / (payments) in millions of US Dollars on the Group's derivative financial instruments based on USD/RUB exchange rate, spot gold price and LIBOR as of 30 June 2015.

	2015	2016	2017	2018	2019	2020	Total
Revenue stabiliser	42	85	27	-	-	-	154
Gold forward	11	11	-	-	-	-	22
Currency collars	(203)	-	-	-	-	-	(203)
Cross currency swaps	19	39	39	39	(364)	-	(228)
Interest rate swaps	6	12	12	12	12	(2)	52
Total	**(125)**	**147**	**78**	**51**	**(352)**	**(2)**	**(203)**

14. Inventories

	30 June 2015	30 June 2014	31 December 2014
Inventories expected to be recovered after 12 months			
Stockpiles	229	321	224
Gold-in-process	7	3	3
Sub-total	**236**	**324**	**227**
Inventories expected to be recovered in the next 12 months			
Stockpiles	76	148	79
Gold-in-process	79	109	63
Refined gold	9	20	17
Stores and materials	273	484	292
Less: provision for obsolete and slow-moving stores and materials	(9)	(5)	(11)
Sub-total	**428**	**756**	**440**
Total	**664**	**1,080**	**667**

15. Bank deposits

	30 June 2015	30 June 2014	31 December 2014
Bank deposits denominated in:			
- USD	49	288	269
- RUB		14	
Total	**49**	**302**	**269**
Interest rates on bank deposits denominated in:			
- USD	4.3%	1.9-4.0%	1.4-3.6%
- RUB	-	8.2-9.5%	-

During the six months ended 30 June 2015, the Company modified certain bank deposit agreements, so that as of 30 June 2015 most of the deposits were available on demand and respectively were presented under the cash and cash equivalents caption (note 16).

(in millions of US Dollars)

16. Cash and cash equivalents

	30 June 2015	30 June 2014	31 December 2014
Bank deposits (on demand or with original maturity less than 3 month)			
- RUB	128	138	50
- USD	1,074	500	1,093
Current bank accounts			
- RUB	36	89	12
- USD	68	141	42
Other cash and cash equivalents	22	7	20
Total	**1,328**	**875**	**1,217**

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

Interest rates on bank deposits denominated in:			
- RUB	8.6 - 12.6%	6.5-9.3%	8.9 - 25.0%
- USD	1.3 - 6.0%	0.2-1.1%	0.6 - 6.0%

17. Share capital

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

The issued and fully paid up share capital of the Company comprises 3,032 million ordinary shares issued at a premium, resulting in share capital of USD 482,000 and additional paid-in-capital of USD 2,153 million (30 June 2014: USD 2,152 million; 31 December 2014: USD 2,152 million).

Dividends in the total amount of USD 184 million (US 6.08 cents per share) were approved by the Annual General Meeting of shareholders on 15 May 2015 and paid before 30 June 2015.

Equity-settled share-based payment plans (Long Term Incentive Plan)
During the six months ended 30 June 2015, the Company approved a Long Term Incentive Plan (LTIP) according to which the members of top management of the Group are entitled to a conditional award in the form of the Company's ordinary shares linked to the achievement of a combination of financial and non-financial performance conditions,.

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

Fair value of a share was identified at the grant date of 19 May 2015 as the closing price per London Stock Exchange. Total expense for the reporting period arising from LTIP was immediately recognized in the condensed consolidated interim statement of profit and loss within the line Salaries included within Selling, general and administrative expenses in the amount of USD 1 million.

Weighted average number of ordinary shares for the six months ended 30 June 2015 including dilutive effect of potentially issuable shares is presented below:

	Number of shares
Ordinary shares in issue at the beginning of the six months ended 30 June 2015, million	3,032
Dilutive effect of LTIP (7 million shares starting from 19 May 2015)	2
Weighted average number of ordinary shares during the period	**3,034**

(in millions of US Dollars)

18. Site restoration and environmental obligations

	Business units						
	Krasnoyarsk	**Irkutsk alluvial**	**Irkutsk ore**	**Yakutia Kuranakh**	**Magadan**	**Exploration**	**Total**
Balance at 31 December 2013	**33**	**7**	**12**	**12**	**1**	**4**	**69**
Change in estimation (note 9)	1	(1)	-	-	-	-	**-**
Unwinding of discount on site restoration, decommissioning and environmental obligations (note 7)	2	-	-	-	-	-	**2**
Effect of translation to presentation currency	(2)	-	-	-	-	-	**(2)**
Balance at 30 June 2014	**34**	**6**	**12**	**12**	**1**	**4**	**69**
Change in estimation (note 9, 10, 11)	5	1	1	1	1	1	**10**
Unwinding of discount on decommissioning obligations (note 7)	-	-	1	1	-	-	**2**
Effect of translation to presentation currency	(14)	(3)	(6)	(6)	(1)	(2)	**(32)**
Balance at 31 December 2014	**25**	**4**	**8**	**8**	**1**	**3**	**49**
Change in estimation (note 9)	(3)	(1)	(1)	-	-	-	(5)
Unwinding of discount on site restoration, decommissioning and environmental obligations (note 7)	1	-	1	-	-	-	2
Balance at 30 June 2015	**23**	**3**	**8**	**8**	**1**	**3**	**46**

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

	30 June 2015	**30 June 2014**	**31 December 2014**
Discount rates (RUB)	8.8-9.5%	7.8 - 8.8%	8.8-9.5%
Inflation rates (RUB)	6.0-12.0%	5.1 - 6.1%	7.0 -11.8%
Expected maturity of liability	2015-2045	2016 - 2045	2015-2045

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

Due from 2nd to 5th year	9	9	7
Due from 6th to 10th year	11	24	16
Due from 11th to 15th year	13	26	18
Due thereafter	13	10	8
Total	**46**	**69**	**49**

(in millions of US Dollars)

19. Borrowings

		Nominal rate %	30 June 2015	30 June 2014	31 December 2014
Notes due in 2020 (Eurobonds)	(i)	5.625%	746	745	745
Sberbank credit facility to JSC "Gold Mining Company Polyus"	(ii)	10.35%	604	527	596
Unicredit Bank credit facility to JSC "Gold Mining Company Polyus"	(iii)	3 months USD LIBOR + 2.75%	190	-	190
Unicredit Bank credit facility to JSC "Matrosova Mine"	(iii)	6 months USD LIBOR + 2.02%	44	52	47
Unicredit Bank credit facility to OJSC "Pervenets"	(iii)	3 months USD LIBOR + 2.4%	-	11	-
Société Générale credit facility to JSC "Gold Mining Company Polyus"	(iv)	3 months USD LIBOR + 3.5%	50	-	50
Société Générale export financing credit facility agreement to JSC "Gold Mining Company Polyus"	(iv)	6 months USD LIBOR + 0.55%	8	20	14
Société Générale credit facility to OJSC "Pervenets"	(iv)	3 months USD LIBOR + 2.4%	-	11	-
Deutsche Bank credit facility to JSC "Matrosova Mine"	(v)	6 months USD LIBOR + 1.35%	13	17	15
Deutsche Bank letters of credit with deferred payment issued by the order of JSC "Matrosova Mine"	(v)	Cost of fund (COF) + 2.7%	-	92	48
VTB Bank letters of credit with deferred payment issued by the order of JSC "Matrosova Mine"	(vi)	Euribor +1.8%	16	28	21
Rosbank credit facility to JSC "Gold Mining Company Polyus"	(vii)	3 months USD LIBOR + 3.5%	50	-	49
Rosbank letters of credit with deferred payment issued by the order of JSC "Gold Mining Company Polyus"	(vii)	6 months USD LIBOR + 2.35%	31	44	38
Sub-total			**1,752**	**1,547**	**1,813**
Less: Short-term borrowings and current portion of long-term borrowings due within 12 months			(38)	(157)	(90)
Long-term borrowings			**1,714**	**1,390**	**1,723**

Summary of borrowing agreements

(i) Notes due in 2020 (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 of 5.835%.

(ii) Sberbank

On 11 April 2014, JSC "Gold Mining Company Polyus", subsidiary of the Group, entered into a five year RUB 36 billion credit facility agreement with Sberbank as a lender. The Group intends to use the proceeds for refinancing of its existing loans and for general corporate purposes, including financing of capital investment projects. The facility has a bullet principal repayment at 10 April 2019 with prepayment options for the borrower.

(iii) Unicredit Bank

On 15 August 2014, JSC "Gold Mining Company Polyus", entered into a five year USD 190 million term loan facility agreement with Unicredit Bank as a lender to fund general corporate purposes.

On 26 April 2013, JSC "Matrosova Mine", a subsidiary of the Group, entered into a USD 59 million (USD equivalent of EUR 48 million) credit facility agreement arranged by Unicredit Bank and guaranteed by OeKB (the Austrian export credit agency) to fund the acquisition of mining equipment. Scheduled repayments were made during 2014. The maturity of the outstanding amounts varies from 2015 to 2021.

(iv) Société Générale

On 7 November 2014, JSC "Gold Mining Company Polyus", entered into a five year USD 50 million term loan facility agreement with Société Générale as a lender to fund general corporate purposes. The facility is to be repaid in thirteen equal instalments at intervals of three months starting from 7 December 2016.

As of 30 June 2015, USD 8 million was outstanding out of a USD 68 million export financing credit facility agreement between JSC "Gold Mining Company Polyus" and Société Générale for financing to be used for the purchase of mining equipment. The facility was established for facilitation of exports from the United States of America and guaranteed by Export-Import Bank of the United States. The maturity of the outstanding amounts varies from 2015 to 2016. The credit facility is secured by the pledge of plant and equipment with a net book value of USD 12 million (31 December 2014: USD 17 million).

(v) Deutsche Bank

On 7 August 2013, JSC "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 2014. The maturity of the outstanding amounts varies from 2015 to 2018.

During the six months ended 30 June 2015, JSC "Matrosova Mine" had fully repaid letters of credit with Deutsche Bank nominated in Euro.

(vi) VTB Bank

As of 30 June 2015, JSC "Matrosova Mine" had outstanding a number of letter of credit agreements with VTB Bank nominated in Euro for the acquisition of mining equipment with deferred payment terms. The maturity of the outstanding amounts varies from 2015 to 2017.

(vii) Rosbank

On 7 November 2014, JSC "Gold Mining Company Polyus", entered into a five year USD 50 million term loan facility agreement with Rosbank as a lender to fund general corporate purposes. The facility is to be repaid in thirteen equal instalments at intervals of three months starting from 7 December 2016. The facility is accounted for at amortised cost at the effective interest rate.

As of 30 June 2015, JSC "Gold Mining Company Polyus" had an outstanding letter of credit agreement with Rosbank for the acquisition of mining equipment with deferred payment terms. The maturity of the outstanding amounts varies from 2015 to 2016.

(in millions of US Dollars)

Unused credit facilities

On 14 November 2014, JSC “Gold Mining Company Polyus” entered into a five year RUB 40 billion credit line with VTB Bank to fund its general corporate purposes. The interest rate is subject to a separate agreement under each of the credit line drawdowns.

Other matters

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

There were a number of financial covenants under several loan agreements in effect as of 30 June 2015 according to which the respective subsidiaries of the Company and the Company itself are limited:

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

The Group was in compliance with all these covenants as of 30 June 2015.

The fair value of the Notes due in 2020 are within Level 1 of the fair value hierarchy. Whilst measured at amortised cost, the fair value of all of the borrowings, except for the Notes due in 2020, are within Level 2 of the fair value hierarchy in accordance with IFRS 13. The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB interest rates), which are observable in the market and the Group classified them as Level 2 in accordance with the hierarchy of fair value. The fair value of the borrowings as of 30 June 2015 was equal to USD 1,616 million (31 December 2014: USD 1,437 million).

20. Related parties

Related parties include substantial shareholders, entities under common ownership and control within 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 neither balances nor significant transactions with its shareholders during the six months ended 30 June 2015 and 2014.

Key management personnel

	Six months ended 30 June		Year ended 31 December
	2015	**2014**	**2014**
Short-term compensation of key management personnel	8	11	31
including termination benefits to the former key management personnel	-	4	8

(in millions of US Dollars)

21. Commitments and contingencies

Capital commitments

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

	30 June 2015	30 June 2014	31 December 2014
Contracted capital expenditure commitments	52	89	23
- including contracted capital expenditure commitments related to the Natalka project	9	44	11

Operating leases: Group as a lessee

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2063.

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

	30 June 2015	30 June 2014	31 December 2014
Due within one year	3	4	3
From one to five years	9	13	8
Thereafter	21	31	20
Total	**33**	**48**	**31**

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 or litigation applicable to the Group, except for the lawsuits for the total amount of USD 2 million. Management believes that this claim will not have a material adverse impact on the Group.

Insurance

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

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

Taxation contingencies in the Russian Federation

Commercial legislation in the Russian Federation, including tax legislation, is subject to varying interpretations and frequent changes. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the

Group's business activities, was to be challenged by the tax authorities, the Group may be assessed with additional taxes, penalties and interest.

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

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

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

With regards to matters where practice concerning payment of taxes is unclear, management estimate that there were no tax exposures at 30 June 2015.

Environmental matters

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

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

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

Operating environment

Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because the Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014.

Starting from March 2014, sanctions have been imposed in several packages by the US and the EU on certain Russian officials, businessmen and companies. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in an increase of interest rates on domestic borrowings. The exchange rate of the Russian Rouble depreciated significantly. These developments have resulted in reduced access of the Russian economy to international capital and export markets, capital flight, further weakening of the Rouble and other negative economic consequences. The impact of further political and economic developments in the Russian Federation on future operations and financial position of the Group is at this stage difficult to determine.

(in millions of US Dollars)

22. Financial instruments risk management activities

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt which is borrowings (note 19) less banks deposits (note 15) and cash and cash equivalents (note 16), and equity of the Group.

Major categories of financial instruments

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

	30 June 2015	30 June 2014	31 December 2014
Financial assets			
Cash and cash equivalents	1,328	875	1,217
Bank deposits	49	302	269
Derivative financial instruments	146	89	171
Other receivables	15	17	11
Loans receivable	2	1	1
Total financial assets	**1,540**	**1,284**	**1,669**
Financial liabilities			
Borrowings	1,752	1,547	1,813
Derivative financial instruments	596	9	970
Trade and other payables	130	187	135
Total financial liabilities	**2,478**	**1,743**	**2,918**

Derivative financial instruments are carried at fair value.

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

Gold price risk

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

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

If the gold price was 10% higher / lower during the six months ended 30 June 2015 gold sales for the year would have increased / decreased by USD 62 million / USD 61 million respectively (the six months ended 30 June 2014: USD 84 million / USD 83 million; the year ended 31 December 2014: USD 181 million / USD 175 million).

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

- to swap cash flows under a 36 billion Rouble denominated credit facility from Sberbank with a fixed interest rate of 10.35% into USD dollar denominated cash flows with a floating interest rate of LIBOR+2.32%. The credit facility was initially arranged in RUB with the view to swapping it into a USD denominated cash flow, because this was more cost effective than obtaining funding directly in USD (Note 19) and
- to swap interest payments under the 750 million Eurobond from a fixed rate of 5.625% into a floating rate of LIBOR+3.55% (Note 19).

If the interest rate was 0.5% higher / lower during the six months ended 30 June 2015 interest expense (as well as equity and retained earnings) excluding effect of change in fair value of interest rate and cross currency swaps for the six months ended 30 June 2015 would have increased / decreased by USD 4 million (the six months ended 30 June 2014: USD 1 million; the year ended 31 December 2014: USD 5 million).

If interest rates used in calculations of fair values of interest rate and cross currency swaps as at 30 June 2015 would be 0.5% higher / lower, the gain on revaluation would be USD 39 million lower / higher respectively (30 June 2014: USD 29 million, 31 December 2014: USD 44 million).

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

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

During 2014, the Group entered into a number of derivative agreements, in the form of currency collars (note 13) in order to economically hedge its Russian rouble denominated expenses.

(in millions of US Dollars)

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

	30 June 2015	30 June 2014	31 December 2014
Assets			
USD	1,340	929	1,581
EURO (presented in USD at closing exchange rate)	1	-	17
Total	**1,341**	**929**	**1,598**
Liabilities			
USD	1,748	923	2,135
EURO (presented in USD at closing exchange rate)	9	123	71
Total	**1,757**	**1,046**	**2,206**

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.
The table below details the Group's sensitivity to changes in exchange rates by 25% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in the respective currencies. If the USD or EURO exchange rate had increased by 25% for the six months ended 30 June 2015 and year ended 31 December 2014 compared to RUB as of the end of respective year, the Group would have incurred the following losses:

	30 June 2015	30 June 2014	31 December 2014
Loss / (profit) (USD exchange rate increased compared to RUB)	102	(1)	139
Loss (EURO exchange rate increased compared to RUB)	2	31	13

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

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

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

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

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

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

(in millions of US Dollars)

The Group is not economically dependent on customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore the credit risk related to trade receivables is minimal. There were no outstanding receivables for gold sales as of 30 June 2015.

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

	Six months ended 30 June		Year ended 31 December
	2015	**2014**	**2014**
Otkritie Bank	373	402	841
VTB Bank	198	288	704
MDM Bank	141	136	298
Sberbank	250	63	220
Bank of Moscow	-	76	85
Other banks	43	16	49
Total gold sales	**1,005**	**981**	**2,197**

Liquidity risk

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

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

Historically the Group has not relied extensively on external financing. Following the development of new capital projects during 2013, the Group issued notes in 2013 and arranged certain external finance facilities with banks during 2014 (note 19).

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

Presented below is the maturity profile of the Group's financial liabilities and derivative financial instruments as at 30 June 2015 based on undiscounted contractual payments / (receipts), including interest payments:

	Borrowings				
	Principal	**Interest**	**Derivative financial instruments**	**Trade and other payables**	**Total**
Due in the first year	38	114	125	106	**383**
Due in the second year	52	114	(147)	-	**19**
Due in the third year	124	111	(78)	-	**157**
Due in the fourth year	742	107	(51)	-	**798**
Due in the fifth year	797	60	352	-	**1,209**
Due in the period between sixth to eight years	10	-	2	-	**12**
Total	**1,763**	**506**	**203**	**106**	**2,578**

(in millions of US Dollars)

23. Events after the reporting date

The following reportable events have occurred since 30 June 2015:

- issuance of 15 billion roubles bonds maturing in 2021 with a semi-annual coupon of 12,1%;
- the Group entered into cross currency swaps with leading Russian banks for a total amount of RUB 10 billion to economically hedge interest payments and principal amounts exchange. According to the cross currency swap agreements the Group will semi-annually pay to the banks 6MLIBOR + Margin 4.45% in USD and receive from the banks 12,1% in RUB; and before maturity (16 July 2021) the Group will exchange principal amounts paying USD 173 million and receiving RUB 10 billion.

24. Investments in significant subsidiaries

		Effective % held[5] at		
Subsidiaries[6]	**Nature of business**	**30 June 2015**	**30 June 2014**	**31 December 2014**
Incorporated in Russian Federation				
OJSC "Polyus Gold" [7]	Management company	95	95	95
JSC "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
JSC "ZDK Lenzoloto"	Mining (alluvial)	63	63	63
CJSC "Lensib"[8]	Mining (alluvial)	38	38	38
JSC "Svetliy"	Mining (alluvial)	53	53	53
JSC "Marakan"	Mining (alluvial)	53	53	53
JSC "Dalnaya Taiga"	Mining (alluvial)	52	52	52
JSC "Sevzoto" [8]	Mining (alluvial)	41	41	41
JSC "Matrosova Mine"	Mining (development stage)	95	95	95
CJSC "Tonoda"	Mining (exploration stage)	95	95	95
OJSC "Pervenets"	Mining (open pit)	95	95	95
JSC "South-Verkhoyansk Mining Company"	Mining (exploration stage)	97	95	97
LLC "Polyus Stroy"	Construction	95	95	95
Incorporated in British Virgin Islands				
Polyus Exploration Limited	Geological research	98	95	98
Jenington International Incorporated	Market agent	95	95	95

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

[6] Following change in legislation, most of the significant subsidiaries were renamed from open joint stock company (OJSC) and from closed joint stock company (CJSC) into joint stock company (JSC).

[7] Effective % includes 92.95% of ordinary shares held directly by the Company as at 30 June 2015 and 31 December 2014.

[8] The Company maintains control of these entities as it continues to govern their financial and operating policies and manage returns from them through its ability to appoint the majority in the Board of Directors. A majority of the Board members for these entities are representatives of the Company and they are therefore consolidated even though the effective interest is less than 50% as at 30 June 2015 and 31 December 2014 and for the periods then ended. Direct ownership in those subsidiaries by the immediate parent is in each case exceeds 50%, and there are no other additional agreements or other instances which could have set limits on the Company's ability to execute its control over its subsidiaries.